

**CLAY COUNTY
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

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CLAY COUNTY, NORTH CAROLINA

BOARD OF COUNTY COMMISSIONERS

Robert Penland, Board Chairman

Robert Peck

Clay Logan

Randy Nichols

Edward Roach

COUNTY OFFICIALS

Mark Pullium, County Manager

Betty Patton, Director of Finance

Phyllis Maney, Register of Deeds

Rehnaye Talley, Tax Administrator

Merinda Woody, County Attorney

Clay County, North Carolina
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Independent Auditor's Report

To the Board of County Commissioners
Clay County, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Clay County, North Carolina, as of and for the year then ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Clay County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of Clay County ABC Board, which represents 100 percent of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to me, and in my opinion, insofar as it relates to the amounts included for the Clay County ABC Board is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Clay County ABC Board were not audited in accordance with Governmental Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinions

In my opinion, based on my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Clay County, North Carolina as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, 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 on pages 4-13, the Other Post Employment Benefit's Schedule of Changes in the Total OPEB Liability and Related Ratios on page 74, the Local Government Employees' Retirement System Schedules of the County's Proportionate Share of Net Pension Liability and County Contributions, pages 69 and 70, and the Register of Deeds' Supplemental Pension Fund Schedules of the County's Proportionate Share of the Net Pension Asset and County Contributions on page 71, the Law Enforcement Officer's Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, pages 72 and 73 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. Other auditors and myself have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the

information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by me and other auditors. In my opinion, based on my audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2018 on my consideration of Clay County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clay County's internal control over financial reporting and compliance.

Shawn Long, CPA

Shawn Long, CPA
Hayesville, North Carolina

November 30, 2018

**MANAGEMENT'S
DISCUSSION &
ANALYSIS**

Management's Discussion and Analysis

As management of Clay County, we offer readers of Clay County's financial statements this narrative overview and analysis of the financial activities of Clay County for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

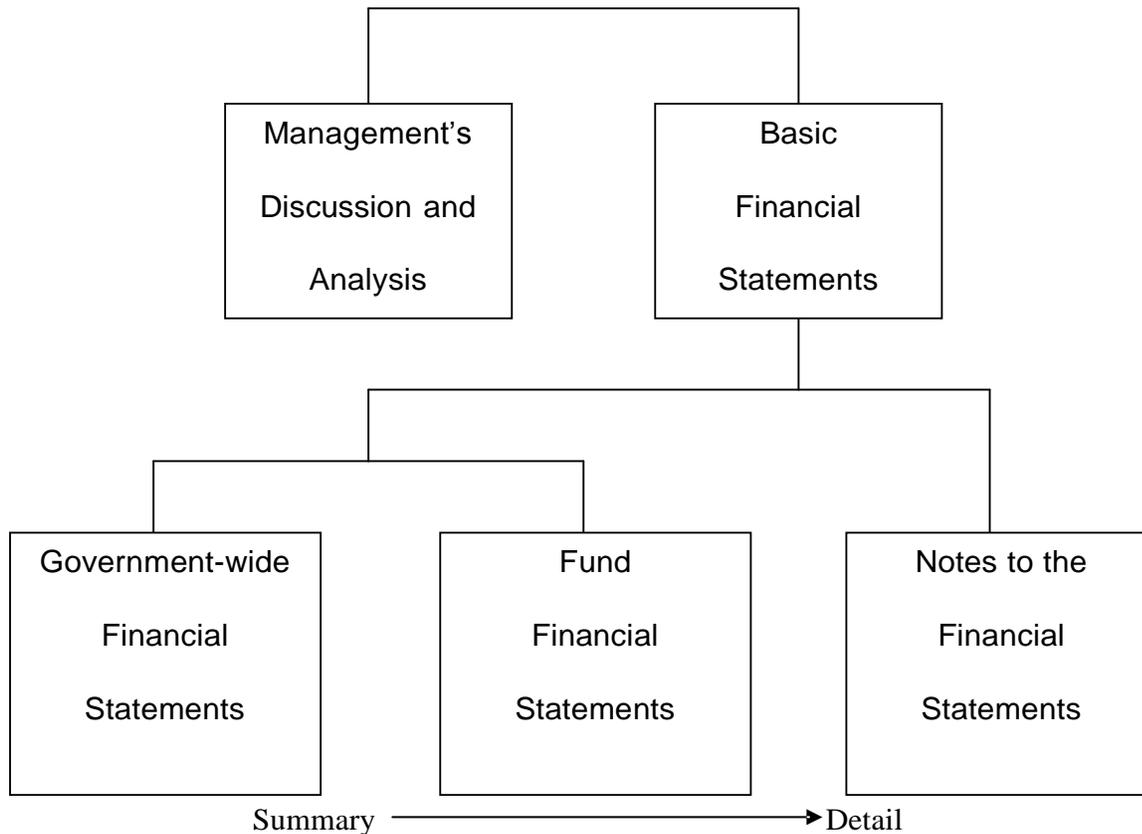
- The assets and deferred outflows of resources of Clay County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 20,246,749 (*net position*).
- The government's total net position increased by \$189,526, primarily due to an increase in cash position and a decrease in short term liabilities at year end.
- As of the close of the current fiscal year, Clay County's governmental funds reported combined ending fund balances of \$ 4,594,262 after a net increase in fund balance of \$462,305. Approximately 37.09 percent of this total amount or \$1,704,250 is restricted or non-spendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,890,012 or 13.14 percent of total general fund expenditures for the fiscal year.
- Clay County's total debt outstanding decreased by \$1,987,089 or 13.3% during the past fiscal year, primarily due to principal retirements on debt exceeded the amount of new borrowings.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Clay County's basic financial statements. The County'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 County 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 Clay County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component unit. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the water and sewer services offered by Clay County. The final category is the component unit. Clay County ABC Board is legally separate from the County however; the County is financially accountable for the Board by appointing its members. Also, the ABC Board is required to distribute its profits to the County.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County'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. Clay County, 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 County's budget ordinance.

