

**CITY OF CLAREMONT
NORTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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

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

**CITY OF CLAREMONT
NORTH CAROLINA**

FOR THE YEAR ENDED JUNE 30, 2013

CITY COUNCIL

Mayor

David Morrow

Commissioners

Shawn Brown

Timothy A. Lowrance

D.B. Setzer

Nicky E. Setzer

Dale Sherrill

OFFICIALS

Doug Barrick, City Manager

Stephanie Corn, Finance Director

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, North Carolina, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Claremont's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013 on our consideration of the City of Claremont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Claremont's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
November 21, 2013

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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, 2013. 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

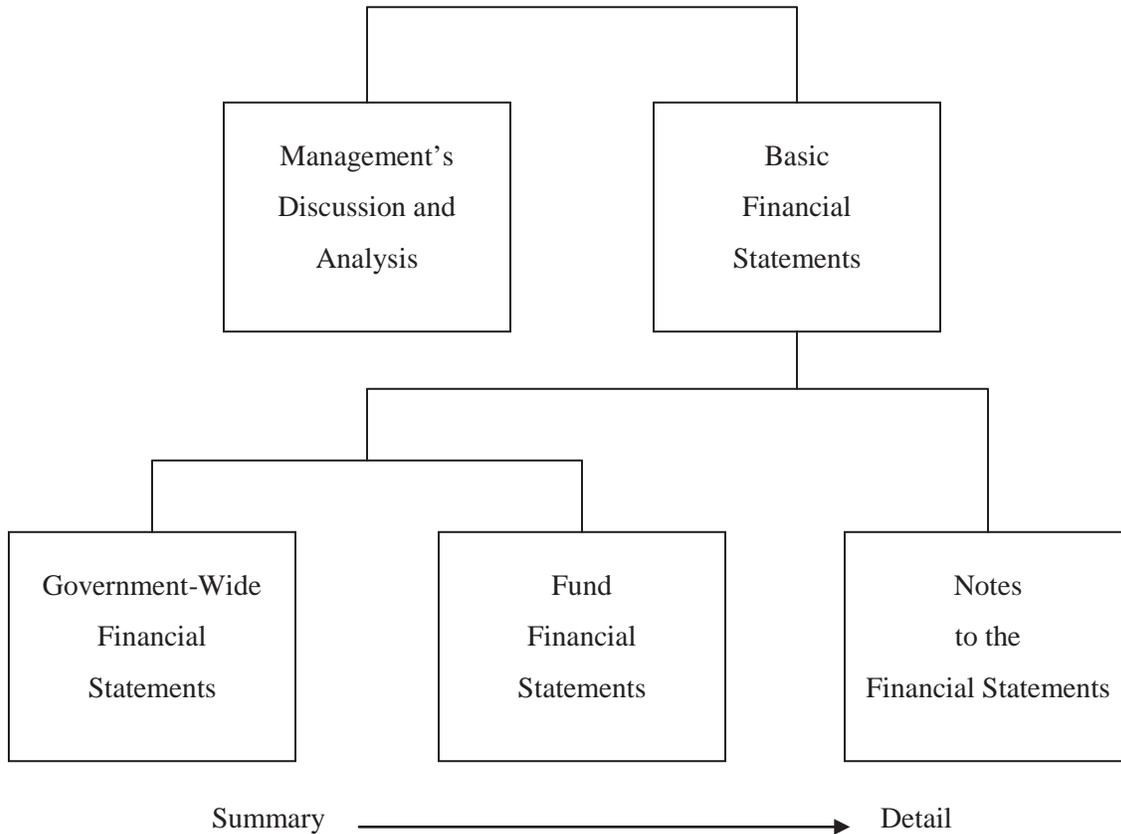
- The assets of the City of Claremont exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$14,215,147 (net position).
- The government's total net position increased by \$163,392 due to increases in both governmental and business-type activities net position.
- As of the close of the current fiscal year, the City of Claremont's governmental funds reported combined ending fund balances of \$2,083,408, a decrease of \$33,996. Approximately 67.92% of this total amount, or \$1,415,099, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,415,099, or 48.14 percent, of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is 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 A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits C through I) 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 a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets 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 two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services, such as general government, public safety, transportation, public works, environmental protection, and cultural and recreational. Property taxes and State-collected local taxes finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Claremont.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of 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 the 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. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of 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 Board 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. The City of Claremont has one kind of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Claremont uses enterprise funds to account for its water and sewer activity. 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 are on pages 24-41 of this report.

Government-Wide Financial Analysis

City of Claremont's Net Position

Figure 2

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current assets	\$ 2,215,376	\$ 2,278,929	\$ 852,446	\$ 794,792	\$ 3,067,822	\$ 3,073,721
Capital assets	<u>7,370,994</u>	<u>7,408,392</u>	<u>5,202,957</u>	<u>5,347,922</u>	<u>12,573,951</u>	<u>12,756,314</u>
Total assets	<u>9,586,370</u>	<u>9,687,321</u>	<u>6,055,403</u>	<u>6,142,714</u>	<u>15,641,773</u>	<u>15,830,035</u>
Liabilities:						
Current liabilities	196,148	236,044	199,963	217,244	396,111	453,288
Long-term liabilities	<u>1,028,921</u>	<u>1,169,484</u>	-	<u>147,259</u>	<u>1,028,921</u>	<u>1,316,743</u>
Total liabilities	<u>1,225,069</u>	<u>1,405,528</u>	<u>199,963</u>	<u>364,503</u>	<u>1,425,032</u>	<u>1,770,031</u>
Deferred inflows of resources	<u>1,594</u>	<u>8,249</u>	-	-	<u>1,594</u>	<u>8,249</u>
Net Position:						
Net investment in capital assets	6,270,994	6,208,392	5,055,698	5,053,404	11,326,692	11,261,796
Restricted	510,577	352,890	-	-	510,577	352,890
Unrestricted	<u>1,578,136</u>	<u>1,712,262</u>	<u>799,742</u>	<u>724,807</u>	<u>2,377,878</u>	<u>2,437,069</u>
Total net position	<u>\$ 8,359,707</u>	<u>\$ 8,273,544</u>	<u>\$ 5,855,440</u>	<u>\$ 5,778,211</u>	<u>\$14,215,147</u>	<u>\$14,051,755</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets of the City of Claremont exceeded liabilities and deferred inflows by \$14,215,147 as of June 30, 2013. The City's net position increased by \$163,392 for the fiscal year ended June 30, 2013. However, the largest portion (79.68%) 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 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 cannot be used to liquidate these liabilities. An additional portion of the City of Claremont's net position, \$510,577, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,377,878 is unrestricted.

