

CITY OF
CLAREMONT
NORTH CAROLINA

Annual Financial Report

For the Fiscal Year Ended
June 30, 2019

CITY OF CLAREMONT, NORTH CAROLINA
Annual Financial Report
For the Year Ended June 30, 2019

City Officials

Shawn R. Brown, Mayor

City Council:

Dayne Miller

Lee Miller

David Morrow

Dale Sherrill

Les Morrow

Other City Officials

Jason Brown

City Manager

Position Vacant

Finance Officer

Wendy Helms

City Clerk

Robert Grant

City Attorney

CITY OF CLAREMONT, NORTH CAROLINA
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June 30, 2019

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Financial Section

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- * **Basic Financial Statements**
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Debora B. Wentz, CPA
Post Office Box 287
Newton, North Carolina, 28658

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Claremont, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Claremont, North Carolina, as of and for the year ended June 30, 2019, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, North Carolina, as of June 30, 2019, 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 Management's Discussion and Analysis on pages 7 through 18, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 70 through 71, the

Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability (Asset) on page 72, and Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Liability as a Percentage of Covered Payroll on pages 73 through 74, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Claremont, North Carolina's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, and other 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act) are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, based on my audit, the procedures performed as described above, the combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 31, 2020, on my consideration of the City of Claremont, North Carolina's internal control over financial reporting and on my 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 my 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 City of Claremont, North Carolina's internal control over financial reporting and compliance.

Deborah B. Wentz, CPA

Newton, North Carolina
January 31, 2020

Management's Discussion and Analysis

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City of Claremont, NC
Management's Discussion and Analysis

As management of the City of Claremont, we offer readers of the City of Claremont's financial statements this narrative overview and analysis of the financial activities of the City of Claremont for the fiscal year ended June 30, 2019. 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 Claremont exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$17,568,003 (net position).
- The government's total net position increased by \$1,268,110, primarily due to diligent cost-saving measures.
- As of the close of the current fiscal year, the City of Claremont's governmental funds reported combined ending fund balances of \$4,539,227, with a net increase of \$559,868 in fund balance. Approximately 20.3 percent of this total, or \$922,171 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,788,222, or 88.06 percent of total general fund expenditures for the fiscal year.
- The City of Claremont's total installment debt decreased by \$122,863 during the current fiscal year.

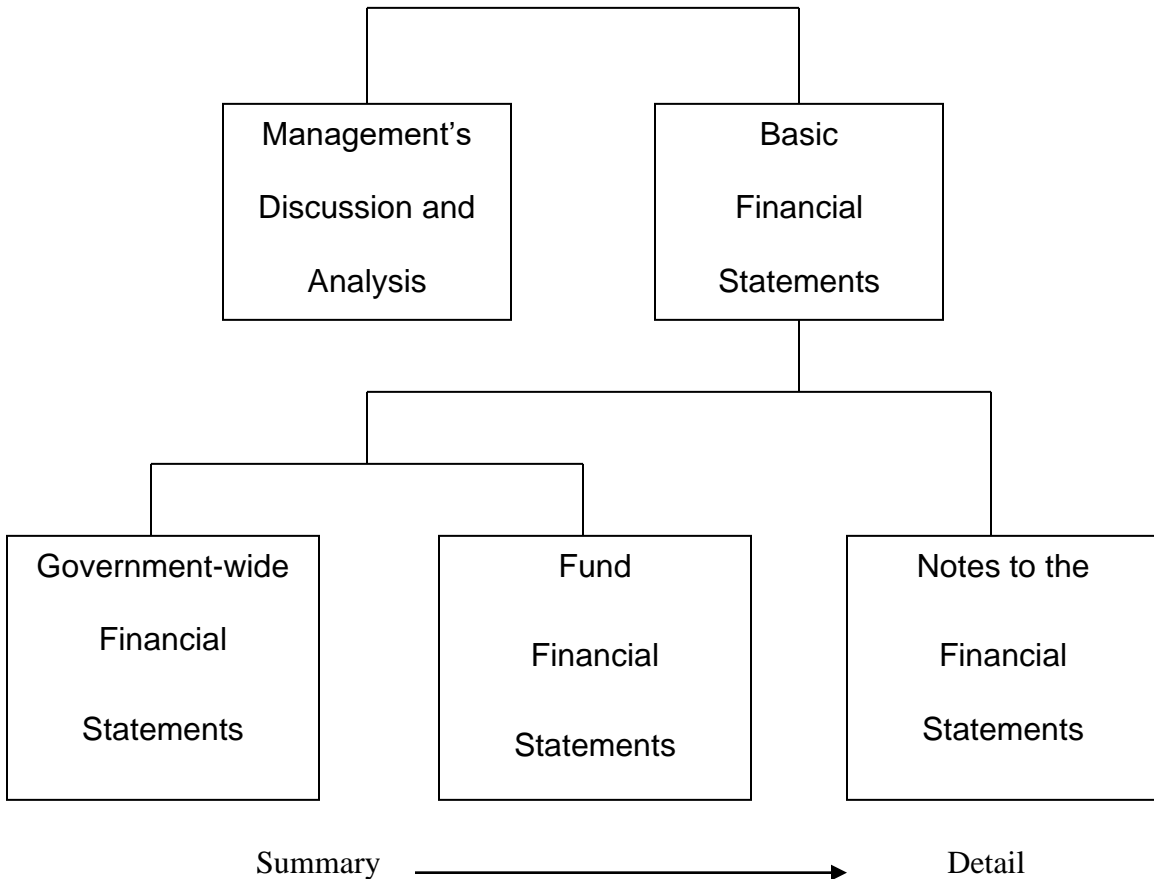
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Claremont'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 Claremont.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the 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 financial statements 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 it has 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, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the City of Claremont water and sewer services. The final category is the component unit. The City has no component units.

The government-wide financial statements are on Exhibits 1 and 2 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 Claremont, 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 City of Claremont can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in 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

Management Discussion and Analysis
City of Claremont

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 Claremont 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 board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – City of Claremont has one proprietary fund, the Water and Sewer Fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Claremont uses enterprise funds to account for its water and sewer activity and 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.

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 begin on page 33 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 Claremont's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 69 of this report.

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 appropriations. It is also subject to changes in investment earnings and asset values

Management Discussion and Analysis
City of Claremont

associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. The assets and deferred outflows of the City of Claremont exceeded liabilities and deferred inflows by \$17,568,003 as of June 30, 2019.

Table 1
City of Claremont's Net Position
As of June 30, 2019

	Governmental Activities		Business-type Activities		Total Primary Government	
	06/30/19	06/30/18	06/30/19	06/30/18	06/30/19	06/30/18
Current and other assets	\$ 4,600,610	\$ 4,047,277	\$ 2,875,698	\$ 2,320,739	\$ 7,476,308	\$ 6,368,016
Capital assets	6,736,367	6,704,130	4,492,146	4,447,430	11,228,513	11,151,560
Deferred outflows of resources	318,214	204,173	-	-	318,214	204,173
Total assets and deferred outflow of resources	11,655,191	10,955,580	7,367,844	6,768,169	19,023,035	17,723,749
Long-term liabilities outstanding	1,095,756	1,090,308	-	-	1,095,756	1,090,308
Other liabilities	243,626	230,348	69,567	66,701	313,193	297,049
Deferred inflows of resources	46,083	43,736	-	-	46,083	43,736
Total liabilities and deferred inflows of resources	1,385,465	1,364,392	69,567	66,701	1,455,032	1,431,093
Net Position:						
Net investment of capital assets	6,086,785	5,931,685	4,492,146	4,447,430	10,578,931	10,379,115
Restricted	918,323	665,832	-	-	918,323	665,832
Unrestricted	3,264,618	2,993,671	2,806,131	2,254,038	6,070,749	5,247,709
Total net position	\$ 10,269,726	\$ 9,591,188	\$ 7,298,277	\$ 6,701,468	\$ 17,568,003	\$ 16,292,656

The City of Claremont's primary government net position is \$17,568,003 as of June 30, 2019, an increase of \$1,268,110. Of the total net position, the largest portion of the City's net position (60.22%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery and equipment). The City of Claremont uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Claremont's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Claremont's net position, \$918,223, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,070,749 is unrestricted.

Management Discussion and Analysis
City of Claremont

Several particular aspects of the City’s financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.70%.
- Increased ad valorem and local option sales tax revenues of approximately \$317,737 due to economic growth.

**City of Claremont’s Changes in Net Position
Table 2**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 47,598	\$ 42,595	\$ 1,709,841	\$ 1,515,921	\$ 1,757,439	\$ 1,558,516
Operating grants and contributions	905,328	605,540	-	-	905,328	605,540
Capital grants and contributions	174,656	368,582	-	-	174,656	368,582
General revenues:						
Property taxes	2,272,686	1,974,679	-	-	2,272,686	1,974,679
Local option sales tax	398,948	379,218	-	-	398,948	379,218
Unrestricted intergovernmental	446,385	451,890	-	-	446,385	451,890
Investment earnings	104,842	47,231	4,962	48	109,804	47,279
Miscellaneous	42,791	27,242	116,424	-	159,215	27,242
Capital Contributions			96,227	34,485	96,227	34,485
Total revenues	4,393,234	3,896,977	1,927,454	1,550,454	6,320,688	5,447,431
Expenses:						
Governmental activities						
General government	619,452	501,989	-	-	619,452	501,989
Public safety	1,459,791	1,401,945	-	-	1,459,791	1,401,945
Environmental protection	563,535	645,971	-	-	563,535	645,971
Transportation	223,304	223,418	-	-	223,304	223,418
Economic and physical development	718,650	615,049	-	-	718,650	615,049
Cultural and recreational	188,727	167,769	-	-	188,727	167,769
Interest on long-term debt	26,474	30,988	-	-	26,474	30,988
Business-type activities						
Water and sewer	-	-	1,252,645	1,173,712	1,252,645	1,173,712
Total expenses	3,799,933	3,587,129	1,252,645	1,173,712	5,052,578	4,760,841
Increase in net position , before transfers	593,301	309,848	674,809	376,742	1,268,110	686,590
Transfer in (out)	78,000	-	(78,000)	-	-	-
Total increase in net position	671,301	309,848	596,809	376,742	1,268,110	686,590
Beginning net position	9,591,188	9,281,340	6,701,468	6,324,726	16,292,656	15,606,066
Restatement	7,237	-	-	-	7,237	-
Beginning net position, restated	9,598,425	9,281,340	6,701,468	6,324,726	16,299,893	15,606,066
Ending net position	\$10,269,726	\$ 9,591,188	\$ 7,298,277	\$ 6,701,468	\$ 17,568,003	\$ 16,292,656

Governmental activities. Governmental activities increased the City's net position by \$671,301, thereby accounting for 52.94% of the total growth in the change in net position. This growth can be attributed to several different factors, such as an increase in realized sales and ad valorem tax revenue. Management believes healthy investment in the City will result in additional revenues, and in that vein added to the City's net position by investing in capital assets. Continued efforts to maximize tax collections also contributed to the favorable net position. City management acknowledges that 2019 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

Key elements of this increase are as follows:

- Continued increase in collection rates from property tax revenues, partially due to the change in collection of property taxes on motor vehicles by the State using the tag and tax together programs along with new development within the City tax base.
- Overall increase in unrestricted intergovernmental revenues, in particular with local option sales tax.

Business-type activities. Business-type activities increased the City of Claremont's net position by \$596,809, accounting for 47.06% of the total growth in the government's net position.

The key elements in this increase are as follows:

- Usage rate increases to better account for the cost of providing for both water and sewer services.

Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of City of Claremont. At the end of the current fiscal year, the City of Claremont's fund balance available in the general fund was \$3,521,308, while total fund balance reached \$4,034,397. The City currently has an available fund balance of 111.22% of general fund expenditures, and total fund balance represents 143.37% of the same amount.