All of the funds of Clay County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County'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*. 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 County'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.

Clay County 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 County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County 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 – Clay County has one kind of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Clay County uses an enterprise fund to account for its water and sewer activity. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Clay County has five fiduciary funds, all of which are agency funds.

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 start after exhibit 10 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Clay County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found after the notes of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 20,246,749 as of June 30, 2018. The County's net position increased by \$189,526 for the fiscal year ended June 30, 2018. One of the largest portions \$19,593,219 (96.77%) reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment). Clay County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Clay County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of Clay County's net position \$1,543,764 (7.62%) represents resources that are subject to external restrictions on how they may be used. The remaining balance a deficit totaling \$890,234 (-4.39%) is unrestricted.

Clay County's Net Position

Figure 2

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 5,716,856	\$ 5,243,612	\$ 357,659	\$ 328,760	\$ 6,074,515	\$ 5,572,372
Capital assets	21,075,699	21,894,144	5,761,987	6,223,090	26,837,686	28,117,234
Total assets	<u>26,792,555</u>	<u>27,137,756</u>	<u>6,119,646</u>	<u>6,551,850</u>	<u>32,912,201</u>	<u>33,689,606</u>
Total deferred outflow of resources	1,236,904	1,878,694	36,071	63,249	1,272,975	1,941,943
Long-term liabilities outstanding	12,743,196	12,675,398	150,589	165,583	12,893,785	12,840,981
Other liabilities	361,386	326,129	116,663	112,649	478,049	438,778
Total liabilities	<u>13,104,582</u>	<u>13,001,527</u>	<u>267,252</u>	<u>278,232</u>	<u>13,371,834</u>	<u>13,279,759</u>
Total deferred inflow of resources	559,253	355,544	7,225	2,520	566,478	358,064
Net position:						
Net invested in capital assets	13,831,232	13,253,833	5,761,987	6,200,090	19,593,219	19,453,923
Restricted	1,543,764	1,290,054	-	-	1,543,764	1,290,054
Unrestricted	<u>(1,009,487)</u>	<u>1,115,492</u>	<u>119,253</u>	<u>134,257</u>	<u>(890,234)</u>	<u>1,249,749</u>
Total net position	<u>\$ 14,365,509</u>	<u>\$ 15,659,379</u>	<u>\$ 5,881,240</u>	<u>\$ 6,334,347</u>	<u>\$ 20,246,749</u>	<u>\$ 21,993,726</u>

Several particular aspects of the County's financial operations positively influenced the unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a high collection percentage of 97.62 %.
- Continued low cost of debt due to the County's high bond rating.

Clay County's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 2,691,427	\$ 2,225,409	\$ 631,590	\$ 614,630	\$ 3,323,017	\$ 2,840,039
Operating grants and contributions	3,223,815	4,079,826	-	-	3,223,815	4,079,826
Capital grants and contributions	66,315	73,072	-	-	66,315	73,072
General Revenues:						
Property taxes	8,716,917	8,335,016	-	-	8,716,917	8,335,016
Other taxes	2,588,813	2,368,826	-	-	2,588,813	2,368,826
Grants and contributions not restricted to specific programs	614,668	709,922	-	-	614,668	709,922
Other	187,447	184,051	3,918	1,465	191,365	185,516
Total revenues	18,089,402	17,976,122	635,508	616,095	18,724,910	18,592,217
Expenses:						
General government	3,820,220	4,357,812	-	-	3,461,025	4,357,812
Public safety	4,975,523	4,957,452	-	-	4,708,431	4,957,452
Transportation	691,275	678,394	-	-	693,347	678,394
Economic and physical development	622,778	665,869	-	-	668,235	665,869
Human services	4,698,697	4,958,902	-	-	4,746,085	4,958,902
Cultural and recreation	603,747	631,549	-	-	601,866	631,549
Education	1,861,288	1,733,490	-	-	1,750,745	1,733,490
Interest on long-term debt	202,712	236,710	-	-	264,595	236,710
Water and sewer	-	-	1,059,144	1,065,321	1,059,144	1,065,321
Total expenses	17,476,240	18,220,178	1,059,144	1,065,321	17,905,210	19,285,499
Increase in net position before transfers and special items	613,162	(244,056)	(423,636)	(449,226)	401,422	(693,282)
Transfers and special items	-	16,640	-	-	-	16,640
Increase in net position	613,162	(227,416)	(423,636)	(449,226)	189,526	(676,642)
Net position, beginning previously reported	15,659,379	15,963,674	6,334,347	6,783,573	21,993,726	22,747,247
Restatement	(1,907,032)	(76,879)	(29,471)	-	(1,936,503)	(76,879)
Net position, beginning restated	13,752,347	15,886,795	6,304,876	6,783,573	22,057,223	22,670,368
Net position, ending	\$ 14,365,509	\$ 15,659,379	\$ 5,881,240	\$ 6,334,347	\$ 20,246,749	\$ 21,993,726

Business-type activities - Business-type activities decreased the County's net position by \$423,636, which was mainly due to depreciation of fixed assets.

Financial Analysis of the County's Funds

As noted earlier, Clay County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The General Fund is the chief operating fund of Clay County. At the end of the current fiscal year, Clay County's fund balance unassigned in the General Fund was \$2,890,012 while total fund balance reached \$4,404,170. The Governing Body of Clay County has determined that the county should maintain an available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the County. The County currently has an available fund balance of 13.14% of general fund expenditures, while total fund balance represents 20.03% of that same amount.