City of Claremont's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,754	\$ 232,176	\$ 1,106,275	\$ 1,052,141	\$ 1,108,029	\$ 1,284,317
Operating grants and contributions	532,453	229,436	-	-	532,453	229,436
General revenues:						
Property taxes	1,720,717	1,628,866	-	-	1,720,717	1,628,866
Local option sales tax	208,746	224,573	-	-	208,746	224,573
Other taxes	7,617	12,059	-	-	7,617	12,059
Unrestricted						
Intergovernmental	456,385	489,330	-	-	456,385	489,330
Investment earnings	1,346	1,730	129	153	1,475	1,883
Miscellaneous	16,946	21,943	-	-	16,946	21,943
Total revenues	<u>2,945,964</u>	<u>2,840,113</u>	<u>1,106,404</u>	<u>1,052,294</u>	<u>4,052,368</u>	<u>3,892,407</u>
Expenses:						
Governmental activities:						
General government	487,142	461,062	-	-	487,142	461,062
Public safety	1,278,165	1,106,638	-	-	1,278,165	1,106,638
Environmental protection	519,306	724,632	-	-	519,306	724,632
Transportation	126,168	232,213	-	-	126,168	232,213
Cultural and recreational	293,087	51,604	-	-	293,087	51,604
Economic development	107,632	100,456	-	-	107,632	100,456
Interest	48,301	58,985	-	-	48,301	58,985
Business-type activities:						
Water and Sewer Fund	-	-	1,029,175	953,603	1,029,175	953,603
Total expenses	<u>2,859,801</u>	<u>2,735,590</u>	<u>1,029,175</u>	<u>953,603</u>	<u>3,888,976</u>	<u>3,689,193</u>
Change in net position	86,163	104,523	77,229	98,691	163,392	203,214
Beginning of year- July 1	<u>8,273,544</u>	<u>8,169,021</u>	<u>5,778,211</u>	<u>5,679,520</u>	<u>14,051,755</u>	<u>13,848,541</u>
End of year - June 30	<u>\$ 8,359,707</u>	<u>\$ 8,273,544</u>	<u>\$ 5,855,440</u>	<u>\$ 5,778,211</u>	<u>\$ 14,215,147</u>	<u>\$ 14,051,755</u>

Governmental Activities. Governmental activities increased the City's net position by \$86,163, thereby accounting for 52.73% of the increase in net position of the City of Claremont. The increase was mainly attributed to an increase in ad valorem tax revenues of \$91,851.

Business-Type Activities. Business-type activities increased the City of Claremont's net position by \$77,229 accounting for 47.27% of the change in the government's net position. A majority of the increase was attributed to an increase in operating revenues of \$54,134.

Financial Analysis of the City'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 the 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 the City of Claremont's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, City of Claremont's governmental funds reported the combined ending fund balances of \$2,083,408, a decrease of \$33,996 in comparison with the prior year. Approximately sixty-eight percent (67.92%) of this total amount, \$1,415,099 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been restricted 1) by North Carolina State Statute (\$130,223), 2) for Powell Bill (\$160,721), 3) for public safety (\$2,525), 4) for scholarships (\$4,196), and 5) for economic development (\$212,912). Additionally, the Council has assigned \$48,000, which was assigned for subsequent year's expenditures and has assigned \$109,732 for future capital projects.

The General Fund is the chief operating fund of the City of Claremont. At the end of the current fiscal year, fund balance available in the General Fund was \$1,626,345, while total fund balance reached \$1,756,558. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 48.14 percent of total General Fund expenditures, while total fund balance represents 59.72 percent of that same amount. The fund balance of City of Claremont's General Fund decreased by \$232,320 during the current fiscal year.

At June 30, 2013, the governmental funds of the City of Claremont reported a combined fund balance of \$2,083,408 with a net decrease of \$33,996.

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 Fund totaled \$799,742 for the year ended June 30, 2013. The total change in net position for the Water and Sewer Fund was \$77,229.

General Fund Budgetary Highlights. Differences in the General Fund between the original budget and the final amended budget reflected an increase in expenditures appropriations of \$486,893, an increase in the fund balances appropriations by \$347,778 and a reduction in projected revenue of \$141,550. These changes were primarily attributable to an increase in projected unrestricted intergovernmental revenue and an increase in public safety and environmental protection expenditure appropriations.

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, 2013 totals \$12,573,951 (net of accumulated depreciation). These capital assets include land, buildings, other improvements, equipment and furniture, plant and distribution systems, vehicles and motorized equipment, and infrastructure.

For governmental activities:

- The City purchased one police car and new equipment totaling \$75,467.
- The City purchased one fire truck for \$309,000.
- The City had \$67,665 in infrastructure improvements due to road paving.
- Additional improvements totaled \$9,173.
- Governmental asset additions totaled \$461,305.

For business-type activities:

- A new tractor and generator were purchased costing \$77,728.
- Improvements of \$14,713 were made to land.
- Business-type asset additions totaled \$92,441.

City of Claremont’s Capital Assets (net of depreciation)

Figure 4

	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
	2013	2013	2013	2012	2012	2012
Land	\$ 1,105,177	\$ 101,870	\$ 1,207,047	\$ 1,105,177	\$ 101,870	\$ 1,207,047
Buildings	1,976,486	-	1,976,486	1,976,486	-	1,976,486
Other improvements	2,705,869	-	2,705,869	2,696,696	-	2,696,696
Equipment and furniture	864,232	371,613	1,235,845	1,084,243	418,512	1,502,755
Plant and distribution systems	-	9,291,750	9,291,750	-	9,277,037	9,277,037
Vehicles and motorized equipment	1,627,465	-	1,627,465	1,389,830	-	1,389,830
Infrastructure	2,897,021	-	2,897,021	2,829,356	-	2,829,356
Total	11,176,250	9,765,233	20,941,483	11,081,788	9,797,419	20,879,207
Accumulated depreciation	(3,805,256)	(4,562,276)	(8,367,532)	(3,673,396)	(4,449,497)	(8,122,893)
Capital assets, net	\$ 7,370,994	\$ 5,202,957	\$ 12,573,951	\$ 7,408,392	\$ 5,347,922	\$ 12,756,314

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

Long-Term Debt. As of June 30, 2013, the City of Claremont had total installment debt of \$1,247,259.

**City of Claremont's Outstanding Debt
Long-Term Obligations**

Figure 5

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>
Installment purchases	\$ 1,100,000	\$ 147,259	\$ 1,247,259	\$ 1,200,000	\$ 294,518	\$ 1,494,518

The City of Claremont's total debt decreased by \$278,182 and installment debt decreased by \$247,259 (16.5%) during the past fiscal year. This decrease in installment debt was due to debt payments made on existing borrowings and no new borrowings incurred.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed valuation. The current debt limitation for the City of Claremont is \$28,867,635, which is significantly in excess of the City of Claremont's outstanding governmental debt of \$1,100,000.

Additional information regarding the City of Claremont's long-term debt can be found in Note 2 of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

Both the State of North Carolina and the United States are still operating in one of the worst economic environments in recent history. Claremont has fared very well with respect to the housing market. Since the City never experienced rapid growth, it has not seen a rapid decline. The City, however, has not been completely unaffected by the economic conditions. While property tax remains stable, the City had seen a decrease in tax revenue for the past number of years. This included a loss in the ad valorem real property tax base as a result of reevaluation process. Claremont has not been as impacted as some other cities because of our existing strong financial position including, a strong and healthy fund balance, low debt burden, and commitment to solid financial planning. While expenses will continue to rise, the City will receive less revenue from the Federal, State, and County levels. This includes a loss of hold harmless funds from the State and lower ad valorem taxes due to the reevaluation process; however, recent successes in local economic development have stabilized this loss. Due to this economic scenario, the City must continue to operate as cost effective as possible while delivering sound public services. Claremont continues to position itself for growth and expansion and has seen growth with new businesses in the downtown and additional growth in the Business Park with Williams-Sonoma, Centro, Bed Bath & Beyond, and GKN. The City has taken advantage of available grants and assistance from the State of North Carolina to help fund necessary projects of the City. Plans are to continue our efforts to improve and diversify the tax base and attract businesses to vacant buildings and storefronts. Our industrial park continues to be a great asset in attracting new industries to the City and the recently adopted master plan for Phase II will further these efforts.