Management Discussion and Analysis
City of Claremont

At June 30, 2019, the governmental funds of City of Claremont reported a combined fund balance of \$4,539,227 with a net increase in fund balance of \$559,868.

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

There are several reasons the City revised its budget throughout the year. Examples include: the City's acceptance of the Governor's Crime Commission Grant for Police bodycams and the purchase of property off South Oxford Street for a Public Services Facility.

Proprietary Funds. The City of Claremont'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 Funds at the end of the fiscal year amounted to \$2,806,131. The total change in net position for the Water and Sewer Funds was \$596,809.

Capital Asset and Debt Administration

Capital assets. The City of Claremont's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$10,578,931 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles.

Major governmental activities capital asset transactions during the year include the following:

- Police Vehicle - \$39,794.
- Rescue extrication equipment - \$24,438.
- Purchase of turn out fire gear for Fire Department - \$23,914.

Major business-type activities capital asset transactions during the year include the following:

- Waterline upgrades to BGA Drive - \$78,000.
- Updates to City's SCADA System - \$18,794.
- Sewer line tapping machine - \$26,571.

**City of Claremont
Capital Assets, Net of Depreciation
as of June 30, 2019**

Table 3

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,169,945	\$ 1,049,255	\$ 109,870	\$ 109,870	\$ 1,279,815	\$ 1,159,125
Construction in progress	\$ 324,655	\$ 94,149	\$ 201,902		\$ 526,557	\$ 94,149
Buildings and systems	1,349,485	1,401,418	-	-	1,349,485	1,401,418
Improvements other than buildings	1,221,949	1,386,650	-	-	1,221,949	1,386,650
Substation, lines and related equipment	-	-	4,120,231	4,327,025	4,120,231	4,327,025
Equipment	279,277	272,013	60,143	10,535	339,420	282,548
Vehicles	637,911	688,444	-	-	637,911	688,444
Infrastructure	1,753,145	1,812,201	-	-	1,753,145	1,812,201
Total	\$ 6,736,367	\$ 6,704,130	\$ 4,492,146	\$ 4,447,430	\$ 11,228,513	\$ 11,151,560

Additional information on City’s capital assets can be found in Note 2 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the City of Claremont had installment purchases outstanding debt of \$649,582. Of this, \$649,582 is debt backed by the full faith and credit of the City.

Management Discussion and Analysis
City of Claremont

Outstanding Debt.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Installment debt	\$ 649,582	\$ 772,445	\$ -	\$ -	\$ 649,582	\$ 772,445
Net pension obligations (LGERS)	396,418	264,754	-	-	396,418	264,754
Total pension liability (LEO)	137,400	125,424			137,400	125,424
Compensated absences	94,957	90,130	-	-	94,957	90,130
Total	\$ 1,278,357	\$ 1,252,753	\$ -	\$ -	\$ 1,278,357	\$ 1,252,753

City of Claremont’s Outstanding Debt

The City of Claremont’s total installment debt decreased by \$122,863 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for City of Claremont is \$37,807,329. The City has outstanding debt of \$649,582 in installment financing at June 30, 2019.

Additional information on City of Claremont’s long-term debt can be found in Note 2 of this report.

Economic Factors and Next Year’s Budgets and Rates

The City continues to place an emphasis on economic development which is producing results. FY19 saw several events indicating continued strong economic growth with the Claremont. The City’s investment in a second spec building paid off with the sale of the building on Penny Drive to Progressive Furniture, expanding one of our existing businesses in the International Business Park. Increased business development and investment over the course of the past several years also provided for a substantial increase in real estate and business personal values in the 2019 county revaluation.

Further, FY19 saw much progress in infrastructure maintenance and planning within the City. A project to complete BGA Drive in the International Business Park was completed. The City also completed a Wastewater Assessment and Inventory (AIA)

Management Discussion and Analysis
City of Claremont

study and was awarded a Water AIA grant from NCDEQ. With other study areas to be completed in FY 20 (Pump Station Assessments and an Asset Management Plan), we will be in a good position to make strategic choices to ensure that the infrastructure necessary for continued economic growth exists in the City of Claremont.

These factors, along with a focus on long term infrastructure planning, as evidenced in the signing of a wastewater treatment contract with the City of Hickory, will place the City of Claremont in a position to take advantage of the strong business climate we see entering the second decade of the 21st Century.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The adopted General Fund budget totals \$3,960,624 which represents an increase of 9% from the FY 2018-19 budget. This increase was based on several external factors that the City faced this year as well as continued funding of capital expenditures. Some of these factors included: increased funding for fire operations in an effort to ensure at least one firefighter on duty 24/7 throughout the year, a 21% increase on trash and recycling services from Republic Services, and a 10% increase in health insurance premiums.

The General Fund Budget accounts for an increase in personnel costs of 12%, and an increase in operating costs of 15%. The increase in these costs is due to the addition of two personnel in Public Services, enhancement of an administrative position and the difference in Manager's salaries. These differences show up in the general fund but the revenues to pay for them will be transferred from water and sewer appropriations in an on-going effort to make the system self-sustaining. This General Fund Budget decreases capital spending slightly by taking advantage of fund balance in the water and sewer fund for appropriate items as well.

Base on the county-wide revaluation results in 2019 and use of appropriate water and sewer funds to pay for related expenses, these increases were able to be budgeted within the existing revenue structure, maintaining the .49/100 ad valorem tax rate in the City. It should also be noted that the FY20 budget was also able to reduce use of fund balance to pay for operating expenditures by 26%, a savings of \$116,434. This represents a conscious effort by Council to use available fund balance primarily for future capital projects and purchases. While management believes that the increased revenues expected through revaluation and continued restrictions on spending will maintain the City's positive financial position in the near term, a careful analysis of property tax revenues will be considered in future years' budgets.

Business-type Activities: The City adopted a \$1,806,600 Water and Sewer Fund budget in FY2019-20, an increase of 24% from FY 2018-19. The majority of this increase was based on the addition of two new Public Services positions dedicated to Water and Sewer operations, as well as use of fund balance in the fund for large one-time capital purchases (sewer jetter, mini excavator, etc.). Council made a conscious decision to invest in

Management Discussion and Analysis
City of Claremont

personnel in water and sewer as part of a transition plan in the operation and maintenance of our distribution and collections systems.

Historically, water and sewer fund rates have not truly offset the expenses of the system. The City Council has taken a proactive approach over the past five years to attempt to make this fund self-sufficient and to invest in the future. In response to added pressure from State regulations, system maintenance, increases in operational costs, and taking on capital expenses, the Water and Sewer system rates are proposed to increase in FY 2019-20. The residential water and sewer customer base and volumetric water rates are increasing by 4%. This is equivalent to the rate increases received from the City of Hickory in water purchase and operations and maintenance of collections system. Inside commercial base and volumetric fees for water will increase by 4% while the sewer base and volumetric will increase by 10% and 5% respectively. The commercial outside rates will increase by 10% across the board.

The commercial rate increase targets those users who are our largest wastewater users, ensuring the City will be able to invest to our wastewater system. FY19 saw the signing of a long-term contract with the City of Hickory to transition to offsite wastewater treatment, and the beginning of the design for this project. This will also better prepare the City for future growth. In addition to the design of a new wastewater infrastructure project and completion of the installation of our new SCADA system and Automatic Meter Reader (AMR) meters in commercial businesses, several studies will be completed in FY19 and FY20, allowing for detailed analysis of City systems and future needs. This information will be compiled to present a better understanding of the City's future infrastructure needs and to inform our Capital Improvement Plan. It will be imperative for the City to continue planning for the future as the City tackles an aging wastewater and water system, as well as a wastewater system nearing capacity.

Requests for Information

This report is designed to provide a general overview of the City's finances for those with an interest in this area. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Finance Director, Valerie McKenna, City of Claremont, 3288 East Main Street, Claremont, NC 28610. One can also call (828) 466-7255, visit our website www.cityofclaremont.org or send an email to vmckenna@claremont.org for more information.

Basic Financial Statements

The Basic Financial Statements present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental	Business-	Total
	Activities	Type	
	\$	\$	\$
Assets			
Current assets:			
Cash and cash equivalents	3,626,206	2,634,910	6,261,116
Taxes receivables (net)	7,004		7,004
Accounts receivable (net)	1,106	139,362	140,468
Accrued interest receivable on taxes	1,119		1,119
Due from other governments	448,195	115,622	563,817
Internal balance	104,050	(104,050)	
Inventories		73,117	73,117
Prepaid items	3,848		3,848
Restricted cash and cash equivalents	<u>409,082</u>	<u>32,887</u>	<u>441,969</u>
Total current assets	<u>4,600,610</u>	<u>2,891,848</u>	<u>7,492,458</u>
Non-current assets:			
Capital assets (Note 2):			
Land and construction in progress	1,494,600	311,772	1,806,372
Other capital assets, net of depreciation	<u>5,241,767</u>	<u>4,180,374</u>	<u>9,422,141</u>
Total capital assets	<u>6,736,367</u>	<u>4,492,146</u>	<u>11,228,513</u>
Total assets	<u>11,336,977</u>	<u>7,383,994</u>	<u>18,720,971</u>
Deferred Outflows of Resources			
Pension deferrals	<u>318,214</u>	_____	<u>318,214</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	53,213	52,830	106,043
Customer deposits and overpayments		32,887	32,887
Accrued interest payable	7,812		7,812
Current portion of long-term liabilities	<u>182,601</u>	_____	<u>182,601</u>
Total current liabilities	243,626	85,717	329,343
Long-term liabilities:			
Net pension liability	396,418		396,418
Total pension liability	137,400		137,400
Due in more than one year	<u>561,938</u>	_____	<u>561,938</u>
Total liabilities	<u>1,339,382</u>	<u>85,717</u>	<u>1,425,099</u>

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
	\$	\$	\$
Deferred Inflows of Resources			
Prepaid taxes	60		60
Pension deferrals	46,023		46,023
Total deferred inflows of resources	46,083	0	46,083
Net Position			
Net investment in capital assets	6,086,785	4,492,146	10,578,931
Restricted for:			
Streets	171,853		171,853
Public safety	22,717		22,717
Economic development	214,512		214,512
Stabilization by State Statute	509,241		509,241
Unrestricted	3,264,618	2,806,131	6,070,749
Total net position	10,269,726	7,298,277	17,568,003

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u> \$	<u>Charges for Services</u> \$	<u>Operating Grants and Contributions</u> \$	<u>Capital Grants and Contributions</u> \$	<u>Primary Government</u>		<u>Total</u> \$
					<u>Governmental Activities</u> \$	<u>Business-Type Activities</u> \$	
Primary government:							
Governmental activities:							
General government	619,452	15,606			(603,846)		(603,846)
Public safety	1,459,791	926	327,952		(1,130,913)		(1,130,913)
Transportation	223,304		53,513	174,656	4,865		4,865
Economic development	718,650		522,778		(195,872)		(195,872)
Environmental protection	563,535	31,066	1,085		(531,384)		(531,384)
Cultural and recreational	188,727				(188,727)		(188,727)
Interest on long-term debt	<u>26,474</u>				<u>(26,474)</u>		<u>(26,474)</u>
Total governmental activities (See Note 1)	3,799,933	47,598	905,328	174,656	(2,672,351)	0	(2,672,351)
Business-type activities:							
Water and sewer	<u>1,252,645</u>	<u>1,709,841</u>		<u>116,424</u>		<u>573,620</u>	<u>573,620</u>
Total primary government	<u>5,052,578</u>	<u>1,757,439</u>	<u>905,328</u>	<u>291,080</u>	<u>(2,672,351)</u>	<u>573,620</u>	<u>(2,098,731)</u>