At June 30, 2018, the governmental funds of Clay County reported a combined fund balance of \$4,594,262, an increase of \$462,305 over last year.

General Fund Budgetary Highlights: During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased all revenues by \$1,370,817.

Proprietary Funds - Clay County's proprietary fund provides the same type of information found in the government-wide statements but in more detail. The unrestricted net position of the Water and Sewer District amounted to \$119,253. The total decrease in net position for this fund was \$423,636. Other factors concerning the finances of these funds have already been addressed in the discussion of Clay County's business-type activities.

Capital Asset and Debt Administration

Capital assets - Clay County's capital assets for its governmental and business – type activities as of June 30, 2018, total \$ 26,837,686 (net of accumulated depreciation). These assets include buildings, water and sewer lines, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

Three patrol cars for the Sheriff's Office	\$ 86,679
Mini-Bus for the Transportation Department	51,808
One Ambulance for Emergency Medical Services	224,939
One AWD – Emergency Management	37,882
Voting Machine Scanners – Board of Elections	65,410
Concession Stand – Recreation Park	58,962
Loading Dock – Solid Waste Transfer Station	20,500

Clay County's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business - Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 853,478	\$ 839,820	\$ 120,280	\$ 120,280	\$ 973,758	\$ 960,100
Buildings and System	16,509,770	17,268,732	5,631,123	6,085,849	22,140,893	23,354,581
Improvements Other than Buildings	1,015,544	1,021,180	-	-	1,015,544	1,021,180
Machinery and Equipment	1,366,903	1,546,676	8,244	13,181	1,375,147	1,559,857
Vehicles and Motorized Equipment	1,330,004	1,217,736	2,340	3,780	1,332,344	1,221,516
Total	\$ 21,075,699	\$ 21,894,144	\$ 5,761,987	\$ 6,223,090	\$ 26,837,686	\$ 28,117,234

Additional information on the County's capital assets can be found in Note III.A.5 of the Basic Financial Statements.

Long-term Debt - As of June 30, 2018, Clay County had total bonded debt outstanding of \$ 65,000 all of which is debt backed by the full faith and credit of the County.

Clay County's Outstanding Debt

Figure 5

	Governmental Activities		Business - Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bond	\$ 65,000	\$ 175,000	\$ -	\$ -	\$ 65,000	\$ 175,000
Installment purchases	7,572,888	8,630,464	-	-	7,572,888	8,630,464
Capitalized leases	20,398	29,948	-	-	20,398	29,948
Notes payable	-	-	11,000	23,000	11,000	23,000
Net Pension Obligation (LEOSSA)	151,250	176,612	-	-	151,250	176,612
Net Pension Obligation (LGERS)	1,384,702	2,107,094	42,039	71,907	1,426,741	2,179,001
Other Post Employment Benefits	3,262,546	1,225,978	93,489	59,716	3,356,035	1,285,694
Compensated Absences	294,510	350,403	4,060	10,960	298,570	361,363
Total	\$ 12,751,294	\$ 12,695,499	\$ 150,588	\$ 165,583	\$ 12,318,526	\$ 12,861,082

Clay County's indebtedness decreased by \$542,556 during the fiscal year ending June 30, 2018. The county paid down the principal debt obligations and experienced a significant decrease in the Net Pension Obligations but these reductions were offset substantially by the increase in the Other Post Employment Benefits liability due to the implementation of GASB 75.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Clay County is \$172,548,895.

Additional information regarding Clay County's long-term debt can be found in Note III.B.7 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the slowing growth of the County.

- The County has experienced a decline in the past years in the housing and land development market, which has decreased the need for services, such as permits and inspections, and also stabilized the tax base for the County.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: Property taxes and revenues are expected to remain stable. The County will use the revenues to reduce debt currently in place.

Budgeted expenditures in the General Fund are expected to increase to \$21,985,579. This is an increase over the prior fiscal year and is substantially related to financing an estimated \$3,404,000 match to secure a \$10,212,000 state lottery fund grant for the purpose of constructing a new Primary School for the Clay County Board of Education.

The County has chosen not to appropriate fund balance in the original fiscal year 2018 budget. In the spring of 2018, the citizens of Clay County passed a one-quarter cent sales tax referendum by a two to one margin. The funds from this program will provide resources necessary to fund initiatives in Public Safety and Public Education. The sales tax increase will begin October 1, 2018.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Clay County, P.O. Box 118, Hayesville, NC 28904 at 828-389-0089.

BASIC FINANCIAL STATEMENTS

Clay County, North Carolina
Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Clay County ABC Board
ASSETS				
Cash and cash equivalents	3,676,988	\$ 194,703	\$ 3,871,691	\$ 356,407
Restricted cash	-	92,300	92,300	
Receivables (net)	1,422,590	101,900	1,524,490	
Due from other governments	441,748	-	441,748	
Inventories	-	-	-	263,773
Internal Balances	31,244	(31,244)	-	-
Prepaid Items	118,601	-	118,601	6,217
Net pension asset	25,685	-	25,685	-
Capital assets:				
Land, improvements, and construction in progress	853,478	120,280	973,758	25,000
Other capital assets, net of depreciation	20,222,221	5,641,707	25,863,928	267,352
Total capital assets	21,075,699	5,761,987	26,837,686	292,352
Total assets	26,792,555	6,119,646	32,912,201	918,749
DEFERRED OUTFLOWS OF RESOURCES	1,236,904	36,071	1,272,975	-
LIABILITIES				
Accounts payable and accrued expenses	361,386	24,363	385,749	162,445
Customer Deposits	-	92,300	92,300	-
Long-term liabilities:				
Due within one year	1,537,383	11,000	1,548,383	-
Due in more than one year	11,205,813	139,589	11,345,402	4,318
Total liabilities	13,104,582	267,252	13,371,834	166,763
DEFERRED INFLOWS OF RESOURCES	559,253	7,225	566,478	-
NET POSITION				
Net Investment in capital assets	13,831,232	5,761,987	19,593,219	292,352
Restricted				
Stabilization of State Statute	1,469,203	-	1,469,203	-
Register of Deeds	39,370	-	39,370	-
Public Safety	88,206	-	88,206	-
Industrial Purposes	88,078	-	88,078	-
Working Capital	-	-	-	73,385
Unrestricted (deficit)	(1,150,580)	119,253	(1,031,327)	386,249
Total net position	\$ 14,365,509	\$ 5,881,240	\$ 20,246,749	\$ 751,986