In preparing the budget for the 2013-2014 fiscal year, most revenue sources are projected to increase, to reflect the uptick in economy as seen in the fiscal year 2013 budget numbers. It is important to note that, given the current economic climate, all revenue projections, even those with growth, have been estimated conservatively to ensure stability during the fiscal year. Utility and sales taxes are on the rise but have not reached levels from prior to 2007. Even though the City had lost tax base in the reevaluation process, we have seen growth in personal and business property as our businesses begin to recover and expand our operations. The City has also been fortunate to fill some vacant buildings and add residential units over the last year. In order to compensate for lower revenues during the Fiscal Year 2013, the staff recommended paying off some outstanding debt at the end of Fiscal Year 2012 using existing fund balance. This early payoff saved the City over \$9,000 in interest payments. This early payoff also freed up additional funds to help recover from the loss of the transitional hold harmless funds.

Significant changes in the proposed budget for Fiscal Year 2014 include an increase in local economic development spending that focuses on small business growth, launching a mobile application for Citizen interaction, developing a Master Plan for the City Parks, and offering a 3% raise pool for all full-time employees. The proposed budget accounts for an increase in personnel costs by 4.1%, an increase in operating costs by 2.8%, capital spending is also up by 44.4%. An increase in expenditures balances those expenses by the expansion of revenues. The budget is also back in line with previous budgets of roughly 2.5 million, as the Fiscal Year 2013 budget was down to account for some revenue losses and conservative estimates. The Fiscal Year 2012 budget included for the first time a 5-year capital improvement plan for both the General Fund and the Utility Fund, and this budget has updated that plan. In doing so, the City is able to evaluate and plan for future needs.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any information found in this report or requests for additional information should be directed to the Office of the Finance Director, City of Claremont, PO Box 446, Claremont, NC 28610.

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CITY OF CLAREMONT, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,643,748	\$ 516,985	\$ 2,160,733
Taxes receivable, net	61,051	-	61,051
Accounts receivable, net	1,023	134,739	135,762
Due from other governments	129,200	-	129,200
Inventories	-	176,141	176,141
Restricted cash and cash equivalents	380,354	24,581	404,935
Total current assets	2,215,376	852,446	3,067,822
Non-current assets			
Capital assets:			
Land and construction in progress	1,105,177	101,870	1,207,047
Other capital assets, net of depreciation	6,265,817	5,101,087	11,366,904
Total capital assets	7,370,994	5,202,957	12,573,951
Total assets	9,586,370	6,055,403	15,641,773
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	69,323	27,310	96,633
Accrued interest payable	17,185	813	17,998
Current portion of long term liabilities	109,640	147,259	256,899
Liabilities to be paid from restricted assets:			
Customer deposits	-	24,581	24,581
Total current liabilities	196,148	199,963	396,111
Long-term liabilities:			
Due in more than one year	1,028,921	-	1,028,921
Total liabilities	1,225,069	199,963	1,425,032
Deferred Inflows of Resources:			
Prepaid taxes	1,594	-	1,594
Total deferred inflows of resources	1,594	-	1,594
Net Position:			
Net investment in capital assets	6,270,994	5,055,698	11,326,692
Restricted for:			
Streets	160,721	-	160,721
Public safety	2,525	-	2,525
Economic development	212,912	-	212,912
Scholarships	4,196	-	4,196
Stabilization by State statute	130,223	-	130,223
Unrestricted	1,578,136	799,742	2,377,878
Total net position	\$ 8,359,707	\$ 5,855,440	\$ 14,215,147

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

CITY OF CLAREMONT, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Function/Programs:	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$ 487,142	\$ -	\$ -
Public safety	1,278,165	986	230,555
Environmental protection	519,306	768	-
Economic development	126,168	-	237,768
Streets	293,087	-	44,006
Cultural and recreational	107,632	-	20,124
Interest	48,301	-	-
Total governmental activities	<u>2,859,801</u>	<u>1,754</u>	<u>532,453</u>
Business-Type Activities:			
Water	<u>1,029,175</u>	<u>1,106,275</u>	<u>-</u>
Total primary government	<u>\$ 3,888,976</u>	<u>\$ 1,108,029</u>	<u>\$ 532,453</u>

General Revenues:

Taxes:

- Property taxes, levied for general purposes
- Local option sales tax
- Other taxes and licenses

- Unrestricted intergovernmental
- Investment earnings, unrestricted
- Miscellaneous, unrestricted
- Total general revenues

Change in net position

Net Position:

Beginning of year - July 1

End of year - June 30

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

Exhibit B

Net Revenue (Expense) and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (487,142)	\$ -	\$ (487,142)
(1,046,624)	-	(1,046,624)
(518,538)	-	(518,538)
111,600	-	111,600
(249,081)	-	(249,081)
(87,508)	-	(87,508)
(48,301)	-	(48,301)
(2,325,594)	-	(2,325,594)
-	77,100	77,100
(2,325,594)	77,100	(2,248,494)
1,720,717	-	1,720,717
208,746	-	208,746
7,617	-	7,617
456,385	-	456,385
1,346	129	1,475
16,946	-	16,946
2,411,757	129	2,411,886
86,163	77,229	163,392
8,273,544	5,778,211	14,051,755
\$ 8,359,707	\$ 5,855,440	\$ 14,215,147

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

CITY OF CLAREMONT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>Major Fund</u>	<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 1,534,016	\$ 109,732	\$ 1,643,748
Taxes receivable, net	61,051	-	61,051
Accounts receivable, net	1,013	10	1,023
Due from other governments	129,200	-	129,200
Restricted cash and cash equivalents	163,246	217,108	380,354
Total assets	<u>\$ 1,888,526</u>	<u>\$ 326,850</u>	<u>\$ 2,215,376</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 69,323	\$ -	\$ 69,323
Total liabilities	<u>69,323</u>	<u>-</u>	<u>69,323</u>
Deferred Inflows of Resources:			
Unavailable taxes	61,051	-	61,051
Prepaid taxes	1,594	-	1,594
Total deferred inflows of resources	<u>62,645</u>	<u>-</u>	<u>62,645</u>
Fund Balances:			
Restricted:			
Stabilization by State statute	130,213	10	130,223
Streets	160,721	-	160,721
Public safety	2,525	-	2,525
Scholarships	-	4,196	4,196
Economic development	-	212,912	212,912
Assigned:			
Subsequent year's expenditures	48,000	-	48,000
Capital projects	-	109,732	109,732
Unassigned	1,415,099	-	1,415,099
Total fund balances	<u>1,756,558</u>	<u>326,850</u>	<u>2,083,408</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,888,526</u>	<u>\$ 326,850</u>	

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

CITY OF CLAREMONT, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

Reconciliation of the Balance Sheet to the Statement of Net Position:

Total fund balances for governmental funds (Exhibit C)	\$ 2,083,408
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,370,994
Liabilities for earned revenues considered deferred inflows of resources in the fund statements	61,051
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,155,746)</u>
Net position of governmental activities (Exhibit A)	<u><u>\$ 8,359,707</u></u>