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Activities
For the Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
	\$	\$	\$	\$	\$	\$
General revenues:						
Taxes:						
Ad valorem property taxes, levied for general purpose				2,272,686		2,272,686
Local option sales tax				398,948		398,948
Unrestricted intergovernmental taxes				446,385		446,385
Investment earnings				104,842	4,962	109,804
Gain on sale of capital assets				5,092		5,092
Miscellaneous, unrestricted				<u>37,699</u>	<u>96,227</u>	<u>133,926</u>
Total general revenue not including transfers				3,265,652	101,189	3,366,841
Transfers				<u>78,000</u>	<u>(78,000)</u>	<u>0</u>
Total general revenues and transfers				<u>3,343,652</u>	<u>23,189</u>	<u>3,366,841</u>
Change in net position				<u>671,301</u>	<u>596,809</u>	<u>1,268,110</u>
Beginning net position as previously reported				9,591,188	6,701,468	16,292,656
Restatement				<u>7,237</u>		<u>7,237</u>
Net position, beginning, restated				<u>9,598,425</u>	<u>6,701,468</u>	<u>16,299,893</u>
Net position, ending				<u>10,269,726</u>	<u>7,298,277</u>	<u>17,568,003</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2019

	<u>Major Funds</u>			
	General Fund	Building Reuse- Prysmian #3 Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	3,389,118	21,833	215,255	3,626,206
Restricted cash	179,796		229,286	409,082
Receivables, net:				
Taxes	7,004			7,004
Accounts receivable - other	1,119			1,119
Due from other governments	259,909		188,286	448,195
Due from other funds	248,213			248,213
Prepaid items	3,848			3,848
Total assets	<u>4,089,007</u>	<u>21,833</u>	<u>632,827</u>	<u>4,743,667</u>
Liabilities				
Accounts payable and accrued liabilities	47,546		5,667	53,213
Due to other funds			<u>144,163</u>	<u>144,163</u>
Total liabilities	<u>47,546</u>	<u>0</u>	<u>149,830</u>	<u>197,376</u>
Deferred Inflows of Resources				
Property taxes receivable	7,004			7,004
Prepaid taxes	<u>60</u>			<u>60</u>
Total deferred inflows of resources	<u>7,064</u>	<u>0</u>	<u>0</u>	<u>7,064</u>
Fund Balances				
Non spendable				
Prepaid items	3,848			3,848
Restricted				
Stabilization by State Statute	509,241			509,241
Streets	171,853			171,853
Public safety	7,943		14,774	22,717
Economic development			214,512	214,512
Committed				
Economic development		21,833		21,833
Capital projects			253,711	253,711
Assigned				
Subsequent year's expenditures	553,290			553,290
Unassigned	<u>2,788,222</u>			<u>2,788,222</u>
Total fund balances	<u>4,034,397</u>	<u>21,833</u>	<u>482,997</u>	<u>4,539,227</u>
Total liabilities, deferred inflows of resources and fund balances	<u>4,089,007</u>	<u>21,833</u>	<u>632,827</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2019

	\$	\$
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Total Fund Balances, Governmental Funds		4,539,227
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	12,491,846	
Accumulated depreciation	<u>(5,755,479)</u>	6,736,367
Deferred outflows of resources related to pensions are not reported in these funds.		318,214
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and therefore are inflows of resources in the funds.		1,106
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		7,004
Long-term liabilities used in governmental activities are not financial uses and therefore not included in the funds.		(744,539)
Net pension liability not reported in the funds		(396,418)
Total pension liability		(137,400)
Deferred inflows of resources related to pensions are not reported in the funds		(46,023)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		<u>(7,812)</u>
Net position of governmental activities		<u><u>10,269,726</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	<u>Major Funds</u>			
	General Fund	Building Reuse- Prysmian #3 Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
Revenues				
Ad valorem taxes	2,273,771			2,273,771
Other taxes and licenses	10,881			10,881
Unrestricted intergovernmental	845,333			845,333
Restricted intergovernmental	370,919	420,000	277,434	1,068,353
Permits and fees	4,150			4,150
Sales and services	32,566			32,566
Investment earnings	102,241		2,601	104,842
Miscellaneous	28,703		8,994	37,697
Total revenues	<u>3,668,564</u>	<u>420,000</u>	<u>289,029</u>	<u>4,377,593</u>
Expenditures				
Current:				
General government	590,590			590,590
Public safety	1,334,080		5,956	1,340,036
Transportation	9,948			9,948
Economic and physical development	220,483	423,167	75,000	718,650
Environmental protection	689,314			689,314
Cultural and recreational	170,875			170,875
Debt service:				
Principal	122,863			122,863
Interest and other charges	28,036			28,036
Capital outlay			230,505	230,505
Total expenditures	<u>3,166,189</u>	<u>423,167</u>	<u>311,461</u>	<u>3,900,817</u>
Excess (deficiency) of revenues over (under) expenditures	<u>502,375</u>	<u>(3,167)</u>	<u>(22,432)</u>	<u>476,776</u>
Other Financing Sources (Uses)				
Transfers to other funds	(93,500)			(93,500)
Transfers from other funds			171,500	171,500
Proceeds from sale of capital assets	5,092			5,092
Total other financing sources (uses)	<u>(88,408)</u>	<u>0</u>	<u>171,500</u>	<u>83,092</u>
Net change in fund balance	413,967	(3,167)	149,068	559,868
Fund balances, beginning	<u>3,620,430</u>	<u>25,000</u>	<u>333,929</u>	<u>3,979,359</u>
Fund balances, ending	<u>4,034,397</u>	<u>21,833</u>	<u>482,997</u>	<u>4,539,227</u>

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	\$	\$
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net changes in fund balances - total governmental funds		559,868
Governmental funds report capital outlays as expenditures.		
However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay expenditures which were capitalized	474,582	
Depreciation expense for governmental assets	<u>(449,582)</u>	25,000
Contributions to pension plan in the current fiscal year are not included on the Statement of Activities		87,000
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Change in unavailable revenue for tax revenues		(686)
Change in accrued interest receivable on taxes		(399)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments on long-term debt	122,863	
Decrease in accrued interest payable	<u>1,562</u>	124,425
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(4,827)	
Pension expense	<u>(119,080)</u>	<u>(123,907)</u>
Total changes in net position of governmental activities		<u>671,301</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2019

	<u>General Fund</u>			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
	\$	\$	\$	\$
Revenues:				
Ad valorem taxes	1,966,000	1,966,000	2,273,771	307,771
Other taxes and licenses	10,000	10,000	10,881	881
Unrestricted intergovernmental	751,000	751,000	845,333	94,333
Restricted intergovernmental	328,700	328,700	370,919	42,219
Sales and services	28,300	28,300	32,566	4,266
Permits and fees	3,000	3,000	4,150	1,150
Investment earnings	20,300	20,300	102,241	81,941
Miscellaneous	<u>128,500</u>	<u>128,500</u>	<u>28,703</u>	(99,797)
Total revenues	<u>3,235,800</u>	<u>3,235,800</u>	<u>3,668,564</u>	<u>432,764</u>
Expenditures:				
Current:				
General government	781,550	808,096	590,590	217,506
Public safety	1,349,901	1,360,111	1,334,080	26,031
Transportation	173,000	173,000	9,948	163,052
Environmental protection	824,830	824,829	689,314	135,515
Cultural and recreational	176,195	176,195	170,875	5,320
Economic development	274,748	437,214	220,483	216,731
Debt service:				
Principal	122,863	122,863	122,863	
Interest and other charges	<u>28,037</u>	<u>28,037</u>	<u>28,036</u>	<u>1</u>
Total expenditures	<u>3,731,124</u>	<u>3,930,345</u>	<u>3,166,189</u>	<u>764,156</u>
Revenues over (under) expenditures	(495,324)	(694,545)	502,375	1,196,920
Other Financing Sources (Uses):				
Transfers to other funds	(58,500)	(93,500)	(93,500)	
Proceeds from sale of capital assets	<u>5,500</u>	<u>5,500</u>	<u>5,092</u>	(408)
Total other financing sources (uses)	(53,000)	(88,000)	(88,408)	(408)
Fund balance appropriated	<u>548,324</u>	<u>782,545</u>		(782,545)
Net change in fund balance	<u>0</u>	<u>0</u>	413,967	<u>413,967</u>
Fund balance, beginning			<u>3,620,430</u>	
Fund balance, ending			<u>4,034,397</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Funds
June 30, 2019

	<u>Major Enterprise Fund</u>
	Water and
	Sewer
	Fund
	\$
Assets	
Current assets:	
Cash and cash equivalents	2,618,760
Accounts receivable (net)	139,362
Due from other governments	115,622
Inventories	73,117
Restricted cash and cash equivalents	<u>32,887</u>
Total current assets	<u>2,979,748</u>
Noncurrent assets:	
Land and other non-depreciable assets	311,772
Other capital assets, net of depreciation	<u>4,180,374</u>
Total noncurrent assets	<u>4,492,146</u>
Total assets	<u>7,471,894</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	36,680
Due to other funds	104,050
Customer deposits and overpayments	<u>32,887</u>
Total current liabilities	<u>173,617</u>
Net Position	
Net investment in capital assets	4,492,146
Unrestricted	<u>2,806,131</u>
Net position of business-type activities	<u>7,298,277</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	<u>Major Enterprise Funds</u>
	Water and Sewer Fund \$
Operating revenues	
Charges for services	<u>1,709,841</u>
Operating expenses	
Water distribution	400,373
Sewage treatment	634,889
Depreciation	<u>217,383</u>
Total operating expenses	<u>1,252,645</u>
Operating income	457,196
Nonoperating revenues (expenses)	
Investment earnings	4,962
Miscellaneous revenues	<u>96,227</u>
Income before contributions and transfers	558,385
Transfer to BGA Drive Capital Project Fund	(78,000)
Capital contributions	<u>116,424</u>
Change in net position	596,809
Total net position, beginning	<u>6,701,468</u>
Total net position, ending	<u><u>7,298,277</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	<u>Major Enterprise Funds</u>	<u>Water and Sewer Fund</u>
	\$	\$
Cash flows from operating activities		
Cash received from customers	1,629,153	
Cash paid for goods and services	(865,131)	
Cash paid to employees	(100,000)	
Net cash provided (used) by operating activities		664,022
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets		(262,368)
Cash flows provided by investing activities		
Interest on investments	4,962	
Miscellaneous revenues	<u>134,920</u>	
Net cash provided (used) by investing activities		<u>139,882</u>
Net increase (decrease) in cash and cash equivalents		541,536
Cash and cash equivalents, beginning of year		<u>2,110,111</u>
Cash and cash equivalents, end of year		<u>2,651,647</u>

CITY OF CLAREMONT, NORTH CAROLINA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

Major Enterprise Funds
Water and
Sewer
Fund
\$

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income (loss)	<u>457,196</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	217,383
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable	(4,419)
(Increase) decrease in inventory	(1,362)
Increase (decrease) in accounts payable and accrued liabilities	3,053
Increase (decrease) in customer deposits	(187)
Increase (decrease) in due to other funds	76,082
Increase (decrease) in due from other governments	<u>(83,724)</u>
Total adjustments	<u>206,826</u>
Net cash provided (used) by operating activities	<u>664,022</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

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CITY OF CLAREMONT, NORTH CAROLINA
Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1.
Summary of Significant
Accounting Policies

The accounting policies of the City of Claremont 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 of Claremont is a municipal corporation that is governed by an elected Mayor and a five-member council that has appointment authority of the City's management. As required by generally accepted accounting principles, the City determined there to be no component units required to be presented with the financial statements. There are no separate legal entities for which the City controls the boards or memberships, requires financial accountability, or is fiscally dependent on the City.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category - *governmental and proprietary* - 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 non-major 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 funds:

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

Building Reuse – Prysman #3 Fund – This special revenue fund accounts for grant proceeds from NC Department of Commerce for continuing building renovations.