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

Clay County, North Carolina
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Clay County ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 3,820,220	\$ 120,647	\$ 154,383	\$ -	\$ (3,545,190)	\$ -	\$ (3,545,190)	\$ -
Public safety	4,975,523	955,246	197,058	-	(3,823,219)	-	(3,823,219)	-
Transportation	691,275	135,906	395,988	54,315	(105,066)	-	(105,066)	-
Economic and physical developmer	622,778	412,519	54,337	12,000	(143,922)	-	(143,922)	-
Environmental Protection	-	-	-	-	-	-	-	-
Human services	4,698,697	861,410	2,395,928	-	(1,441,359)	-	(1,441,359)	-
Cultural and recreation	603,747	205,699	-	-	(398,048)	-	(398,048)	-
Education	1,861,288	-	26,121	-	(1,835,167)	-	(1,835,167)	-
Interest on long-term debt	202,712	-	-	-	(202,712)	-	(202,712)	-
Total governmental activities	17,476,240	2,691,427	3,223,815	66,315	(11,494,683)	-	(11,494,683)	-
Business-type activities:								
Water and Sewer	1,059,144	631,590	-	-	-	(427,554)	(427,554)	-
Total business-type activities	1,059,144	631,590	-	-	-	(427,554)	(427,554)	-
	\$ 18,535,384	\$ 3,323,017	\$ 3,223,815	\$ 66,315	(11,494,683)	(427,554)	(11,922,237)	-
Component unit:								
ABC Board	2,458,665	2,467,339	-	-	-	-	-	8,674
Total component unit	2,458,665	2,467,339	-	-	-	-	-	8,674
General revenues:								
Taxes:								
Property taxes, levied for general purpose					8,716,917	-	8,716,917	-
Local option sales tax					2,476,823	-	2,476,823	-
Other taxes and licenses					111,990	-	111,990	-
Grants and contributions not restricted to specific programs					614,668	-	614,668	-
Investment earnings, unrestricted					60,713	3,918	64,631	318
Miscellaneous, unrestricted					126,734	-	126,734	-
Total general revenues excluding transfers and special items					12,107,845	3,918	12,111,763	318
Special item- gain on sale of building					-	-	-	-
Total general revenues, special items, and transfers					12,107,845	3,918	12,111,763	8,992
Change in net position					613,162	(423,636)	189,526	8,992
Net position, beginning, previously reported					15,659,379	6,334,347	21,993,726	742,994
Restatement					(1,907,032)	(29,471)	(1,936,503)	-
Net position, beginning, restated					13,752,347	6,304,876	20,057,223	-
Net position, ending					\$ 14,365,509	\$ 5,881,240	\$ 20,246,749	\$ 751,986

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

**Clay County, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018**

	Non-Major		
	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,469,880	\$ 207,108	\$ 3,676,988
Restricted cash	-	-	-
Receivables, net	1,376,319	46,271	1,422,590
Due from other governments	441,748	-	441,748
Due from other funds	51,968	8,184	60,152
Prepaid items	118,601	-	118,601
Total assets	<u>\$ 5,458,516</u>	<u>\$ 261,563</u>	<u>\$ 5,720,079</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 343,743	\$ 17,642	\$ 361,385
Due to Other Funds	8,184	20,724	28,908
Total liabilities	<u>351,927</u>	<u>38,366</u>	<u>390,293</u>
DEFERRED INFLOWS OF RESOURCES	<u>702,419</u>	<u>33,105</u>	<u>735,524</u>
Fund balances:			
Nonspendable:			
Prepays	118,601	-	118,601
Restricted:			
Stabilization by State Statute	1,456,037	13,166	1,469,203
Register of Deeds	39,370	-	39,370
Fire Protection	-	642	642
Other	-	176,284	176,284
Committed:			
Tax Revaluation	41,250	-	41,250
Assigned :			
Subsequent year's expenditures	-	-	-
Unassigned :	<u>2,748,912</u>	<u>-</u>	<u>2,748,912</u>
Total fund balances	<u>4,404,170</u>	<u>190,092</u>	<u>4,594,262</u>
Total liabilities and fund balances	<u>\$ 5,458,516</u>	<u>\$ 261,563</u>	

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total Fund balance, Governmental Funds	4,594,262
Charges related to advance refunding bond issue	-
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,075,699
Net pension asset	25,685
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position	454,202
Contributions and pension administration costs for OPEB are deferred outflows of resources on the Statement of Net Position	109,457
Benefit payments and pension administration costs for LEOSSA are deferred outflow of resources on the Statement of Net Position	14,994
Pension related deferrals	561,448
OPEB related deferrals	(166,047)
Net Pension Liability	(1,384,702)
Net OPEB Liability	(3,262,546)
Total Pension Liability	(151,250)
Deferred inflows of resources for taxes and special assessments receivable	447,103
Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds	<u>(7,952,796)</u>
Net position of governmental activities	<u>14,365,509</u>