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

CITY OF CLAREMONT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Major Fund</u>	<u>Nonmajor</u>	
	<u>General</u>	<u>Governmental</u>	<u>Total</u>
	<u>Fund</u>	<u>Funds</u>	
Revenues:			
Ad valorem taxes	\$ 1,720,717	\$ -	\$ 1,720,717
Local option sales taxes	208,746	-	208,746
Other taxes and licenses	7,617	-	7,617
Unrestricted intergovernmental	456,385	-	456,385
Restricted intergovernmental	274,561	-	274,561
Permits and fees	986	-	986
Sales and services	768	-	768
Investment earnings	1,278	68	1,346
Miscellaneous	32,462	242,376	274,838
Total revenues	<u>2,703,520</u>	<u>242,444</u>	<u>2,945,964</u>
Expenditures:			
Current:			
General government	498,979	2,847	501,826
Public safety	1,439,812	-	1,439,812
Environmental protection	567,021	-	567,021
Economic and physical development	27,329	41,273	68,602
Transportation	164,284	-	164,284
Cultural and recreational	94,318	-	94,318
Debt service:			
Principal retirement	100,000	-	100,000
Interest and other changes	47,520	-	47,520
Total expenditures	<u>2,939,263</u>	<u>44,120</u>	<u>2,983,383</u>
Revenues over (under) expenditures	<u>(235,743)</u>	<u>198,324</u>	<u>(37,419)</u>
Other Financing Sources (Uses):			
Sale of capital assets	3,423	-	3,423
Total other financing sources (uses)	<u>3,423</u>	<u>-</u>	<u>3,423</u>
Net change in fund balances	(232,320)	198,324	(33,996)
Fund Balances:			
Beginning of year - July 1	<u>1,988,878</u>	<u>128,526</u>	<u>2,117,404</u>
End of year - June 30	<u>\$ 1,756,558</u>	<u>\$ 326,850</u>	<u>\$ 2,083,408</u>

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

CITY OF CLAREMONT, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds (Exhibit D)	\$ (33,996)
Capital assets disposed of during the year not recognized on the modified accrual basis	(13,505)
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.	(23,893)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	100,000
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 the governmental funds.	32,768
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>24,789</u>
Total changes in net position of governmental activities (Exhibit B)	<u>\$ 86,163</u>

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

CITY OF CLAREMONT, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance With Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,664,220	\$ 1,664,220	\$ 1,720,717	\$ 56,497
Local option sales taxes	192,000	192,000	208,746	16,746
Other taxes and licenses	9,150	9,150	7,617	(1,533)
Unrestricted intergovernmental	217,000	357,725	456,385	98,660
Restricted intergovernmental	268,230	269,030	274,561	5,531
Permits and fees	2,000	2,000	986	(1,014)
Sales and services	500	500	768	268
Investment earnings	3,000	3,025	1,278	(1,747)
Miscellaneous	15,400	15,400	32,462	17,062
Total revenues	<u>2,371,500</u>	<u>2,513,050</u>	<u>2,703,520</u>	<u>190,470</u>
Expenditures:				
Current:				
General government	469,871	494,045	498,979	(4,934)
Public safety	1,110,324	1,500,634	1,439,812	60,822
Environmental protection	524,078	592,578	567,021	25,557
Economic development	28,700	27,700	27,329	371
Transportation	166,000	166,000	164,284	1,716
Cultural and recreational	91,005	95,914	94,318	1,596
Debt service:				
Principal retirement	100,000	100,000	100,000	-
Interest and fees	47,521	47,521	47,520	1
Total expenditures	<u>2,537,499</u>	<u>3,024,392</u>	<u>2,939,263</u>	<u>85,129</u>
Revenues over (under) expenditures	<u>(165,999)</u>	<u>(511,342)</u>	<u>(235,743)</u>	<u>275,599</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	(2,435)	-	2,435
Sale of capital assets	6,000	6,000	3,423	(2,577)
Appropriated fund balance	159,999	507,777	-	(507,777)
Total other financing sources (uses)	<u>165,999</u>	<u>511,342</u>	<u>3,423</u>	<u>(507,919)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(232,320)</u>	<u>\$ (232,320)</u>
Fund Balance:				
Beginning of year - July 1			<u>1,988,878</u>	
End of year - June 30			<u>\$ 1,756,558</u>	

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

CITY OF CLAREMONT, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 516,985
Accounts receivable (net)	134,739
Inventories	176,141
Cash and cash equivalents, restricted	<u>24,581</u>
Total current assets	<u>852,446</u>
Non-current assets:	
Capital assets (net of depreciation)	<u>5,202,957</u>
Total non-current assets	<u>5,202,957</u>
Total assets	<u>6,055,403</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	27,310
Accrued interest payable	813
Current portion of long-term debt	147,259
Liabilities to be paid from restricted assets:	
Customer deposits	<u>24,581</u>
Total current liabilities	<u>199,963</u>
Total liabilities	<u>199,963</u>
Net Position:	
Net investment in capital assets	5,055,698
Unrestricted	<u>799,742</u>
Total net position	<u>\$ 5,855,440</u>

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

CITY OF CLAREMONT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 1,038,204
Water taps	750
Other operating revenues	<u>67,321</u>
Total operating revenues	<u>1,106,275</u>
Operating Expenses:	
Water treatment plant	231,588
Sewage treatment	551,061
Depreciation	<u>228,950</u>
Total operating expenses	<u>1,011,599</u>
Operating income (loss)	<u>94,676</u>
Non-Operating Revenues (Expenses):	
Loss on disposal of capital assets	(8,456)
Investment earnings	129
Interest and fees	<u>(9,120)</u>
Net non-operating revenues (expenses)	<u>(17,447)</u>
Change in net position	77,229
Net Position:	
Beginning of year - July 1	<u>5,778,211</u>
End of year - June 30	<u>\$ 5,855,440</u>

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

CITY OF CLAREMONT, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,078,003
Cash paid for goods and services	(901,818)
Net cash provided (used) by operating activities	<u>176,185</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(92,441)
Debt principal paid	(147,259)
Interest and fees paid	(9,969)
Net cash provided (used) in capital and related financing activities	<u>(249,669)</u>
Cash Flows from Investing Activities:	
Interest on investments	<u>129</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(73,355)
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>614,921</u>
End of year - June 30	<u>\$ 541,566</u>
Reconciliation of Operating Income (Loss) Net Cash Provided (Used) by Operating Activities :	
Operating income (loss)	\$ 94,676
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	228,950
(Increase) decrease in accounts receivable	(28,272)
(Increase) decrease in inventories	(102,737)
Increase (decrease) in accounts payable and accrued liabilities	(17,671)
Increase (decrease) in customer deposits	1,239
Total adjustments	<u>81,509</u>
Net cash provided (used) by operating activities	<u>\$ 176,185</u>

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

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CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies

The accounting policies of the City of Claremont (the “City”) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City is a municipal corporation, which is governed by an elected Mayor and a five-member Council.

B. Basis of Presentation

Government-Wide Financial Statements. The Statement of Net Position and the Statement of Activities display information about the 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 1) fees and charges paid by the recipients of goods or services offered by the programs and 2) 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 nonmajor funds.

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

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The City reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those 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, sanitation, parks and recreation, and general government services.

The City reports the following nonmajor governmental funds:

PJ Stanley Scholarship Fund. This fund accounts for contribution 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. This fund is reported as a special revenue fund.

Economic Development Incentive Fund. This fund accounts for a contribution restricted for providing economic incentive agreements for new businesses. This fund is reported as a special revenue fund.

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

The City reports the following major Enterprise Fund:

Water and Sewer Fund. The Water and Sewer Fund is used to account for the operation, maintenance, and capital improvements to the City's water and sewer system.