The City reports the following non-major governmental funds:

PJ Stanley Scholarship Fund - This fund accounts for contributions restricted for providing scholarships for local students attending Catawba Valley Community College or Mitchell Community College in a police, fire, or EMS related field of study. The fund is reported as a special revenue fund.

Sutter Street Building Reuse Fund – This special revenue fund accounts for grant proceeds from NC Department of Commerce for building reuse at Sutter Street Manufacturing, a subsidiary of Williams Sonoma.

Economic Development Fund – This fund accounts for contributions restricted for providing economic incentive agreements for new business. This fund is reported as a special revenue fund and accounts for grant funds that are restricted for use for a particular purpose.

BGA Drive Capital Project Fund – This account is used to account for grant revenue for street improvements.

Centennial Sidewalk Capital Project Fund – This fund accounts for construction and expansion of centennial sidewalk.

General Capital Project Fund – This fund account is used to account for acquisitions or construction of major capital facilities or infrastructure other than those financed by the Enterprise Fund.

General Capital Reserve Fund – This fund accounts for the funds committed for future capital projects. This fund is reported as a capital project fund.

Sidewalk Capital Project Fund – This fund accounts for grant proceeds from the NC Department of Transportation and City contributions to this Sidewalk project.

The City reports the following major enterprise fund:

Water and Sewer Fund – This fund is used to account for the operations, maintenance, and capital improvements to the City’s water and sewer operations. This includes the Water and Sewer Operating Fund, the Water and Sewer Capital Reserve Fund, the Special Revenue AIA Grant Fund and the Wastewater Improvements Capital Project Fund.

C. Measurement Focus and Basis of Accounting

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

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

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

revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to 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 taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Claremont because the tax is levied by

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

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 PJ Stanley Scholarship Fund, the General Capital Project Fund, the General Capital Reserve Fund, the Water and Sewer Operating Fund, and the Water and Sewer Capital Reserve Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Economic Development Grant Fund Project, the Sidewalk Capital Project Fund, the BGA Drive Capital Project Fund, the Building Reuse – Prysman #3 Fund, the Centennial Sidewalk Capital Project Fund, the Water and Sewer Special Revenue AIA Grant Fund, and the Wastewater Improvements Capital Project Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project 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.

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local

government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The City's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC registered (2a-7) external investment pool, is measured at fair value.

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.

Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are classified as restricted cash because they can be expended only for the purpose outlined in G.S. 136-41.1 through 136-41.4. Federal and State seizure funds are also classified as restricted cash because its use is restricted to law enforcement expenditures. Money in the Economic Development Fund is classified as restricted assets because its use is restricted to the Economic Development Fund per NC G.S. Chapter 159, Article 3, Part 2. PJ Stanley Scholarship Funds are also classified as restricted cash because it can only be expended for the purpose of providing scholarships and supplies to local students attending Catawba Valley Community College or Mitchell Community College in a police, fire or EMS related field of study.

City of Claremont Restricted Cash

Governmental Activities:

General Fund	Streets	\$ 171,853
	Public safety	22,717
	Economic development	<u>214,512</u>
Total governmental activities		409,082

Business-type Activities:

Water and Sewer Fund	Customer deposits and overpayments	<u>32,887</u>
Total restricted cash		\$ <u>441,969</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, 2018.

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.

Inventory and Prepaid Items

The inventories of the City 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.

The inventories of the City's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$5,000; buildings, improvements, substations, lines and other plant and distribution systems, \$5,000; infrastructure, \$5,000; equipment and furniture, \$5,000; and vehicles, \$5,000. 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, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the

asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50 years
Building & improvements	15-50 years
Vehicles, furniture and equipment	5-7 years
Distribution system-water and wastewater	20-40 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category – prepaid taxes, property taxes receivable, and pension deferrals.

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 discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

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

Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. 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. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Position/Fund Balances

Net Position:

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position 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:

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

Prepaid items – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items that are costs applicable to future accounting periods and are expensed when used, which are not spendable resources.

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

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Streets – Powell Bill 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 certain public safety expenditures from Seizure Funds and portion of fund balance that is restricted for police related scholarships and related costs.

Restricted for Economic Development – portion of fund balance restricted for economic development [G.S.Chapter 159, Article 3, Part 2].

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City of Claremont's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Economic Development – portion of fund balance committed by the Board for economic development.

Committed for Capital Development – portion of fund balance committed by the Board for capital development.

Assigned Fund Balance – portion of fund balance that the City of Claremont intends to use for specific purposes.

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 manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

The City of Claremont has not formally adopted a revenue spending policy that provides guidance or programs with multiple revenue sources. However, the Finance Officer currently uses resources in the following hierarchy: bond 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.

The City of Claremont has not adopted a minimum fund balance policy for the general fund.

Defined Benefit Cost-Sharing Plans

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

employer contributions are recognized when due and the City of Claremont 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.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 2.
Stewardship,
Compliance,
and Accountability**

Significant Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

The City is required by General Statute and the Local Government Commission to have audited financial statements available no more than four months after the fiscal year end. The City was unable to close the final general ledger timely due to the termination of employment of the previous finance officer during the financial closing procedures. The City has hired a new finance officer, in September, and will make all due efforts to complete the financial statements timely in the future.

**Note 3.
Detail Notes on all Funds
and Account Groups**

A. Assets

Deposits

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City'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 or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City 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 has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the City’s deposits had a carrying amount of \$327,221 and a bank balance of \$390,785. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. All of the bank balance was covered by federal depository insurance. At June 30, 2019, the City’s petty cash fund totaled \$150.

Investments

At June 30, 2019, the City of Claremont had \$6,375,714 invested with the North Carolina Capital Management Trust’s Government Portfolio which carried a credit rating of AAAM by Standard and Poor’s. The City has no policy regarding credit risk.

Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>06/30/19</u>
General Fund	
Taxes receivable	\$ 10,551
Enterprise Fund	<u>15,249</u>
Total	<u>\$ 25,800</u>

Capital Assets

Primary Government:

Capital asset activity for the Primary Government for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases \$	Decreases \$	Transfers \$	Ending Balances \$
Governmental activities:					
Capital assets not being depreciated:					
Land	1,049,255	120,690			1,169,945
Construction in progress	<u>94,149</u>	<u>230,506</u>			<u>324,655</u>
Total capital assets not being depreciated	<u>1,143,404</u>	<u>351,196</u>	<u>0</u>	<u>0</u>	<u>1,494,600</u>
Capital assets being depreciated:					
Buildings	2,186,605				2,186,605
Other improvements	2,719,969				2,719,969
Equipment and furniture	1,143,583	80,344	81,165		1,142,762
Vehicles and motorized equipment	2,023,415	43,042	22,389		2,044,068
Infrastructure	<u>2,903,842</u>				<u>2,903,842</u>
Total capital assets being depreciated	<u>10,977,414</u>	<u>123,386</u>	<u>103,554</u>	<u>0</u>	<u>10,997,246</u>
Less accumulated depreciation for:					
Buildings	785,187	51,933			837,120
Other improvements	1,333,319	164,701			1,498,020
Equipment and furniture	871,570	73,080	81,165		863,485
Vehicles and motorized equipment	1,327,734	100,812	22,389		1,406,157
Infrastructure	<u>1,091,641</u>	<u>59,056</u>			<u>1,150,697</u>
Total accumulated depreciation	<u>5,409,451</u>	<u>449,582</u>	<u>103,554</u>	<u>0</u>	<u>5,755,479</u>
Total capital assets being depreciated, net	<u>5,567,963</u>				<u>5,241,767</u>
Governmental activity capital assets, net	<u>6,711,367</u>				<u>6,736,367</u>

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

General government	\$ 14,590
Public safety	193,323
Transportation	212,806
Environmental protection	11,011
Cultural and recreational	<u>17,852</u>
 Total depreciation expense	 <u>\$ 449,582</u>

	Beginning Balances	Increases \$	Decreases \$	Transfers \$	Ending Balances \$
Business-type activities:					
Water and Sewer Fund					
Capital assets not being depreciated:					
Land	109,870				109,870
Construction in progress	<u> </u>	<u>201,902</u>	<u> </u>	<u> </u>	<u>201,902</u>
Total capital assets not being depreciated	<u>109,870</u>	<u>201,902</u>	<u>0</u>	<u>0</u>	<u>311,772</u>
Capital assets being depreciated:					
Equipment and vehicles	416,220	60,466	50,164		426,522
Plant and distribution systems	<u>9,696,860</u>	<u> </u>	<u>1,026</u>	<u> </u>	<u>9,695,834</u>
Total capital assets being depreciated	<u>10,113,080</u>	<u>60,466</u>	<u>51,190</u>	<u>0</u>	<u>10,122,356</u>
Less accumulated depreciation for:					
Equipment and vehicles	405,685	10,858	50,164		366,379
Plant and distribution systems	<u>5,369,835</u>	<u>206,525</u>	<u>757</u>	<u> </u>	<u>5,575,603</u>
Total accumulated depreciation	<u>5,775,520</u>	<u>217,383</u>	<u>50,921</u>	<u>0</u>	<u>5,941,982</u>
Total capital assets being depreciated, net	<u>4,337,560</u>				<u>4,180,374</u>
Business-type activities capital assets, net	<u>4,447,430</u>				<u>4,492,146</u>

Commitments

The government has no active construction projects as of June 30, 2019.

B. Liabilities

Pension Plan Obligations

a. Local Governmental Employees' Retirement System:

Plan description

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

Benefits Provided

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly

Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Claremont 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 Claremont contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.81% for general employees and 7.81% for 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 Claremont were \$87,000 for the year ended June 30, 2019.

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, 2019, the City reported a liability of \$396,418 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2019, the City's proportion was .01671%, which was a decrease of 0.00062% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the City recognized pension expense of \$110,271. At June 30, 2019, 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	\$ 61,158	\$ 2,052
Change in assumptions	105,194	-
Net difference between projected and actual earnings on pension plan investments	54,416	-
Changes in proportion and differences between City contributions and proportionate share of contributions	487	9,930
City contributions subsequent to the measurement date	<u>87,000</u>	-
Total	\$ <u>308,255</u>	\$ <u>11,982</u>

\$87,000 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
June 30:	
2019	\$ 103,367
2020	66,306
2021	10,306
2022	29,293

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

The plan currently used 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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 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%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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 7.00%. 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 7.00 percent, as well as what the City’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
City’s proportionate share of the net pension liability (asset)	\$ 952,231	\$ 396,418	\$(68,028)

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.

The pension net liability at June 30, 2019 was not allocated between governmental type fund and business type fund because retirement contributions made in the business type fund are considered immaterial.

b. Law Enforcement Officers' Special Separation Allowance:

Plan Description

The City of Claremont 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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent 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 City law enforcement officers are covered by the Separation Allowance. At December 1, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Active plan members	<u>9</u>
Total	<u>9</u>

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 are recognized when due and payable in accordance with the terms of the plan.

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

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index.

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

Contributions

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

City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid no benefits for the reporting period.