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

Clay County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds</u>
REVENUES			
Ad valorem taxes	\$ 8,264,522	\$ 483,916	\$ 8,748,438
Local option sales taxes	2,476,823	-	2,476,823
Other taxes and licenses	143,434	-	143,434
Unrestricted intergovernmental	400,669	-	400,669
Restricted intergovernmental	3,862,704	144,416	4,007,120
Permits and fees	699,303	-	699,303
Sales and services	1,457,689	-	1,457,689
Investment earnings	59,360	1,353	60,713
Miscellaneous	103,884	-	103,884
Total revenues	<u>17,468,388</u>	<u>629,685</u>	<u>18,098,073</u>
EXPENDITURES			
Current:			
General government	2,993,411	-	2,993,411
Public safety	4,445,577	633,270	5,078,847
Transportation	660,452	-	660,452
Economic and physical development	632,582	-	632,582
Human services	4,431,836	-	4,431,836
Cultural and recreational	620,164	-	620,164
Intergovernmental:			
Education	1,861,288	-	1,861,288
Capital outlay	-	-	-
Debt service:			
Principal	1,488,944	-	1,488,944
Interest	202,712	-	202,712
Total expenditures	<u>17,336,966</u>	<u>633,270</u>	<u>17,970,236</u>
Excess (deficiency) of revenues over expenditures	<u>131,422</u>	<u>(3,585)</u>	<u>127,837</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Sale of capital assets	22,850	-	22,850
Capitalized lease obligations issued	-	-	-
Installment purchase obligations issued	311,618	-	311,618
Payment to refunded bond escrow agent	-	-	-
Total other financing sources and uses	<u>334,468</u>	<u>-</u>	<u>334,468</u>
Net change in fund balance	465,890	(3,585)	462,305
Fund balances, beginning	3,938,280	193,677	4,131,957
Restatement	-	-	-
Fund balance, beginning restated	3,938,280	193,677	4,131,957
Fund balances, ending	<u>\$ 4,404,170</u>	<u>\$ 190,092</u>	<u>\$ 4,594,262</u>

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

Clay County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

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

Net changes in fund balances - total governmental funds	\$	462,305
<p>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 outlay exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	\$	(818,445)
Depreciation expense for governmental assets	\$	(1,459,692)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		455,624
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position		14,994
Contributions and pension administration costs for OPEB are deferred outflows of resources on the Statement of Net Position		108,035
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		(20,276)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,177,326
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(766,401)</u>
Total changes in net position of governmental activities	<u>\$</u>	<u>613,162</u>

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

Clay County, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 8,328,952	\$ 8,328,952	\$ 8,264,522	\$ (64,430)
Local option sales tax	2,353,550	2,388,562	2,476,823	88,261
Other taxes and licenses	110,700	129,825	143,434	13,609
Unrestricted intergovernmental	372,000	402,638	400,669	(1,969)
Restricted intergovernmental	3,885,293	4,556,610	3,862,704	(693,906)
Permits and fees	597,053	724,360	699,303	(25,057)
Sales and services	1,344,367	1,605,511	1,457,689	(147,822)
Investment earnings	15,500	50,500	59,360	8,860
Miscellaneous	44,550	235,824	103,884	(131,940)
Total revenues	<u>17,051,965</u>	<u>18,422,782</u>	<u>17,468,388</u>	<u>(954,394)</u>
Expenditures				
Current:				
General government	2,987,758	3,266,943	2,993,411	273,532
Public safety	4,077,245	4,280,852	4,445,577	(164,725)
Transportation	744,954	746,289	660,452	85,837
Economic and physical development	612,964	676,207	632,582	43,625
Human services	4,561,524	5,229,865	4,431,836	798,029
Cultural and recreational	544,564	649,214	620,164	29,050
Intergovernmental:				
Education	1,750,000	1,865,210	1,861,288	3,922
Debt service:				
Principal retirement	1,572,323	1,572,323	1,488,944	83,379
Interest and other charges	200,633	200,633	202,712	(2,079)
Total expenditures	<u>17,051,965</u>	<u>18,487,536</u>	<u>17,336,966</u>	<u>1,150,570</u>
Revenues over (under) expenditures	-	(64,754)	131,422	196,176
Other financing sources (uses):				
Installment Obligations Issued	-	-	311,618	311,618
Transfer to other funds	-	-	-	-
Transfer from other funds	-	54,054	-	(54,054)
Capitalized lease obligations issued	-	-	-	-
Sale of capital assets	-	10,700	22,850	12,150
Total other financing sources (uses)	<u>-</u>	<u>64,754</u>	<u>334,468</u>	<u>269,714</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>465,890</u>	<u>465,890</u>
Appropriated Fund Balance	-	-	-	-
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>-</u>	<u>465,890</u>	<u>-</u>
Fund balance, beginning			3,938,280	
Restatement			-	
Fund balance, beginning restated			<u>3,938,280</u>	
Fund balance, ending			<u>\$ 4,404,170</u>	

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

Clay County, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2018

	Water and Sewer District	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 194,703	\$ 194,703
Receivables, net	101,900	101,900
Total current assets	296,603	296,603
Noncurrent assets:		
Restricted cash and cash equivalents	92,300	92,300
Capital assets:		
Land and construction in progress	120,280	120,280
Plant and distribution systems, net of depreciation	5,633,423	5,633,423
Furniture and maintenance equipment, net of depreciation	5,944	5,944
Vehicles, net of depreciation	2,340	2,340
Total capital assets	5,761,987	5,761,987
Total noncurrent assets	5,854,287	5,854,287
Total assets	6,150,890	6,150,890
DEFERRED OUTFLOWS OF RESOURCES	36,071	36,071
LIABILITIES		
Current liabilities:		
Accounts payable	24,363	24,363
Due to other funds	31,244	31,244
Notes Payable- current	11,000	11,000
Customer deposits	92,300	92,300
Total current liabilities	158,907	158,907
Noncurrent liabilities:		
Total OPEB Liability	93,489	93,489
Compensated absences	4,061	4,061
Net Pension Liability	42,039	42,039
Notes Payable- noncurrent	-	-
Total noncurrent liabilities	139,589	139,589
Total liabilities	298,496	298,496
DEFERRED INFLOWS OF RESOURCES	7,225	7,225
NET ASSETS		
Net investment in capital assets	5,761,987	5,761,987
Unrestricted	119,253	119,253
Total net position	5,881,240	5,881,240