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.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 Fund 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 the Enterprise Fund 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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Catawba County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Claremont. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Catawba County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because, generally, they are not measurable until received in cash. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then 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, Water and Sewer Operations, and the Water and Sewer Capital Reserve Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund and the Water Capital Projects Enterprise Fund, which is consolidated with the enterprise operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for the multi-year funds. Transfers of appropriations between funds as well as any revisions that alter total appropriations of any fund require the approval of the City Council. The budget ordinance must be adopted by July 1 of the fiscal year or the governing 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 and loan 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 securities of the NCCMT- Cash Portfolio, an SEC registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

In accordance with State law, the City invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Cash and Cash Equivalents

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

Restricted Assets

Powell Bill funds are classified as restricted assets, because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. Customer deposits held by the City before any services are supplied are restricted to the purpose for which the deposit was collected. Law enforcement funds are also classified as restricted cash because it is restricted by revenue source for law enforcement activities. Money for economic development is classified as restricted assets because its use is restricted for economic development by the grantor for future economic development expenditures. Scholarship funds are also classified as restricted cash because these funds are restricted by donor and can only be expended for the purpose of providing scholarships for local students attending Catawba Valley Community College or Mitchell Community College in a police, fire, or EMS-related field of study.

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 1, the beginning of the fiscal year. These taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2012.

Allowance 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.

Inventories

Inventories are valued at cost (first-in, first-out), which approximates market. The inventory of the City's Enterprise Fund consists of supplies and materials held for consumption or resale. The cost of the inventory carried in the City's Enterprise Fund is recorded as an expense as it is consumed rather than when purchased.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, \$20,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of 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>Assets</u>	<u>Years</u>
Infrastructure	50
Buildings & improvements	50
Vehicles, furniture, and equipment	5
Distribution system - water and wastewater	40

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 does not have any items that meet this criterion. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has only two items that meet the criterion for this category - prepaid taxes and property taxes receivable.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type 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.

In fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Compensated Absences

The vacation policy of the City provides for the accumulation of up to thirty days of 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 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 has no 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 is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws, or regulations of other governments or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

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

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

Restricted for Economic Development – portion of fund balance that is restricted by the contributor for future economic development expenditures.

Restricted for Scholarships – portion of fund balance that is restricted for scholarships for local students attending Catawba Valley Community College or Mitchell community College in a police, fire, or EMS related field of study.

Committed Fund Balance

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

Assigned Fund Balance

The 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.

Unassigned Fund Balance

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 for 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 balances classifications, 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.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Total fund balance - General Fund	\$ 1,756,558
Less:	
Stabilization by State statute	<u>130,213</u>
Total available fund balance	<u>\$ 1,626,345</u>

2. Detail Notes On All Funds

A. Assets

Deposits

All 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 agent in the units' 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 agent in their name. 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 amounts of collateral pledged for the City under the Pooling Method, the potential exists for undercollateralization. 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, 2013, the City's deposits had a carrying amount of \$328,007 and a bank balance of \$400,385. Of the bank balance, \$266,009 was covered by federal depository insurance and \$134,376 was covered by collateral held under the Pooling Method.

At June 30, 2013, the City's petty cash totaled \$150.

Investments

At June 30, 2013, the City had \$2,237,511 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM, by Standard and Poor's. The City has no policy regarding credit risk.

CITY OF CLAREMONT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Receivables

Receivables at the government-wide level at June 30, 2013 were as follows:

<u>Funds</u>	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 1,013	\$ 75,559	\$ 129,200	\$ 205,772
Other governmental	10	-	-	10
Total receivables	<u>1,023</u>	<u>75,559</u>	<u>129,200</u>	<u>205,782</u>
Allowance for doubtful accounts	-	(14,508)	-	(14,508)
Total governmental activities	<u>\$ 1,023</u>	<u>\$ 61,051</u>	<u>\$ 129,200</u>	<u>\$ 191,274</u>
Business-Type Activities:				
Water and sewer	\$ 134,739	-	-	\$ 134,739
Total business-type activities	<u>\$ 134,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,739</u>

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

Local option sales tax	\$ 41,021
Utility franchise, video, and telecommunication taxes	66,816
Refundable sales tax	<u>21,363</u>
Total	<u>\$ 129,200</u>

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 1,105,177	\$ -	\$ -	\$ 1,105,177
Total non-depreciable capital assets	<u>1,105,177</u>	<u>-</u>	<u>-</u>	<u>1,105,177</u>
Depreciable Capital Assets:				
Buildings	1,976,486	-	-	1,976,486
Other improvements	2,696,696	9,173	-	2,705,869
Equipment and furniture	1,084,243	46,326	266,337	864,232
Vehicles and motorized equipment	1,389,830	338,141	100,506	1,627,465
Infrastructure	2,829,356	67,665	-	2,897,021
Total depreciable capital assets	<u>9,976,611</u>	<u>461,305</u>	<u>366,843</u>	<u>10,071,073</u>
Less Accumulated Depreciation:				
Buildings	496,762	44,282	-	541,044
Other improvements	349,873	163,230	-	513,103
Equipment and furniture	968,491	28,292	264,710	732,073
Vehicles and motorized equipment	1,119,581	191,039	88,628	1,221,992
Infrastructure	738,689	58,355	-	797,044
Total accumulated depreciation, net	<u>3,673,396</u>	<u>\$ 485,198</u>	<u>\$ 353,338</u>	<u>3,805,256</u>
Governmental activity capital assets, net	<u>6,303,215</u>			<u>6,265,817</u>
Governmental activities capital assets, net	<u>\$ 7,408,392</u>			<u>\$ 7,370,994</u>

Depreciation expense was charged to governmental functions of the City as follows:

General government	\$ 18,527
Public safety	221,911
Environmental protection	26,333
Transportation	147,211
Economic and physical development	57,566
Cultural and recreational	13,650
Total	<u>\$ 485,198</u>

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Proprietary Capital Assets

The capital assets of the proprietary funds of the City at June 30, 2013 are as follows:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 101,870	\$ -	\$ -	\$ 101,870
Total non-depreciable capital assets	101,870	-	-	101,870
Depreciable Capital Assets:				
Equipment	418,512	77,728	124,627	371,613
Plant and distribution systems	9,277,037	14,713	-	9,291,750
Total depreciable capital assets	9,695,549	92,441	124,627	9,663,363
Less Accumulated Depreciation:				
Equipment	294,680	28,713	116,171	207,222
Plant and distribution systems	4,154,817	200,237	-	4,355,054
Total accumulated depreciation	4,449,497	\$ 228,950	\$ 116,171	4,562,276
Total depreciable capital assets, net	5,246,052			5,101,087
Business-type activities capital assets, net	\$ 5,347,922			\$ 5,202,957

Commitments

Beginning in fiscal year 2012, the City entered into a lease agreement to provide financing for Pierre Foods as an economic incentive. Under the agreement with Pierre Foods, the City will receive 84 monthly payments in the amount of \$2,736 which includes interest at a rate of 3%. The money used to provide this lease financing came from the Golden Leaf Foundation and the terms of their agreement allows for the repayment by Pierre Foods to be restricted for future economic development expenditures by the City.

CITY OF CLAREMONT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2013 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
Governmental Activities:				
General	\$ 24,606	\$ 44,717	\$ 17,185	\$ 86,508
Business-Type Activities:				
Water and sewer	\$ 27,310	\$ -	\$ 813	\$ 28,123

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to Plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 7.35%, respectively, of annual covered payroll. The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$50,869, \$54,037, and \$31,918, respectively. The contributions made by the City equaled the required contributions for each year.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Law Enforcement Officers' Special Separation Allowance

Plan Description. The City administers a Public Employee Retirement System (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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. A separate report was not issued for this plan.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2012, the system's membership consisted of:

Retirees receiving benefits	1
Active plan members	8
Total	<u>9</u>

A separate report was not issued for the Plan.