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

At June 30, 2019, the City reported a total pension liability of \$137,400. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the City recognized pension expense of \$8,806.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,528	\$ 26,641
Changes in assumptions	6,431	7,400
City benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 9,959	\$ 34,041

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
June 30:	
2019	\$ 2,103
2020	2,103
2021	2,009
2022	1,312
2023	461
Thereafter	-

No benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the City’s total pension liability to changes in the discount rate

The following presents the City’s total pension liability calculated using the discount rate of 3.64 percent, as well as what the City’s total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	1% Decrease <u>(2.64%)</u>	Discount Rate <u>(3.64%)</u>	1% Increase <u>(4.64%)</u>
Total pension liability	\$ 149,734	\$ 137,400	\$ 125,896

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers’ Special Separation Allowance**

Beginning balance 12/31/2017	\$ 125,424
Service Cost	9,695
Interest on the total pension liability	3,963
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	4,135
Changes of assumptions or other inputs	(5,817)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability 12/31/18	<u>\$ 137,400</u>

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS \$	LEOSSA \$	TOTAL \$
Pension expense	110,271	9,695	119,966
Pension liability	396,418	137,400	533,818
Proportionate share of the net pension liability	0.01671%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	61,158	3,528	64,686
Changes of assumptions	105,194	6,431	111,625
Net difference between projected and actual earnings on plan investments	54,416	-	54,416
Changes in proportion and differences between contributions and proportionate share of contributions	487	-	487
Benefit payments and administrative costs paid subsequent to the measurement date	87,000	-	87,000
Deferred of Inflows of Resources			
Differences between expected and actual experience	2,052	26,641	28,693
Changes of assumptions		7,400	7,400
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,930	-	9,930

c. 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 five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

d. Firefighters' and Rescue Squad Workers' Pension Fund:

Plan Description

The State of North Carolina contributes, on behalf of the City of Claremont, to the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighters' and Rescue Squad Workers' Pension Fund 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 the Firefighters' and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided

FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions

Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2018, the State contributed \$17,952,000 to the plan. The City of Claremont's proportionate share of the State's contribution is \$3,759.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2019, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was

associated with the City and supported by the State was \$40,911. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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 contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2018 and at June 30, 2017 was 0%.

For the year ended June 30, 2019, the City recognized pension expense of \$11,634 and revenue of \$11,634 for support provided by the State. At June 30, 2019, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the assets allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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.

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.

Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the 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. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. 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 is comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 87,000
Benefit payments made and administrative expenses for LEOSSA	-
Differences between expected and actual experience	64,686
Changes in assumptions	111,625
Net difference between projected and actual	54,416
Changes in proportion and differences between employer contributions and proportionate share of contributions	487
Total	<u>\$ 318,214</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 60	\$ 60
Taxes Receivable, less penalties (General Fund)	-	7,004
Changes in assumptions	7,400	-
Differences between expected and and actual experience	28,693	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,930	-
Total	<u>\$ 46,083</u>	<u>\$ 7,064</u>

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 participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy and workers' compensation coverage up to statutory limits. Health insurance is provided to all full time employees through Blue Cross Blue Shield. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect

against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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

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 and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

Claims and Judgments

At June 30, 2019, the City was unaware of any pending or threatened litigation, claims or contingent liabilities which could have a material effect on the City's financial position.

Long Term Obligations

Installment Purchases:

The City financed various property and equipment acquisitions by installment purchases. Installment purchase contracts at June 30, 2019, are comprised of the following:

Serviced by General Fund:

\$1,500,000 contract for construction of railroad Spur to Poppelmann, due in annual installments of \$100,000 plus interest at 3.96%, through February 2024.	\$ 500,000
\$237,765 contract for the acquisition of chassis equipment for a new Smeal Fire Truck, due in annual installments of \$27,139, including interest at a rate of 2.48% thru June 2025.	<u>149,582</u>
Total	\$ <u>649,582</u>

Annual debt service requirements to maturity for the City's installment purchases are as follows:

Year ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	Principal \$	Interest \$	Principal \$	Interest \$
2020	123,429	23,510		
2021	124,010	18,969		
2022	124,606	14,413		
2023	125,216	9,843		
2024	125,841	5,258		
2025	<u>26,481</u>	<u>655</u>		
Total	<u>649,583</u>	<u>72,648</u>	<u>0</u>	<u>0</u>

At June 30, 2019, the City of Claremont had a legal debt margin of \$37,807,329.

Changes in long-term liabilities:

Compensated absences for governmental activities have typically been liquidated in the General Fund.

	Balance 06/30/18 \$	Increase \$	Decrease \$	Balance 06/30/19 \$	Current Portion \$
Government Activities:					
Installment purchase BB&T- Poppelman railroad spur	600,000		100,000	500,000	100,000
Installment purchase BB&T- Fire Truck	172,445		22,863	149,582	23,429
Net pension obligations (LGERS)	264,754	131,664		396,418	
Total pension liability (LEO)	125,424	11,976		137,400	
Compensated absences	<u>90,130</u>	<u>60,991</u>	<u>56,164</u>	<u>94,957</u>	<u>59,172</u>
Governmental activity long-term liabilities	<u>1,252,753</u>	<u>204,631</u>	<u>179,027</u>	<u>1,278,357</u>	<u>182,601</u>

C. Interfund Balances and Activity

Transfer to/from other funds

Transfer to/from other funds at June 30, 2019, consist of the following:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	PJ Stanley Scholarship Fund	Fund Scholarships	\$ 1,000
General Fund	BGA Drive Capital Project Fund	Street Improvements	35,000
General Fund	Sidewalk Capital Project Fund	Construction Project	57,500
Water and Sewer Capital Reserve Fund	Wastewater Improvements Capital Project Fund	Wastewater Improvements	417,000
Water and Sewer Operating Fund	BGA Drive Capital Project Fund	Street Improvements	78,000
Water and Sewer Operating Fund	Water and Sewer Capital Reserve Fund	Capital Outlay	165,000
Total			<u>\$ 753,500</u>

D. Fund Balance

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

<i>Total fund balance – General Fund</i>	<i>\$ 4,034,397</i>
Less:	
Stabilization by State Statute	509,241
Streets – Powell Bill	171,853
Public Safety	7,943
Appropriated Fund Balance in ‘19-’20 Budget	553,290
Remaining Fund Balance	<u>2,792,070</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remained unperformed at year-end.

<i>Encumbrances</i>	<i>General Fund</i>	<i>Non-major Funds</i>
	\$ 0	\$ 0

**Note 4.
Jointly Governed
Organizations**

Western Piedmont Council of Governments

The Western Piedmont Council of Governments (“Council”) was established in November, 1968 by the City in conjunction with three counties and twenty-two other municipalities. Each participating government appoints one member to the Council’s governing board. The Council’s financing is derived from voluntary annual dues paid by member governments and from federal and State grants. The City paid base dues of \$2,500 to the Council during the fiscal year ended June 30, 2019.

**Note 5.
Summary Disclosure
of Significant
Commitments and
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 agreements. Such audits could result in the refund of grant moneys 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 moneys.

**Note 6.
Subsequent Events**

For the year ended June 30, 2019, the City of Claremont has evaluated subsequent events for potential recognition disclosure through January 31, 2020, the date the financial statements were available to be issued.

**Note 7.
Restatements
Prior Period
Adjustment**

During the fiscal year ended June 30, 2019, the City determined that two police vehicles owned by the City were not included in capital assets. The original costs of the two vehicles totaled \$70,982. The prior years’ accumulated depreciation totaled \$63,745. Therefore, an adjustment to beginning fund balance has been recorded to account for the increase in net capital assets, the net effect of which increased beginning fund balance by \$7,237.

Required Supplemental Financial Data

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

- * **Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System**
- * **Schedule of Contributions to Local Government Employees' Retirement System**
- * **Schedule of Proportionate Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan**
- * **Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance**
- * **Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance**

CITY OF CLAREMONT, NORTH CAROLINA
City of Claremont's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years *

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Claremont's proportion of the net pension liability (asset) (%)	0.01671%	0.01733%	0.0163%	0.0158%	0.01436%	0.01330%
Claremont's proportion of the net pension liability (asset) (\$)	\$ 396,418	\$ 264,754	\$ 345,943	\$ 70,199	\$(84,688)	\$ 160,316
Claremont's covered payroll	\$ 979,628	\$ 949,593	\$ 889,297	\$ 749,281	\$ 716,315	\$ 716,315
Claremont's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.74%	27.88%	38.90%	9.37%	(11.82%)	22.38%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

CITY OF CLAREMONT, NORTH CAROLINA
City of Claremont's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 87,000	\$ 76,709	\$ 72,102	\$ 61,325	\$ 51,251	\$ 42,979
Contributions in relation to the contractually required contribution	<u>87,000</u>	<u>76,709</u>	<u>72,102</u>	<u>61,325</u>	<u>51,251</u>	<u>42,979</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Claremont's covered payroll	\$1,078,906	\$ 979,628	\$ 949,593	\$ 889,297	\$ 749,281	\$ 716,315
Contributions as a percentage of covered payroll	8.06%	7.83%	7.59%	6.90%	6.84%	6.00%

CITY OF CLAREMONT, NORTH CAROLINA
City of Claremont's Proportionate Share of Net Pension Liability
Required Supplementary Information
Last Four Fiscal Years *

Firefighters' and Rescue Squad Workers' Pension

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Claremont's proportionate share of the net pension liability (%)	0.0000%	0.0000%	0.0000%	0.0000%
Claremont's proportionate share of the net pension liability (\$)	\$ 0	\$ 0	\$ 0	\$ 0
State's proportionate share of the net pension liability associated with the City of Claremont	<u>40,911</u>	<u>40,003</u>	<u>29,718</u>	<u>29,503</u>
Total	<u>\$ 40,911</u>	<u>\$ 40,003</u>	<u>\$ 29,718</u>	<u>\$ 29,503</u>
Claremont's covered payroll	\$ 66,581	\$ 86,236	\$ 64,808	\$ 61,736
Claremont's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.45%	46.39%	45.86%	47.79%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.35%	84.94%	91.40%

* The amounts presented are for the fiscal year.

CITY OF CLAREMONT, NORTH CAROLINA
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 125,424	\$ 144,714	\$ 146,472
Service Cost	9,695	8,147	9,088
Interest on the total pension liability	3,963	5,493	5,025
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	4,135	(37,027)	-
Changes of assumptions or other inputs	(5,817)	8,937	(4,432)
Benefit payments	-	(4,840)	(11,439)
Other changes	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance of the total pension liability	\$ <u>137,400</u>	\$ <u>125,424</u>	\$ <u>144,714</u>

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

CITY OF CLAREMONT, NORTH CAROLINA
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 137,400	\$ 125,424	\$ 144,714
Covered payroll	\$ 396,734	\$ 392,385	\$ 402,816
Total pension liability as a percentage of covered payroll	34.63%	31.96%	35.93%

Notes to the schedules:

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

Governmental Activities Major Fund

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources traditionally associated with government activities that are not required legally or by sound financial management to be accounted for in other funds.

Building Reuse – Prysmian #3 Fund – This special revenue fund accounts for grant proceeds from NC Department of Commerce for continuing building renovations.