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

Clay County, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	<u>Water and Sewer District</u>	<u>Total</u>
OPERATING REVENUES		
Charges for services	\$ 574,006	\$ 574,006
Water and sewer taps	6,875	6,875
Miscellaneous	50,709	50,709
Total operating revenues	<u>631,590</u>	<u>631,590</u>
OPERATING EXPENSES		
Administration	522,458	522,458
Depreciation	535,536	535,536
Total operating expenses	<u>1,057,994</u>	<u>1,057,994</u>
Operating income (loss)	<u>(426,404)</u>	<u>(426,404)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest and investment revenue	3,918	3,918
Interest expense and fees	(1,150)	(1,150)
Total nonoperating revenue (expenses)	<u>2,768</u>	<u>2,768</u>
Income (loss) before contributions and transfers	(423,636)	(423,636)
Capital Contributions	-	-
Transfers from General	-	-
Change in net position	(423,636)	(423,636)
Total net position, beginning	\$ 6,334,347	\$ 6,334,347
Net position, beginning, restated	\$ 6,304,876	\$ 6,304,876
Total net position, ending	<u>\$ 5,881,240</u>	<u>\$ 5,881,240</u>

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

Exhibit 9

Clay County, North Carolina
 Statement of Cash Flows
 Enterprise Fund
 For The Fiscal Year Ended June 30, 2018

	Water and Sewer District	Totals June 30, 2018
Cash flows from operating activities:		
Cash received from customers	\$ 586,734	\$ 586,734
Cash paid for goods and services	(301,957)	(301,957)
Cash paid to employees for services	(207,424)	(207,424)
Change in customer deposits	3,081	3,081
Other operating revenue	50,709	50,709
Net cash provided by operating activities	<u>131,143</u>	<u>131,143</u>
Cash flows from noncapital financing		
Transfer from other funds	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(58,433)	(58,433)
Principal paid on notes payables and installment purchases	(12,000)	(12,000)
Interest paid on note payable and installment purchases	(1,150)	(1,150)
Capital contributions	-	-
Net cash used by capital and related financing activities	<u>(71,583)</u>	<u>(71,583)</u>
Cash flows from investing activities:		
Interest on investments	<u>3,918</u>	<u>3,918</u>
Net increase (decrease) in cash and cash equivalents	63,478	63,478
Cash and cash equivalents, beginning	223,525	223,525
Cash and cash equivalents, ending	<u>\$ 287,003</u>	<u>\$ 287,003</u>

(continued)

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

Exhibit 9

**Clay County, North Carolina
Statement of Cash Flows
Enterprise Fund
For The Fiscal Year Ended June 30, 2018**

**Reconciliation of operating income
to net cash provided by operating
activities:**

Operating income	<u>\$ (426,404)</u>	<u>\$ (426,404)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	535,536	535,536
Changes in assets and liabilities, and deferred outflows and inflows of resources:		
(Increase) decrease in accounts receivable	5,853	5,853
(Increase) decrease in sales tax receivable	(2,518)	(2,518)
Increase (decrease) in net pension liability	(29,868)	(29,868)
Increase (decrease) in accounts payable and accrued liabilities	(15,067)	(15,067)
Increase in due to other funds	31,244	31,244
(Decrease) in deferred inflow-Pensions	(53)	(53)
(Decrease) in accrued vacation pay	(6,899)	(6,899)
Increase in Total OPEB liability	4,302	4,302
Increase in deferred inflows- OPEB	4,758	4,758
(Increase) decrease deferred outflows of resources- OPEB	(2,682)	(2,682)
(Increase) decrease in deferred outflows of resources for pensions	29,860	29,860
Increase (decrease) in customer deposits	3,081	3,081
Total adjustments	<u>557,547</u>	<u>557,547</u>
Net cash provided by operating activities	<u>\$ 131,143</u>	<u>\$ 131,143</u>

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

**Clay County, North Carolina
Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018**

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 11,200</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued liabilities	\$ -
Miscellaneous liabilities	11,200
Intergovernmental payable	<u> </u>
Total liabilities	<u>11,200</u>
Net position:	
Assets held in trust	<u>\$ -</u>

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

**NOTES TO THE
FINANCIAL
STATEMENTS**

Clay County, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2018

I. Summary of Significant Accounting Policies

The accounting policies of Clay County and its component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component unit, legally separate entities for which the County is financially accountable. Clay County’s Water District (the *District*) exist to provide and maintain water systems for the County residents within the district. The District is reported as an enterprise fund in the County's financial statements. The Clay County ABC Board (the *Board*), which has a June 30 year end, is presented as if it is a separate proprietary fund of the County (discrete presentation). The blended presentation method presents component units as a department or unit of the County, and offers no separate presentation as with the discrete method.