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

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

The City has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a board of trustees. Participation begins at the date of employment, and benefits are provided to all law enforcement officers employed by the City. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Article 5 of G. S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes the Pension Trust Fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5.0% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to their plan. Contributions for the year ended June 30, 2013 were \$36,466, which consisted of \$16,266 from the City and \$20,200 from the law enforcement officers.

Firemen’s and Rescue Squad Workers’ Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the City, to the Firemen's and Rescue Squad Workers' Pension Fund (the “Fund”), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that 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. The Firemen's 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 Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the Plan through appropriations. The City does not contribute to the Fund. Contribution requirements of Plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Other Employment Benefits

The City has also 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. All death benefit payments are made from the Death Benefit Plan. 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. The City considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

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

	<u>Unavailable Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable (General Fund)	\$ 61,051	\$ -
Prepaid taxes (General Fund)	-	1,594
Total	<u>\$ 61,051</u>	<u>\$ 1,594</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 three 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 insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are re-insured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation.

The pools are re-insured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the re-insurance limit based upon a percentage of the total insurance values. This property coverage includes flood insurance coverage up to the same limits as other losses with a \$50,000 deductible.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

In accordance with G.S. 159-29, the Finance Officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

Long-Term Obligations

Installment Purchases

As authorized by State Law (G.S. 160A-20 and 153A-158.1), the City financed various property and equipment acquisitions by installment purchase.

Installment purchase contracts at June 30, 2013, are comprised of the following.

Serviced by the General Fund:

\$1,500,000 contract for construction of a railroad spur to Poppelmann, due in annual installment of \$100,000 plus interest at 3.96%, through February 2024	\$ 1,100,000
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Serviced by Water and Sewer Fund:

\$2,945,176 promissory note with the State of North Carolina for the construction of wastewater treatment facilities, due in annual installments of \$147,259, including interest at 3.385%, through August 2014.	<u>147,259</u>
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Total	<u><u>\$ 1,247,259</u></u>
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Annual debt service requirements to maturity for the City's installment purchases are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 100,000	\$ 43,560	\$ 147,259	\$ 4,985
2015	100,000	39,600	-	-
2016	100,000	35,640	-	-
2017	100,000	31,680	-	-
2018	100,000	27,720	-	-
2019-2023	500,000	79,200	-	-
2024	100,000	3,960	-	-
Total	<u>\$ 1,100,000</u>	<u>\$ 261,360</u>	<u>\$ 147,259</u>	<u>\$ 4,985</u>

At June 30, 2013, the City of Claremont had a legal debt margin of \$28,720,376.

CITY OF CLAREMONT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Changes in Long-Term Liabilities

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>	<u>Current Maturities</u>
Governmental Activities:					
Installment purchases	\$ 1,200,000	\$ -	\$ 100,000	\$ 1,100,000	\$ 100,000
Compensated absences	69,484	33,454	64,377	38,561	9,640
Governmental activities long-term liabilities	<u>1,269,484</u>	<u>33,454</u>	<u>164,377</u>	<u>1,138,561</u>	<u>109,640</u>
Business-Type Activities:					
Installment purchases	294,518	-	147,259	147,259	147,259
Total	<u>\$ 1,564,002</u>	<u>\$ 33,454</u>	<u>\$ 311,636</u>	<u>\$ 1,285,820</u>	<u>\$ 256,899</u>

Compensated absences typically have been liquidated in the General Fund.

3. Jointly Governed Organization

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 \$678 to the Council during the fiscal year ended June 30, 2013.

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

5. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad valorem taxes	\$ 1,664,220	\$ 1,720,717	\$ 56,497	\$ 1,623,616
Local Option Sales Taxes:				
Article 39 one percent	112,000	116,942	4,942	116,945
Article 40 one-half of one percent	38,000	44,356	6,356	52,092
Article 42 one-half of one percent	42,000	47,390	5,390	56,298
Article 44 one-half of one percent	-	58	58	163
Total local option sales taxes	192,000	208,746	16,746	225,498
Other Taxes and Licenses:				
Local occupancy tax	8,500	6,760	(1,740)	11,134
Solid waste disposal tax	650	857	207	925
Total other taxes and licenses	9,150	7,617	(1,533)	12,059
Unrestricted Intergovernmental:				
Utility franchise tax	200,000	251,955	51,955	257,245
Telecommunication tax	-	39,608	39,608	46,410
Piped natural gas tax	7,000	2,703	(4,297)	11,723
Beer and wine tax	1,000	5,515	4,515	5,871
State hold-harmless reimbursement	85,975	85,976	1	90,691
City hold-harmless reimbursement	39,750	36,877	(2,873)	42,943
Video programming tax	24,000	33,751	9,751	34,447
Total unrestricted intergovernmental	357,725	456,385	98,660	489,330
Restricted Intergovernmental:				
Powell Bill allocation	41,000	44,006	3,006	42,822
Special fire district fees	227,230	229,621	2,391	230,544
Seizure funds	800	934	134	52
Total restricted intergovernmental	269,030	274,561	5,531	273,418
Permits and Fees:				
Civil fees	1,000	986	(14)	864
Franchise fees	1,000	-	(1,000)	-
Total permits and fees	2,000	986	(1,014)	864
Sales and Services:				
Refuse collection fees	500	768	268	768
Total sales and services	500	768	268	768
Investment Earnings	3,025	1,278	(1,747)	1,650

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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Miscellaneous:				
Contributions	13,400	15,516	2,116	14,046
Other	2,000	16,946	14,946	10,368
Total miscellaneous	15,400	32,462	17,062	24,414
Total revenues	2,513,050	2,703,520	190,470	2,651,617
Expenditures:				
General Government:				
Governing board				
Elected and appointed officials	8,450	8,450	-	6,950
Salaries	1,800	1,800	-	1,425
Employee benefits	6,673	6,578	95	12,154
Professional services	20,723	19,498	1,225	21,472
Travel and training	11,314	11,314	-	9,443
Other operating expenditures	32,704	32,687	17	17,478
Total governing board	81,664	80,327	1,337	68,922
Administration:				
Salaries	171,876	169,997	1,879	165,651
Employee benefits	74,326	72,115	2,211	51,378
Professional services	15,200	15,200	-	15,200
Travel and training	3,138	2,419	719	3,027
Engineering	7,100	6,133	967	4,464
Contractual services	84,000	83,906	94	91,108
Other operating expenditures	56,741	68,882	(12,141)	41,396
Capital outlay	-	-	-	9,397
Total administration	412,381	418,652	(6,271)	381,621
Total general government	494,045	498,979	(4,934)	450,543
Public Safety:				
Police:				
Salaries	423,646	413,866	9,780	390,669
Employee benefits	141,152	139,105	2,047	128,503
Travel and training	6,500	6,287	213	6,920
Contractual services	21,500	20,420	1,080	18,526
Vehicle maintenance	41,750	38,219	3,531	38,322
Other operating expenditures	95,660	95,596	64	83,581
Capital outlay	68,800	68,695	105	71,998
Total police	799,008	782,188	16,820	738,519