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CITY OF CLAREMONT, NORTH CAROLINA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Revenues:			
Ad valorem taxes:			
Current year	1,960,000	2,269,056	309,056
Prior years	5,000	2,340	(2,660)
Penalties and interest	<u>1,000</u>	<u>2,375</u>	<u>1,375</u>
Total	<u>1,966,000</u>	<u>2,273,771</u>	<u>307,771</u>
Other taxes and licenses:			
Gross receipts on short-term rental property	<u>10,000</u>	<u>10,881</u>	<u>881</u>
Unrestricted intergovernmental:			
Local option sales tax	345,000	398,948	53,948
Utility sales tax	340,000	374,919	34,919
Piped natural gas sales tax	2,000	6,835	4,835
Telecommunications sales tax	28,000	27,894	(106)
Video program sales tax	30,000	30,424	424
Beer and wine tax	<u>6,000</u>	<u>6,313</u>	<u>313</u>
Total	<u>751,000</u>	<u>845,333</u>	<u>94,333</u>
Restricted intergovernmental:			
Powell Bill allocation	43,000	43,904	904
Investment earnings on Powell Bill allocation		9,610	9,610
Fines and forfeitures		883	883
Interest on fines and forfeitures		4	4
Solid waste disposal fees	700	1,086	386
Special fire district fees	285,000	294,660	9,660
On-behalf of payments - fire		<u>20,772</u>	<u>20,772</u>
Total	<u>328,700</u>	<u>370,919</u>	<u>42,219</u>
Permits and fees:			
Planning and zoning fees	<u>3,000</u>	<u>4,150</u>	<u>1,150</u>
Total	<u>3,000</u>	<u>4,150</u>	<u>1,150</u>

CITY OF CLAREMONT, NORTH CAROLINA**General Fund****Schedule of Revenues, Expenditures, and Changes in Fund Balance****Budget and Actual**

For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive (Negative) \$
Sales and services:			
Court costs, fees, and charges	1,000	926	(74)
Park rental fees	300	425	125
Golf cart fees		150	150
Refuse collection fees	<u>27,000</u>	<u>31,065</u>	<u>4,065</u>
Total	<u>28,300</u>	<u>32,566</u>	<u>4,266</u>
Investment earnings	<u>20,300</u>	<u>102,241</u>	<u>81,941</u>
Miscellaneous			
Contributions	100	750	650
Miscellaneous other	<u>128,400</u>	<u>27,953</u>	(100,447)
Total	<u>128,500</u>	<u>28,703</u>	(99,797)
Total revenues	<u>3,235,800</u>	<u>3,668,564</u>	<u>432,764</u>

Expenditures:

General government:

Governing Board:

Elected and appointed officials	13,500	12,000	1,500
Employee benefits	1,000	895	105
Professional services	52,400	50,241	2,159
Travel and training	3,000	2,108	892
Other operating expenditures	<u>26,450</u>	<u>8,811</u>	<u>17,639</u>
Total governing board	<u>96,350</u>	<u>74,055</u>	<u>22,295</u>

Administrative:

Salaries	251,308	204,439	46,869
Employee benefits	80,342	73,173	7,169
Professional services	16,850	16,850	
Travel and training	14,000	13,855	145
Engineering	4,200	2,279	1,921
Contractual services	129,546	129,358	188
Utilities	11,850	9,519	2,331
Capital outlay	166,616	12,316	154,300
Other operating expenditures	<u>37,034</u>	<u>54,746</u>	(17,712)
Total administrative	<u>711,746</u>	<u>516,535</u>	<u>195,211</u>
Total general government	<u>808,096</u>	<u>590,590</u>	<u>217,506</u>

CITY OF CLAREMONT, NORTH CAROLINA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Public safety:			
Police department:			
Salaries	490,547	457,263	33,284
Employee benefits	176,440	161,716	14,724
Travel and training	9,500	6,410	3,090
Contractual services	24,500	23,230	1,270
Vehicle maintenance	42,000	34,048	7,952
Insurance and bonds	28,400	28,331	69
Capital outlay	63,000	62,602	398
Other operating expenditures	<u>78,160</u>	<u>87,161</u>	(9,001)
Total police	<u>912,547</u>	<u>860,761</u>	<u>51,786</u>
Fire protection:			
Salaries	208,633	225,721	(17,088)
Employee benefits	46,339	42,489	3,850
Travel and training	7,600	7,458	142
Contractual services	13,500	10,796	2,704
Vehicle maintenance	35,200	27,233	7,967
Utilities	16,900	13,203	3,697
Capital outlay	48,992	32,368	16,624
Other operating expenditures	<u>70,400</u>	<u>114,051</u>	(43,651)
Total fire	<u>447,564</u>	<u>473,319</u>	(25,755)
Total public safety	<u>1,360,111</u>	<u>1,334,080</u>	<u>26,031</u>
Environmental protection:			
Public works:			
Salaries	286,582	212,070	74,512
Employee benefits	104,647	88,592	16,055
Travel and training	1,500	602	898
Contractual services	6,800	2,809	3,991
Vehicle maintenance	24,000	16,504	7,496
Maintenance	39,200	33,687	5,513
Utilities	83,000	48,573	34,427
Solid waste services	125,000	94,611	30,389
Insurance and bonds	20,900	18,197	2,703
Capital outlay	42,500	136,790	(94,290)
Other operating expenditures	<u>90,700</u>	<u>36,879</u>	53,821
Total environmental protection	<u>824,829</u>	<u>689,314</u>	<u>135,515</u>

CITY OF CLAREMONT, NORTH CAROLINA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive (Negative) \$
Economic development:			
Salaries	85,000	86,278	(1,278)
Employee benefits	27,988	23,698	4,290
Contractual services	25,000	23,075	1,925
Economic			
Development Grants	257,466	75,681	181,785
Travel and training	1,500	1,387	113
Other operating expenditures	<u>40,260</u>	<u>10,364</u>	<u>29,896</u>
Total economic development	<u>437,214</u>	<u>220,483</u>	<u>216,731</u>
Transportation:			
Powell Bill:			
Contractual services	132,500	3,855	128,645
Professional fees	35,000	3,866	31,134
Other operating expenditures	<u>5,500</u>	<u>2,227</u>	<u>3,273</u>
Total transportation	<u>173,000</u>	<u>9,948</u>	<u>163,052</u>
Cultural and recreational:			
Library:			
Contractual services	24,000	24,000	
Other operating expenditures	<u>800</u>	<u>275</u>	<u>525</u>
Total library	<u>24,800</u>	<u>24,275</u>	<u>525</u>
Recreation:			
Salaries	39,000	40,335	(1,335)
Employee benefits	16,195	15,070	1,125
Recreation programs/projects	58,200	55,025	3,175
Other operating expenditures	<u>38,000</u>	<u>36,170</u>	<u>1,830</u>
Total recreation	<u>151,395</u>	<u>146,600</u>	<u>4,795</u>
Total cultural and recreational	<u>176,195</u>	<u>170,875</u>	<u>5,320</u>

CITY OF CLAREMONT, NORTH CAROLINA
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Debt service:			
Principal retirement	122,863	122,863	
Interest and fees	<u>28,037</u>	<u>28,036</u>	<u>1</u>
Total debt service	<u>150,900</u>	<u>150,899</u>	<u>1</u>
Total expenditures	<u>3,930,345</u>	<u>3,166,189</u>	<u>764,156</u>
Revenues over (under) expenditures	(<u>694,545</u>)	<u>502,375</u>	<u>1,196,920</u>
Other financing sources (uses):			
Transfer to:			
Special Revenue Fund –			
PJ Stanley Scholarship Fund	(1,000)	(1,000)	
BGA Drive Capital			
Project Fund	(35,000)	(35,000)	
Sidewalk Capital Project Fund	(57,500)	(57,500)	
Sale of surplus property	<u>5,500</u>	<u>5,092</u>	(<u>408</u>)
Total other financing			
sources (uses)	(<u>88,000</u>)	(<u>88,408</u>)	(<u>408</u>)
Fund balance appropriated	<u>782,545</u>	<u> </u>	(<u>782,545</u>)
Net change in fund balance	<u> 0</u>	413,967	<u>413,967</u>
Fund balance, beginning		<u>3,620,430</u>	
Fund balance, ending		<u>4,034,397</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Special Revenue Fund – Building Reuse – Prysmian #3 Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

From Inception and for the Fiscal Year Ended June 30, 2019

	Project	Actual		Total to	Variance
	Authorization	Prior	Current	Date	Positive
	\$	\$	\$	\$	(Negative)
					\$
Revenues:					
Restricted					
intergovernmental grant	<u>500,000</u>	<u> </u>	<u>420,000</u>	<u>420,000</u>	<u>(80,000)</u>
Total revenues	<u>500,000</u>	<u>0</u>	<u>420,000</u>	<u>420,000</u>	<u>(80,000)</u>
Expenditures:					
Grant administration	25,000		3,167	3,167	21,833
Economic development	<u>500,000</u>	<u> </u>	<u>420,000</u>	<u>420,000</u>	<u>80,000</u>
Total expenditures	<u>525,000</u>	<u>0</u>	<u>423,167</u>	<u>423,167</u>	<u>101,833</u>
Revenues over (under)					
expenditures	(25,000)	0	(3,167)	(3,167)	21,833
Other financing sources:					
Transfer from:					
General Fund	<u>25,000</u>	<u>25,000</u>	<u> </u>	<u>25,000</u>	<u> </u>
Net change in fund balance	<u>0</u>	<u>25,000</u>	<u>(3,167)</u>	<u>21,833</u>	<u>21,833</u>
Fund balance, beginning			<u>25,000</u>		
Fund balance, ending			<u>21,833</u>		

Governmental Activities

Non-Major Funds

Special Revenue Funds

Special Revenue Funds are used to account for revenues that are legally restricted to expenditures for a particular purpose.

PJ Stanley Scholarship Fund – This fund accounts for contributions and transfers from other funds that will be used to provide scholarships for local students attending Catawba Valley Community College or Mitchell Community College in a police, fire, or EMS related field of study.

Sutter Street Building Reuse Fund – This special revenue fund accounts for grant proceeds from NC Department of Commerce for building reuse at Sutter Street Manufacturing, a subsidiary of Williams Sonoma.

Economic Development Fund – This fund accounts for the proceeds from a grantor for future economic development incentives.

Capital Project Funds

Capital Project Funds account for funds to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

BGA Drive Capital Project Fund – This fund is used to account for grant revenue for street improvements.

Centennial Sidewalk Capital Project Fund – This fund accounts for construction and expansion of centennial sidewalk.

General Capital Project Fund – This fund is used to account for acquisitions or construction of major capital facilities or infrastructure other than those financed by the Enterprise Fund.

General Capital Reserve Fund – This fund accounts for the funds committed for future capital projects. This fund is reported as a capital project fund.

Sidewalk Capital Project Fund – This fund is being used to provide resources and sidewalk improvements along Centennial Boulevard.

CITY OF CLAREMONT, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Governmental Funds
 June 30, 2019

	<u>Special Revenue Funds</u>			<u>Capital Project Funds</u>					Total Nonmajor Governmental Funds
	P. J. Stanley Scholarship Fund	Sutter Street Building Reuse Fund	Economic Development Fund	BGA Drive Capital Project Fund	Centennial Sidewalk Capital Project Fund	General Capital Project Fund	General Capital Reserve Fund	Sidewalk Capital Project Fund	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets:									
Cash and cash equivalents					115,000	2	49,561	50,692	215,255
Restricted cash and cash equivalents	14,774	17,500	197,012						229,286
Due from other governments				188,286					188,286
Total assets	<u>14,774</u>	<u>17,500</u>	<u>197,012</u>	<u>188,286</u>	<u>115,000</u>	<u>2</u>	<u>49,561</u>	<u>50,692</u>	<u>632,827</u>
Liabilities:									
Accounts payable				5,667					5,667
Due to General Fund				144,163					144,163
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>149,830</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>149,830</u>

CITY OF CLAREMONT, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Governmental Funds
 June 30, 2019

	Special Revenue Funds			Capital Project Funds					Total Nonmajor Governmental Funds
	P. J. Stanley Scholarship Fund \$	Sutter Street Building Reuse Fund \$	Economic Development Fund \$	BGA Drive Capital Project Fund \$	Centennial Sidewalk Capital Project Fund \$	General Capital Project Fund \$	General Capital Reserve Fund \$	Sidewalk Capital Project Fund \$	
Fund balance:									
Restricted:									
Economic development		17,500	197,012						214,512
Public safety									
scholarships									
and related costs	14,774								14,774
Committed:									
Sidewalk capital project					115,000			50,692	165,692
General capital projects				38,456		2	49,561		88,019
Total fund balance	<u>14,774</u>	<u>17,500</u>	<u>197,012</u>	<u>38,456</u>	<u>115,000</u>	<u>2</u>	<u>49,561</u>	<u>50,692</u>	<u>482,997</u>
Total liabilities									
and fund balance			<u>14,774</u>		<u>17,500</u>		<u>197,012</u>	<u>188,286</u>	<u>115,000</u>
<u>2</u>			<u>49,561</u>		<u>50,692</u>		<u>632,827</u>		

CITY OF CLAREMONT, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue Funds			Capital Project Funds					Total Nonmajor Governmental Funds
	P. J. Stanley Scholarship Fund	Sutter Street Building Reuse Fund	Economic Development Fund	BGA Drive Capital Project Fund	Centennial Sidewalk Capital Project Fund	General Capital Project Fund	General Capital Reserve Fund	Sidewalk Capital Project Fund	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Restricted intergovernmental		92,500	10,278	174,656					277,434
Investment earnings						2,601			2,601
Miscellaneous	8,548						446		8,994
Total revenues	8,548	92,500	10,278	174,656	0	0	2,601	446	289,029
Expenditures:									
Public safety scholarships and related costs	5,956								5,956
Capital outlay				229,355				1,150	230,505
Economic development incentives		75,000							75,000
Total expenditures	5,956	75,000	0	229,355	0	0	0	1,150	311,461
Revenues over (under) expenditures	2,592	17,500	10,278	(54,699)	0	0	2,601	(704)	(22,432)
Other financing sources (uses):									
Transfer from other funds	1,000			113,000	57,500				171,500

CITY OF CLAREMONT, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
 For the Year Ended June 30, 2019

	<u>Special Revenue Funds</u>			<u>Capital Project Funds</u>				Total Nonmajor Governmental Funds	
	P. J. Stanley Scholarship Fund	Sutter Street Building Reuse Fund	Economic Development Fund	BGA Drive Capital Project Fund	Centennial Sidewalk Capital Project Fund	General Capital Project Fund	General Capital Reserve Fund		Sidewalk Capital Project Fund
	\$	\$	\$	\$	\$	\$	\$	\$	
Revenues and other financing sources over (under) expenditures and other financing (uses)	3,592	17,500	10,278	58,301	57,500	2,601	(704)	149,068	
Fund balance, beginning	<u>11,182</u>	<u>0</u>	<u>186,734</u>	<u>(19,845)</u>	<u>57,500</u>	<u>2</u>	<u>46,960</u>	<u>51,396</u>	<u>333,929</u>
Fund balance, ending	<u><u>14,774</u></u>	<u><u>17,500</u></u>	<u><u>197,012</u></u>	<u><u>38,456</u></u>	<u><u>115,000</u></u>	<u><u>2</u></u>	<u><u>49,561</u></u>	<u><u>50,692</u></u>	<u><u>482,997</u></u>

CITY OF CLAREMONT, NORTH CAROLINA
Special Revenue Fund – PJ Stanley Scholarship Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Revenues:			
Miscellaneous contributions	<u>4,000</u>	<u>8,548</u>	<u>4,548</u>
Expenditures:			
Public safety scholarships	4,000	4,000	
Departmental supplies	<u>3,000</u>	<u>1,956</u>	<u>1,044</u>
Total expenditures	<u>7,000</u>	<u>5,956</u>	<u>1,044</u>
Revenues over (under) expenditures	(3,000)	2,592	5,592
Other financing sources:			
Transfer from General Fund	1,000	1,000	
Fund balance appropriated	<u>2,000</u>	<u> </u>	(<u>2,000</u>)
Net change in fund balance	<u>0</u>	3,592	<u>3,592</u>
Fund balance, beginning		<u>11,182</u>	
Fund balance, ending		<u>14,774</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Sutter Street Building Reuse Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
NC Commerce Building Reuse Grant	350,000				(350,000)
ONE NC Grant	300,000		75,000	75,000	(225,000)
Sutter Street Grant match	<u>17,500</u>		<u>17,500</u>	<u>17,500</u>	<u>0</u>
Total revenues	<u>667,500</u>		<u>92,500</u>	<u>92,500</u>	<u>(575,000)</u>
Expenditures:					
Administration	17,500				17,500
One NC Economic Development	300,000		75,000	75,000	225,000
Economic development Sutter Street	<u>350,000</u>				<u>350,000</u>
Total expenditures	<u>667,500</u>	<u>0</u>	<u>75,000</u>	<u>75,000</u>	<u>592,500</u>
Net change in fund balance	<u>0</u>	<u>0</u>	17,500	<u>17,500</u>	<u>17,500</u>
Fund balance, beginning			<u>0</u>		
Fund balance, ending			<u>17,500</u>		

CITY OF CLAREMONT, NORTH CAROLINA
Special Revenue Fund – Economic Development Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
Miscellaneous:					
Golden Leaf contributions	207,065	227,338		227,338	20,273
Lease payments-principal Spec Building reimbursement	229,825	254,185		254,185	24,360
	<u>27,967</u>	<u> </u>	<u>10,278</u>	<u>10,278</u>	(<u>17,689</u>)
Total revenues	<u>464,857</u>	<u>481,523</u>	<u>10,278</u>	<u>491,801</u>	<u>26,944</u>
Expenditures:					
Economic development incentives	<u>464,857</u>	<u>294,789</u>	<u> </u>	<u>294,789</u>	<u>170,068</u>
Total expenditures	<u>464,857</u>	<u>294,789</u>	<u>0</u>	<u>294,789</u>	<u>170,068</u>
Net change in fund balance	<u>0</u>	<u>186,734</u>	10,278	<u>197,012</u>	<u>197,012</u>
Fund balance, beginning			<u>186,734</u>		
Fund balance, ending			<u>197,012</u>		

CITY OF CLAREMONT, NORTH CAROLINA
BGA Drive Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
Restricted					
intergovernmental grant	<u>586,000</u>	<u>13,630</u>	<u>174,656</u>	<u>188,286</u>	<u>(397,714)</u>
Total revenues	<u>586,000</u>	<u>13,630</u>	<u>174,656</u>	<u>188,286</u>	<u>(397,714)</u>
Expenditures:					
Engineering	68,000	29,603	27,403	57,006	10,994
Contractual services	<u>631,000</u>	<u>3,872</u>	<u>201,952</u>	<u>205,824</u>	<u>425,176</u>
Total expenditures	<u>699,000</u>	<u>33,475</u>	<u>229,355</u>	<u>262,830</u>	<u>436,170</u>
Revenues over (under) expenditures	<u>(113,000)</u>	<u>(19,845)</u>	<u>(54,699)</u>	<u>(74,544)</u>	<u>38,456</u>
Other financing sources:					
Transfer from:					
Water Sewer					
Operating Fund	78,000		78,000	78,000	
General Fund	<u>35,000</u>		<u>35,000</u>	<u>35,000</u>	
Total other financing sources	<u>113,000</u>	<u>0</u>	<u>113,000</u>	<u>113,000</u>	<u>0</u>
Net change in fund balance	<u>0</u>	<u>(19,845)</u>	58,301	<u>38,456</u>	<u>38,456</u>
Fund balance, beginning			<u>(19,845)</u>		
Fund balance, ending			<u>38,456</u>		

CITY OF CLAREMONT, NORTH CAROLINA
Capital Project Fund – Centennial Sidewalk Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
NC DOT Grant	<u>458,000</u>	_____	_____	_____	(<u>458,000</u>)
Expenditures:					
Construction	414,800				414,800
Easement acquisition	25,000				25,000
Construction observation/ administration	75,000				75,000
NC DOT administration	<u>57,200</u>	_____	_____	_____	<u>57,200</u>
Total expenditures	<u>572,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>572,000</u>
Revenues over (under) expenditures	(114,000)	0	0	0	114,000
Other financing sources:					
Transfer from General Fund	<u>114,000</u>	<u>57,500</u>	<u>57,500</u>	<u>115,000</u>	<u>1,000</u>
Net change in fund balance	<u>0</u>	<u>57,500</u>	57,500	<u>115,000</u>	<u>115,000</u>
Fund balance, beginning			<u>57,500</u>		
Fund balance, ending			<u>115,000</u>		

CITY OF CLAREMONT, NORTH CAROLINA
General Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
 For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Fund balance, beginning		<u>2</u>	
Fund balance, ending		<u><u>2</u></u>	

CITY OF CLAREMONT, NORTH CAROLINA
General Capital Reserve Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
 For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Revenues:			
Investment earnings	<u>0</u>	2,601	<u>2,601</u>
Fund balance, beginning		<u>46,960</u>	
Fund balance, ending		<u>49,561</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Sidewalk Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
Restricted					
intergovernmental grant	520,000	23,675		23,675	(496,325)
Investment earnings	<u> </u>	<u> 373</u>	<u> 446</u>	<u> 819</u>	<u> 819</u>
Total revenues	<u>520,000</u>	<u>24,048</u>	<u> 446</u>	<u>24,494</u>	<u>(495,506)</u>
Expenditures:					
Grant administration	15,000	15,156		15,156	(156)
Professional fees	15,000	827		827	14,173
Engineering	90,000	58,784		58,784	31,216
Contractual services	510,000	16,636		16,636	493,364
Right of Way acquisition	<u>20,000</u>	<u>11,249</u>	<u>1,150</u>	<u>12,399</u>	<u>7,601</u>
Total expenditures	<u>650,000</u>	<u>102,652</u>	<u>1,150</u>	<u>103,802</u>	<u>546,198</u>
Revenues over (under)					
expenditures	(130,000)	(78,604)	(704)	(79,308)	50,692
Other financing sources:					
Transfer from					
General Fund	<u>130,000</u>	<u>130,000</u>	<u> </u>	<u>130,000</u>	<u> </u>
Net change in fund balance	<u> 0</u>	<u>51,396</u>	(704)	<u>50,692</u>	<u>50,692</u>
Fund balance, beginning			<u>51,396</u>		
Fund balance, ending			<u>50,692</u>		

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Business-Type Activities

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Sewer Operating Fund - This fund is used to account for the activities associated with the production, purchase and distribution of water and sewer services to its customers.

Water and Sewer Capital Reserve Fund - This fund accounts for reserves for future expansion of the water and sewer system.

Water and Sewer Special Revenue Fund – AIA Grant Fund – This fund accounts for grant monies received to conduct an asset inventory and assessment of a portion of the City's collection system.

Wastewater Improvements Capital Project Fund – The project will transfer all wastewater flows from City of Claremont to the Hickory Catawba Wastewater Treatment Plant and decommission the City's two wastewater treatment plants.