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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Fire:				
Salaries	158,004	131,840	26,164	130,316
Employee benefits	41,196	36,168	5,028	38,372
Travel and training	10,000	8,614	1,386	9,042
Contractual services	13,000	12,907	93	9,120
Vehicle maintenance	21,500	17,605	3,895	23,784
Other operating expenditures	80,426	73,032	7,394	85,501
Capital outlay	377,500	377,458	42	5,700
Total fire	701,626	657,624	44,002	301,835
Total public safety	1,500,634	1,439,812	60,822	1,040,354
Environmental Protection:				
Public Works:				
Salaries	199,475	189,231	10,244	195,076
Employee benefits	82,103	77,244	4,859	66,419
Travel and training	332	332	-	660
Contractual services	85,000	85,000	-	96,770
Vehicle maintenance	20,000	17,521	2,479	29,879
Other operating expenditures	132,168	124,197	7,971	123,372
Capital outlay	73,500	73,496	4	149,800
Total public works	592,578	567,021	25,557	661,976
Economic Development:				
Other operating expenditures	27,700	27,329	371	27,737
Transportation:				
Powell Bill:				
Contractual services	158,779	157,279	1,500	12,112
Vehicle maintenance	869	653	216	226
Other operating expenditures	6,352	6,352	-	7,662
Total transportation	166,000	164,284	1,716	20,000
Cultural and Recreational:				
Library:				
Contractual services	17,000	17,000	-	17,000
Other operating expenditures	3,662	3,662	-	3,576
Total library	20,662	20,662	-	20,576

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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Recreation:				
Salaries	10,000	9,972	28	8,663
Employee benefits	950	763	187	473
Contractual services	2,500	2,466	34	8,000
Other operating expenditures	61,802	60,455	1,347	49,095
Total recreation	<u>75,252</u>	<u>73,656</u>	<u>1,596</u>	<u>66,231</u>
Total cultural and recreational	<u>95,914</u>	<u>94,318</u>	<u>1,596</u>	<u>86,807</u>
Debt Service:				
Principal retirement	100,000	100,000	-	514,130
Interest and fees	47,521	47,520	1	61,239
Total debt service	<u>147,521</u>	<u>147,520</u>	<u>1</u>	<u>575,369</u>
Total expenditures	<u>3,024,392</u>	<u>2,939,263</u>	<u>85,129</u>	<u>2,862,786</u>
Revenues over (under) expenditures	<u>(511,342)</u>	<u>(235,743)</u>	<u>275,599</u>	<u>(211,169)</u>
Other Financing Sources (Uses):				
Transfers:				
To special revenue funds	(2,435)	-	2,435	(1,000)
Sale of capital assets	6,000	3,423	(2,577)	11,575
Appropriated fund balance	507,777	-	(507,777)	-
Total other financing sources (uses)	<u>511,342</u>	<u>3,423</u>	<u>(507,919)</u>	<u>10,575</u>
Net change in fund balance	<u>\$ -</u>	<u>(232,320)</u>	<u>\$ (232,320)</u>	<u>(200,594)</u>
Fund Balance:				
Beginning of year - July 1		<u>1,988,878</u>		<u>2,189,472</u>
End of year - June 30		<u>\$ 1,756,558</u>		<u>\$ 1,988,878</u>

CITY OF CLAREMONT, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	<u>Nonmajor Special Revenue Funds</u>			<u>Total</u>
	<u>PJ Stanley Scholarship Fund</u>	<u>Economic Development Incentive Fund</u>	<u>Nonmajor Capital Project Fund</u>	
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 109,732	\$ 109,732
Restricted cash and cash equivalents	4,196	212,912	-	217,108
Accounts receivable, net	-	-	10	10
Total assets	<u>\$ 4,196</u>	<u>\$ 212,912</u>	<u>\$ 109,742</u>	<u>\$ 326,850</u>
Fund Balances:				
Restricted:				
Stabilization by State statute	\$ -	\$ -	\$ 10	\$ 10
Economic development	-	212,912	-	212,912
Scholarships	4,196	-	-	4,196
Assigned:				
Capital projects	-	-	109,732	109,732
Total fund balances	<u>4,196</u>	<u>212,912</u>	<u>109,742</u>	<u>326,850</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,196</u>	<u>\$ 212,912</u>	<u>\$ 109,742</u>	<u>\$ 326,850</u>

CITY OF CLAREMONT, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Nonmajor Special Revenue Funds</u>			<u>Total</u>
	<u>PJ Stanley Scholarship Fund</u>	<u>Economic Development Incentive Fund</u>	<u>Nonmajor Capital Projects Fund</u>	
Revenues:				
Investment earnings	\$ -	\$ -	\$ 68	\$ 68
Miscellaneous	4,608	237,768	-	242,376
Total revenues	<u>4,608</u>	<u>237,768</u>	<u>68</u>	<u>242,444</u>
Expenditures:				
General government:	2,847	-	-	2,847
Economic and physical development	-	41,273	-	41,273
Total expenditures	<u>2,847</u>	<u>41,273</u>	<u>-</u>	<u>44,120</u>
Net change in fund balances	1,761	196,495	68	198,324
Fund Balances:				
Beginning of year - July 1	<u>2,435</u>	<u>16,417</u>	<u>109,674</u>	<u>128,526</u>
End of year - June 30	<u>\$ 4,196</u>	<u>\$ 212,912</u>	<u>\$ 109,742</u>	<u>\$ 326,850</u>

CITY OF CLAREMONT, NORTH CAROLINA

PJ STANLEY SCHOLARSHIP FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Miscellaneous				
Contributions	\$ 2,565	\$ 4,608	\$ 2,043	\$ 1,435
Expenditures:				
General government:				
Scholarships	2,000	1,000	1,000	-
Supplies	3,000	1,847	1,153	-
Total expenditures	5,000	2,847	2,153	-
Revenues over (under) expenditures	(2,435)	1,761	4,196	1,435
Other Financing Sources (Uses):				
Transfer from General Fund	2,435	-	(2,435)	1,000
Net change in fund balance	\$ -	1,761	\$ 1,761	2,435
Fund Balance:				
Beginning of year - July 1		2,435		-
End of year - June 30		\$ 4,196		\$ 2,435

CITY OF CLAREMONT, NORTH CAROLINA

ECONOMIC DEVELOPMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Actual		Total to Date	Variance Over/Under
		Prior Years	Current Year		
Revenues:					
Golden Leaf contribution	\$ 207,065	\$ 207,065	\$ -	\$ 207,065	\$ -
Lease payments - principal	207,065	13,394	196,495	209,889	2,824
Lease payments - interest	22,760	3,023	41,273	44,296	21,536
Total revenues	<u>436,890</u>	<u>223,482</u>	<u>237,768</u>	<u>461,250</u>	<u>24,360</u>
Expenditures:					
Economic development incentives	<u>436,890</u>	<u>207,065</u>	<u>41,273</u>	<u>248,338</u>	<u>(188,552)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 16,417</u>	196,495	<u>\$ 212,912</u>	<u>\$ 212,912</u>
Fund Balance:					
Beginning of year, July 1			<u>16,417</u>		
End of year, June 30			<u>\$ 212,912</u>		