CITY OF CLAREMONT, NORTH CAROLINA**Water and Sewer Fund****Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**

For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive (Negative) \$
Revenues:			
Operating revenues:			
Charges for services:			
Water and sewer charges/fees	1,380,000	1,665,641	285,641
Sprinkler and hydrant charges	23,500	24,700	1,200
Reconnection fees	4,000	6,450	2,450
Water and sewer taps	5,000	13,050	8,050
Other operating revenues	<u>37,300</u>	<u>96,227</u>	<u>58,927</u>
Total operating revenues	<u>1,449,800</u>	<u>1,806,068</u>	<u>356,268</u>
Non-operating revenues:			
Investment earnings	<u>0</u>	<u>92</u>	<u>92</u>
Total non-operating revenues	<u>0</u>	<u>92</u>	<u>92</u>
Total revenues	<u>1,449,800</u>	<u>1,806,160</u>	<u>356,360</u>
Expenditures:			
Water distribution:			
Salaries & benefits	42,500	42,500	
Water purchases	140,000	129,806	10,194
Utilities	2,300	1,224	1,076
Maintenance	24,000	19,798	4,202
Contractual services	145,500	129,331	16,169
Departmental supplies	59,150	58,335	815
Capital outlay	61,250	60,466	784
Other operating expenditures	<u>22,000</u>	<u>19,110</u>	<u>2,890</u>
Total water distribution	<u>496,700</u>	<u>460,570</u>	<u>36,130</u>
Sewage treatment:			
Salaries & benefits	57,500	57,500	
Travel and training	2,000	1,232	768
Contractual services	579,000	522,370	56,630
Vehicle maintenance	10,500	8,398	2,102
Maintenance	39,000	15,422	23,578
Capital outlay	60,000		60,000
Other operating expenditures	<u>39,600</u>	<u>29,967</u>	<u>9,633</u>
Total sewage treatment	<u>787,600</u>	<u>634,889</u>	<u>152,711</u>
Total expenditures	<u>1,284,300</u>	<u>1,095,459</u>	<u>188,841</u>

CITY OF CLAREMONT, NORTH CAROLINA**Water and Sewer Fund****Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**

For the Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Revenues over (under) expenditures	165,500	710,701	545,201
Other financing (uses):			
Transfer to:			
Water and Sewer Capital			
Reserve Fund	(165,500)	(165,000)	500
BGA Drive Capital Project Fund	(78,000)	(78,000)	
Appropriated fund balance	<u>78,000</u>	<u> </u>	<u>(78,000)</u>
Excess of revenues over expenditures and other financing uses	<u>0</u>	<u>467,701</u>	<u>467,701</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		60,466	
Transfer to:			
Water and Sewer Capital			
Reserve Fund		165,000	
Depreciation		(217,383)	
Income from Water and Sewer capital project grants and other income		121,294	
Loss on abandoned capital assets		(269)	
Total reconciling items		<u>129,108</u>	
Change in net position		<u>596,809</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Water and Sewer Capital Reserve Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance
	\$	\$	Positive
			(Negative)
			\$
Revenues:			
Investment earnings	<u> </u>	<u> 4,870</u>	<u> 4,870</u>
Other financing sources (uses):			
Transfer from Water and Sewer Operating Fund		165,000	165,000
Transfer to Wastewater Improvements Capital Project Fund	(<u>417,000</u>)	(<u>417,000</u>)	<u> </u>
Total other financing sources (uses)	(<u>417,000</u>)	(<u>252,000</u>)	<u> 165,000</u>
Fund balance appropriated	<u> 417,000</u>	<u> </u>	(<u> 417,000</u>)
Revenues and other financing sources over other financing uses	<u> 0</u>	(<u> 247,130</u>)	(<u> 247,130</u>)
Fund balance, beginning of year		<u> 978,337</u>	
Fund balance, end of year		<u> 731,207</u>	

CITY OF CLAREMONT, NORTH CAROLINA
Water and Sewer Special Revenue Fund – AIA Grant Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP)

From Inception and for the Fiscal Year Ended June 30, 2019

		<u>Actual</u>			
	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
	\$	\$	\$	\$	\$
Revenues:					
Restricted intergovernmental grant	<u>150,000</u>	<u>31,898</u>	<u>116,424</u>	<u>148,322</u>	(<u>1,678</u>)
Expenditures:					
Grant administration	2,250				2,250
Technology			4,329	4,329	(4,329)
Contractual services	<u>177,750</u>	<u>31,898</u>	<u>114,053</u>	<u>145,951</u>	<u>31,799</u>
Total expenditures	<u>180,000</u>	<u>31,898</u>	<u>118,382</u>	<u>150,280</u>	<u>29,720</u>
Revenues over (under) expenditures	(30,000)	0	(1,958)	(1,958)	28,042
Other financing sources:					
Transfer from Water and Sewer Operating Fund	<u>30,000</u>	<u>2,250</u>		<u>2,250</u>	(<u>27,750</u>)
Net change in fund balance	<u>0</u>	<u>2,250</u>	(1,958)	<u>292</u>	<u>292</u>
Fund balance, beginning			<u>2,250</u>		
Fund balance, ending			<u>292</u>		

CITY OF CLAREMONT, NORTH CAROLINA
Wastewater Improvements Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2019

		Actual			
	Project Authorization \$	Prior Year \$	Current Year \$	Total to Date \$	Variance Positive (Negative) \$
Expenditures:					
Engineering	417,000		83,520	83,520	333,480
Other financing sources:					
Transfer from Water and Sewer Operating Fund	<u>417,000</u>	_____	<u>417,000</u>	<u>417,000</u>	<u>0</u>
Net change in fund balance	<u>0</u>	<u>0</u>	333,480	<u>333,480</u>	<u>333,480</u>
Fund balance, beginning			_____0		
Fund balance, ending			<u>333,480</u>		

Other Schedules

This section contains additional information on property taxes.

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

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CITY OF CLAREMONT, NORTH CAROLINA
Schedule of Ad Valorem Taxes Receivable
 June 30, 2019

Fiscal Year	Uncollected Balance June 30, 2018 \$	Additions \$	Collections \$	Discoveries Abatements Adjustments \$	Uncollected Balance June 30, 2019 \$
2018 - 2019		2,419,807	2,269,056	(143,895)	6,856
2017 - 2018	3,539		1,472	(135)	1,932
2016 - 2017	3,003		409	(123)	2,471
2015 - 2016	479				479
2014 - 2015	570		5		565
2013 - 2014	1,056		70	(37)	949
2012 - 2013	1,350		98		1,252
2011 - 2012	1,493		251	(80)	1,162
2010 - 2011	780				780
2009 - 2010	1,163		35	(19)	1,109
2008 - 2009	<u>2,529</u>			(<u>2,529</u>)	<u>0</u>
Total	<u>15,962</u>	<u>2,419,807</u>	<u>2,271,396</u>	(<u>146,818</u>)	17,555
Less, allowance for uncollectible ad valorem taxes receivable					(<u>10,551</u>)
Ad valorem taxes receivable – net					<u>7,004</u>
Reconciliation with revenues:					
Taxes - ad valorem - General Fund - current year					2,269,056
Taxes - ad valorem - General Fund - prior years					<u>2,340</u>
Total					<u>2,271,396</u>

CITY OF CLAREMONT, NORTH CAROLINA
Analysis of Current Tax Levy
June 30, 2019

	<u>City Wide</u>		<u>Total Levy</u>		
	<u>Property Valuation</u> \$	<u>Rate</u>	<u>Total Levy</u> \$	Property excluding Registered Motor Vehicles \$	Registered Motor Vehicles \$
Original Levy:					
Property tax at current year's rate	493,838,163	0.49	2,419,807	2,315,203	104,604
Releases	(29,366,326)		(143,895)	(143,436)	(459)
Total property valuation	<u>464,471,837</u>				
Net levy			2,275,912	2,171,767	104,145
Uncollected taxes at June 30, 2019			(6,856)	(6,856)	0
Current year's taxes collected			<u>2,269,056</u>	<u>2,164,911</u>	<u>104,145</u>
Current levy collection percentage			<u>99.70%</u>	<u>99.70%</u>	<u>100.00%</u>

Compliance Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

Report On Compliance For the Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Schedule of Expenditures of Federal and State Awards

Schedule of Findings and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Audit Findings

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Debora B Wentz, CPA
Post Office Box 287
Newton, North Carolina 28658

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

To the City Council
City of Claremont, North Carolina

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the City of Claremont's basic financial statements, and have issued my report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

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

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

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as finding 2019-1 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Claremont's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as finding 2019-2.

Purpose of this Report

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

Debora B. Wentz, CPA

Debora B. Wentz, CPA
Newton, North Carolina 28658

January 31, 2020

Debora B Wentz, CPA
Post Office Box 287
Newton, North Carolina 28658

Report On Compliance For Each Major State 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 Claremont, North Carolina

Report on Compliance for the Major State Program

I have audited the City of Claremont, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on the City of Claremont's major state program for the year ended June 30, 2019. The City of Claremont's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

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

Auditor's Responsibility

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

I believe that my audit provides a reasonable basis for my opinion on compliance for the major state program. However, my audit does not provide a legal determination of the City of Claremont's compliance.

Opinion on the Major State Program

In my opinion, the City of Claremont complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the City of Claremont is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City of Claremont's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I 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, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Debra B. Wentz, CPA

Newton, North Carolina
January 31, 2020

City of Claremont, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2019

<u>Grantor/Pass-through Grantor Program Title</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
State Awards:		
<u>NC Department of Environmental Quality Division of Water</u>		
Infrastructure Grant	116,424	
<u>NC Department of Transportation</u>		
Powell Bill	43,904	
Contingency Street Grant	174,656	35,000
 <u>NC Department of Commerce</u>		
Building Reuse Grants	<u>495,000</u>	<u>17,500</u>
 Total State Financial Awards		
	\$ <u>829,984</u>	\$ <u>52,500</u>

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 Claremont under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. 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 Claremont, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Claremont.

Note 2: Summary of Significant Accounting Policies

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

City of Claremont
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant Deficiency(s) identified that are not considered to be material weaknesses reported Yes X No

Noncompliance material to financial statements noted X Yes No

State Awards

Internal control over major state programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None

Reported

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

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

Identification of major state program:

Program Name
 N.C. Department of Commerce – Building Reuse

Section II. Financial Statement Findings

Finding: 2019-1

MATERIAL WEAKNESS

Criteria:	The City of Claremont has a competent finance staff able to perform the day to day functions of the financial department, but may not have staff with technical ability to prevent, detect, and correct a potential misstatement in the financial statements and notes drafted by the auditor.
Condition:	There exists a lack of technical expertise to draft or prepare the financial statements and related notes in accordance with generally accepted accounting principles.
Effect:	The financial statements drafted by the auditor have the potential of misstatement.
Cause:	The current staff does not have the necessary training and expertise that is required to prepare the financial statements.
Recommendation:	City Council should consider outside options to assist in the drafting of the financial statements with consideration to the cost benefit of such measures.
Views of responsible officials and planned corrective actions:	City of Claremont agrees with this finding. City Council understands their risks and they are willing to accept those risks caused by the control deficiencies due to the cost benefit analysis.

Finding: 2019-2

MATERIAL NONCOMPLIANCE

Criteria:	The City is required by General Statute and the Local Government Commission to have audited financial statements available no more than four months after the fiscal year end.
Condition:	The City was unable to close the final general ledger timely due to the termination of employment of the previous finance officer during the financial closing procedures.
Effect:	The audited financial statements were not available until more than four months after the fiscal year end as required by General Statute and the Local Government Commission.
Cause:	Finance staff were delayed in providing auditor with information necessary to complete the audit.
Recommendation:	The City has hired a new finance officer and will make all due efforts to complete the financial statements timely in the future.

Section III. Federal Award Findings and Questioned Costs

None.

Section IV. State Award Findings and Questioned Costs

None.



City of Claremont, North Carolina

**Corrective Action Plan
For the Year Ended June 30, 2019**

Section II. Financial Statement Findings

Finding: 2019-1
MATERIAL WEAKNESS

Name of contact person: Valerie McKenna, Finance Director

Corrective Action: Management will continue to inform City Council of the related risks. City Council understands their risks and they are willing to accept those risks caused by the control deficiencies due to the cost benefit analysis.

Finance Director will continue to seek education to become better able to draft financial statements in the future, or will hire outside non-attestation assistance from appropriately qualified personnel to assist in drafting the financial statement.

Proposed Completion
Date: June 30, 2020

Section III. State Award Findings and Questioned Costs

None.

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City of Claremont, North Carolina
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

Finding: 2018-1

MATERIAL WEAKNESS

Status: The finding has not yet been corrected. City Council understood the risks and were willing to accept those risks caused by the control deficiencies due to the cost benefit analysis. Management and City Council has been informed that the independence standards have changed, effective for the June 30, 2020 fiscal year.