CITY OF CLAREMONT, NORTH CAROLINA

GENERAL CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ -	\$ 68	\$ 68
Net change in fund balance	<u>\$ -</u>	68	<u>\$ 68</u>
Fund Balance:			
Beginning of year - July 1		<u>109,674</u>	
End of year - June 30		<u>\$ 109,742</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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Operating Revenues:				
Water and sewer charges/fees	\$ 1,003,432	\$ 998,209	\$ (5,223)	\$ 1,011,452
Sprinkler and hydrant charges	23,350	25,000	1,650	22,150
Reconnection fees	10,800	14,995	4,195	15,326
Water and sewer taps	5,500	750	(4,750)	2,863
Other operating revenues	48,450	67,321	18,871	350
Total operating revenues	<u>1,091,532</u>	<u>1,106,275</u>	<u>14,743</u>	<u>1,052,141</u>
Non-Operating Revenues:				
Interest earnings	<u>200</u>	<u>2</u>	<u>(198)</u>	<u>2</u>
Total revenues	<u>1,091,732</u>	<u>1,106,277</u>	<u>14,545</u>	<u>1,052,143</u>
Expenditures:				
Water Distribution:				
Water purchases	150,000	143,179	6,821	123,049
Utilities	1,800	1,800	-	1,706
Contractual services	69,500	69,029	471	56,987
Other operating expenditures	59,650	5,095	54,555	42,162
Capital outlay	<u>16,325</u>	<u>16,325</u>	<u>-</u>	<u>51,551</u>
Total water distribution:	<u>297,275</u>	<u>235,428</u>	<u>61,847</u>	<u>275,455</u>
Sewage Treatment:				
Travel and training	1,500	1,500	-	866
Contractual services	574,100	535,362	38,738	440,199
Other operating expenditures	67,899	14,199	53,700	56,723
Capital outlay	<u>88,745</u>	<u>88,601</u>	<u>144</u>	<u>40,046</u>
Total sewage treatment:	<u>732,244</u>	<u>639,662</u>	<u>92,582</u>	<u>537,834</u>
Debt Service:				
Principal	147,259	147,259	-	218,592
Interest and fees	<u>14,954</u>	<u>9,969</u>	<u>4,985</u>	<u>18,966</u>
Total debt service	<u>162,213</u>	<u>157,228</u>	<u>4,985</u>	<u>237,558</u>
Total expenditures	<u>1,191,732</u>	<u>1,032,318</u>	<u>159,414</u>	<u>1,050,847</u>
Revenues over (under) expenditures	<u>(100,000)</u>	<u>73,959</u>	<u>173,959</u>	<u>1,296</u>
Other Financing Sources (Uses):				
Appropriated fund balance	105,000	-	(105,000)	-
Contribution to capital reserve	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 73,959</u>	<u>\$ 73,959</u>	<u>\$ 1,296</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, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:				
Water and Sewer Fund - Revenues and other financing sources over (under) expenditures and other financing uses		\$ 73,959		\$ 1,296
Water and Sewer Reserve Fund - Revenues and other financing sources over (under) expenditures and other financing uses		127		151
Total		<u>74,086</u>		<u>1,447</u>
Reconciling items:				
Debt principal		147,259		218,592
Depreciation		(228,950)		(213,892)
Capital outlay		92,441		91,597
Loss on disposal of capital assets		(8,456)		-
(Increase) decrease in accrued interest payable		849		947
Total reconciling items		<u>3,143</u>		<u>97,244</u>
Change in net position		<u>\$ 77,229</u>		<u>\$ 98,691</u>

CITY OF CLAREMONT, NORTH CAROLINA

WATER AND SEWER CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2013
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>			<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Interest earned on investments	\$ -	\$ 127	\$ 127	\$ 151
Fund Balance:				
Beginning of year - July 1		<u>305,788</u>		
End of year - June 30		<u>\$ 305,915</u>		

CITY OF CLAREMONT, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 1,723,139	\$ 1,685,539	\$ 37,600
2011-2012	28,891	-	16,322	12,569
2010-2011	12,348	-	4,092	8,256
2009-2010	6,057	-	633	5,424
2008-2009	4,014	-	298	3,716
2007-2008	2,375	-	127	2,248
2006-2007	2,127	-	1	2,126
2005-2006	2,009	-	68	1,941
2004-2005	821	-	-	821
2003-2004	858	-	-	858
2002-2003	837	-	837	-
Total	<u>\$ 60,337</u>	<u>\$ 1,723,139</u>	<u>\$ 1,707,917</u>	<u>75,559</u>
Allowance for doubtful receivables				<u>(14,508)</u>
Ad valorem taxes receivable, net				<u>\$ 61,051</u>
Reconciliation with Revenues:				
Taxes, ad valorem - General Fund (Exhibit D)			\$ 1,720,717	
Reconciling items:				
Interest collected				(3,327)
Adjustments allowed				(10,310)
Amount written off for tax year 2002-2003 per Statute of Limitations				<u>837</u>
Total collections and credits				<u>\$ 1,707,917</u>

CITY OF CLAREMONT , NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	<u>City-Wide</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Total property taxed at current year's rate	\$ 366,244,348	\$ 0.460	\$ 1,684,724	\$ 1,605,342	\$ 79,382
Discoveries	13,221,304		60,818	60,801	17
Abatements	<u>(4,870,217)</u>		<u>(22,403)</u>	<u>(857)</u>	<u>(21,546)</u>
Total property valuation	<u>\$ 374,595,435</u>				
Net Levy			1,723,139	1,665,286	57,853
Uncollected taxes at June 30, 2013			<u>(37,600)</u>	<u>(27,245)</u>	<u>(10,355)</u>
Current Year's Taxes Collected			<u>\$ 1,685,539</u>	<u>\$ 1,638,041</u>	<u>\$ 47,498</u>
Current Levy Collection Percentage			<u>97.82%</u>	<u>98.36%</u>	<u>82.10%</u>

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

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

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Claremont's basic financial statements, and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

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

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

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies 2013-001, 2013-002, and 2013-003 in the accompanying Schedule of Findings and Questioned Costs 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Claremont's Responses to Findings

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
November 21, 2013

CITY OF CLAREMONT, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Non-compliance material to financial statements noted?	No

CITY OF CLAREMONT, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Finding 2013-001

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

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

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

Effect: Errors in financial reporting could occur.

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

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

Name of Contact Person: Doug Barrick, City Manager

Management's Response/Corrective Action: Management is aware of the weakness, but due to the cost benefit analysis, the City will continue to rely on the external auditor to draft the year-end financial statements. The City will exercise due care in reviewing the financial statements drafted by the external auditor. The City acknowledges and accepts responsibility for the accuracy of the audited financial statements.

CITY OF CLAREMONT, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Finding 2013-002

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

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

Context: While performing our audit procedures, significant audit adjustments were required to report the City of Claremont's financial statements in accordance with Generally Accepted Accounting Principles.

Effect: Material misstatements of the financial statements could result.

Cause: Year-end adjustments include adjustments required for drafting full accrual, full disclosure GAAP financial statements, which requires a level of technical expertise not possessed by the City of Claremont's personnel with regards to drafting full accrual, full disclosure GAAP financial statements.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost versus benefit of improving the internal control system to prevent the adjustments in the future, given the available financial and intellectual resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources, and modify their oversight function accordingly.

Name of Contact Person: Doug Barrick, City Manager

Management's Response/Corrective Action: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end. In the areas where the cost versus benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

CITY OF CLAREMONT, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Finding 2013-003

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

Condition: The cash reconciliation of the operating account was not performed on a monthly basis in accordance with County policy.

Context: While performing our audit procedures, we noted that the cash reconciliation of the operating account was not being performed timely.

Effect: Errors in financial reporting could occur and not be detected.

Cause: An error was discovered by management during the cash reconciliation process that was not corrected timely due to management's reliance on the external auditor to assist in the correction of the item. Management waited until the error was corrected before beginning the next cash reconciliation. As a result, the reconciliations were not performed on a monthly basis in accordance with County policy.

Recommendation: Cash reconciliations should be performed on a monthly basis. Errors that are detected should be corrected on a timely basis.

Name of Contact Person: Doug Barrick, City Manager

Management's Response/Corrective Action: Management is aware of the weakness and concurs with the recommendation.

CITY OF CLAREMONT, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Finding 2012-001 was repeated in 2013 as 2013-001.

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