Clay County Water District	Blended	Under State law [NCGS 162A-89], the County's board of commissioners also serve as the governing board for the District.	None issued.
Clay County ABC Board	Discrete	Members of ABC Board governing board are appointed by the County The ABC Board is required by State Statue to distribute its surplus to the General Fund of the County	Clay County ABC Board P.O. Box 182 Hayesville, NC 28904

B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government net position (the County) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. 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 County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

The County reports the following major governmental fund:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Tax Revaluation Fund is a legally budgeted fund under North Carolina General Statutes; however, for statement presentation in accordance with GASB Statement No. 54 it is consolidated in the General Fund.

The County reports the following major enterprise funds:

Water and Sewer District Fund. This fund is used to account for the operations of the water and sewer district within the County.

The County reports the following fund types:

Trust Funds. Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Other Postemployment Benefits Fund accounts for the County's contributions for healthcare coverage provided to qualified retirees.

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the County is required to remit to Clay County Board of Education; the Municipal

Tax Fund, which accounts for funds that are billed and collected by the County for various municipalities and special districts within the County but that are not revenues to the County; and the Deed of Trust Fee Fund which accounts for the five dollars of each fee collected by the register of deeds for registering or filing a deed of trust or mortgage and is remitted to the State Treasurer on a monthly basis.

Nonmajor Funds. The County maintains three legally budgeted non-major governmental funds. The Emergency Telephone System Fund, the Industrial Fund, the Fire District Fund.

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

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

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are

not considered to be an available resource to finance the operations of the current year. Since September 1, 2013, the State of North Carolina has been responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. These property taxes are due when vehicles are registered. Motor vehicle property tax revenues are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 are for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the County 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. All taxes, including those dedicated for specific purposes are reported as general revenue rather than program revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County 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 County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

C. Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Emergency Telephone, Fire District, and Tax Revaluation Special Revenue Funds, and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Reserve Special Revenue Fund, the Capital Projects Fund, and the Enterprise Capital Projects Funds. The Enterprise Capital Projects Funds are consolidated with the enterprise operating funds for reporting purposes.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. The governing board must approve all amendments. During the year, several immaterial amendments to the original budget were necessary. 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.

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

1. Deposits and Investments

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

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

The County and the ABC Board's investments are carried at fair value. Non-participating interest earning contracts are accounted for at cost. The NC Capital Management Trust Government Portfolio, a SEC-registered (2a-7) mutual fund, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The County pools moneys from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are considered cash and cash equivalents. The ABC Board consider demand deposits and investments with a maturity date of 90 days or less at time of purchase to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the County before any services are supplied are restricted to the service for which the deposit was collected. Money in the Tax Revaluation Fund is classified as restricted assets because its use is restricted per North Carolina General Statute 153A-150. The restricted cash of \$89,219 in the Water & Sewer fund is due to customer deposits.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2017. As allowed by State law, the County has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the County's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventories and Prepaid Items

The inventories of the County and the ABC Board are valued at cost (first-in, first-out), which approximates market. The County's General Fund inventory consists of expendable supplies that are recorded as expenditures when purchased. The inventory of the County's enterprise funds as well as the ABC Board consists of materials and supplies held for consumption or resale. The cost of the inventory carried in the ABC Board is recorded as an expense as it is consumed or sold.

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

7. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$2,000; and vehicles and motorized equipment, \$10,000 and computer software \$5,000. 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.

The County holds title to certain Clay County Board of Education properties that have not been included in capital assets. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board of Education give the Board of Education full use of the facilities, full responsibility for maintenance of the facilities, and provide that the County will convey title to the property back to the Board of Education, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met. The properties are reflected as capital assets in the financial statements of the Clay County Board of Education.

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

	<u>Years</u>
Buildings	30
Improvements	15
Furniture	7-10
Equipment	5-7
Vehicles	5
Computers	3
Infrastructure	20

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow 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 County has several items that meet this criterion- a charge on refunding, pension, and contributions made to the OPEB or pension plans in the current fiscal year. In addition to liabilities, the statement of financial position can also 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 County has three items that meet the criterion for the category - prepaid taxes, unearned revenues and other OPEB or pension related deferrals.

9. Long-term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statements of net position.

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

10. Compensated Absences

The vacation policy of the County provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County'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 sick leave policy of the County 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 County has no obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made.

11. 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 a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Restricted for Register of Deeds- portion of fund balance that is restricted by revenue source to pay for the computer equipment and imaging technology for the Register of Deed's office.

Restricted for Public Safety- portion of fund balance that is restricted by revenue source to pay for E911 expenditures.

Restricted for Industrial expenditures- portion of fund balance that is restricted by revenue source for industrial purposes.

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

Committed for Tax Revaluation – portion of fund balance that can only be used for Tax Revaluation.

Committed for LEO pension obligations – portion of fund balance that will be used for the Law Enforcement Officers' Special Separation Allowance obligations.

Assigned Fund Balance - portion of fund balance that the Clay County governing board has budgeted.

Subsequent year's expenditures- portion of fund balance that is appropriated in the next year's budget that is not already classified as restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

Clay County has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, and county funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and

lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it's in the best interest of the County.

Clay County has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the County in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures. Any portion of the General Fund balance in excess of 8% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the County in a future budget.

12. Defined Benefit Pension and OPEB Plans

The County participates in three cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State; the Local Governmental Employees' Retirement System (LGERs) and the Register of Deeds' Supplemental Pension Fund (RODSPF), and the Law Enforcement Officers' Special Separation Allowance (LEOSSA) (collectively, the "state-administered defined benefit pension plans"), and one other postemployment benefit plan (OPEB), the Healthcare Benefits Plan (HCB). For the purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the state-administered defined benefit pension plans and additions to/deductions from the state-administered defined benefit pension plans' fiduciary net positions have been determined on the same basis as they are reported by the state-administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The County's employer contributions are recognized when due and the County has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the HCB and additions to/deductions from the HCB's fiduciary net position have been determined on the same basis as they are reported by the HCB. For this purpose, the HCB recognized benefit payments when due and payable in accordance with the benefit terms. Investments for all plans are reported at fair value.

E. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes a reconciliation between total fund balance for the governmental funds and net position for governmental activities as reported in the government-wide statement of net position. The net adjustment of \$9,771,247 consists of the following:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 39,401,237
Less accumulated depreciation	<u>(18,325,538)</u>
Net capital assets	\$ 21,075,699
Benefit payments and pension administrative costs for LEOSSA	14,994
Contributions to OPEB plan in the current fiscal year	109,457
Contributions to the pension plan in the current fiscal year	454,202
Deferred inflows of resources for taxes and special assessments receivable	447,103
Net Pension asset	25,685
Pension related deferrals	561,448
OPEB related deferrals	<u>(166,047)</u>
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	(7,658,286)
Compensated absences	(294,510)
Total Pension liability	(151,250)
OPEB liability	(3,262,546)
Net Pension liability	<u>(1,384,702)</u>
Total adjustment	<u>\$ 9,771,247</u>

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$150,857) as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 641,247
Depreciation expense, the allocation of those assets over their useful lives that is recorded on the statement of activities but not in the fund statements	(1,459,692)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities – it affects only the government wide statement of net position	(311,818)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements	1,488,944
Contributions to the pension plan in the current fiscal year not included on the Statement of Activities	454,202
Contributions to the OPEB plan are deferred outflows of resources on the Statement of Net Position	109,457
Benefit payments and administrative costs for LEOSSA are deferred outflows of resources on the Statement of Net Position	14,994
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements	
Compensated absences	55,893
OPEB expense	(316,176)
Pension expense	(494,673)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements	
Increase in deferred inflows of resources- taxes receivable- at end of year	(31,521)
Total Adjustment	(<u>\$150,857</u>)

II. Stewardship, Compliance, and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the expenditures made in the County's General Fund exceeded the authorized appropriations made by the governing board for public safety expenditures by \$164,725. Interest and other charges also exceeded budgeted amounts by \$2,079. These over-expenditures occurred because the county failed to budget for unforeseen capital outlay needs. Management will establish procedures to ensure that all budgets are amended prior to expending funds so that they are in compliance in future years.

The Emergency Telephone System Fund also exceeded budgeted expenditures by \$4,280 for the fiscal year ending June 30, 2018. Management and the Board will review budget reports monthly to keep expenditures below budgeted amounts for future years.

For the fiscal year ended June 30, 2018, the expenditures in the Water and Sewer Fund exceeded the authorized appropriations made by the governing board for capital outlay expenditures by \$36,933. These over-expenditures occurred due to some unexpected capital improvements for new media at a wastewater plant. Management will review budget to actual reports to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All of the County's and the ABC Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County and the ABC Board these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or the ABC Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The County relies on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any other financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2018, the County’s deposits had a carrying amount of \$1,368,602 and a bank balance of \$1,552,248. Of the bank balance, \$638,168, was covered by federal depository insurance and \$914,080 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2018, Clay County had \$ 664 cash on hand.

At June 30, 2018, the Clay County ABC Board’s deposits had a carrying amount of \$354,707 and a bank balance of \$326,674. A portion of the bank balance, \$76,674, was not covered by federal depository insurance, but was covered by collateral held by authorized agents in the name of the State Treasurer.

Clay County ABC had \$1,700 cash on hand at June 30, 2018.

2. Investments

As of June 30, 2018, the County had the following investments and maturities.

Investment Type	Fair Value	Less Than	
		6 Months	6-12 Months
NC Capital Management Trust – Govt Portfolio	\$ 2,605,925	N/A	N/A
Total	\$ 2,605,925	\$ -0-	\$ -0-

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County’s investment policy limits at least half of the County’s investment portfolio to maturities of less than 12 months. Also, the County’s investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than three years.

Credit Risk. The County limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The County’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2018.

3. Property Tax - Use-Value Assessment on Certain Lands

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year			
Levied	Tax	Interest	Total
2015	\$430,118	\$105,379	\$535,497
2016	\$442,867	\$68,644	\$511,511
2017	\$446,427	\$29,018	\$475,445
2018	\$451,451		\$451,451
Total	\$1,770,863	\$203,041	\$1,973,904

4. Receivables

Receivables at the government-wide level at June 30, 2018, were as follows:

	Accounts	Taxes and Related Accrued Interest	Total
Governmental Activities:			
General	\$ 962,321	\$ 517,099	\$ 1,479,420
Other governmental	13,166	33,105	46,271
Total Receivables			
Allowance for doubtful accounts	-	(103,101)	(103,101)
Total-governmental activities	\$ 975,487	\$ 447,103	\$ 1,422,590
Business Activities:			
Water and Sewer	\$ 101,900	-	\$ 101,900
Total Receivables	101,900	-	101,900
	-	-	-
Total business-type Activities	\$ 101,900	-	\$ 101,900

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

Local option sales tax	\$ 431,125
Franchise fee	5,463
White goods disposal tax	1,093
Scrap tire tax	4,067
Total	<u>\$ 441,748</u>

The due to/from other funds is expected to be repaid within the next year and is as follows:

Due to General	\$ 20,724	Due from Emergency Telephone System Fund
Due to General	\$ 31,244	Due from Water & Sewer
Due from General	\$ 8,184	Due to Fire Tax Fund

Due to General from Emergency Telephone System Fund and Water & Sewer Fund is for a reimbursement of expenses.

Due from General to Fire Tax Fund is collection of fire taxes for the month of June 2018.

5. Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 839,820	\$ -	\$ -	\$ 839,820
Construction in progress	-	13,658	-	13,658
Total capital assets not being depreciated	\$ 839,820	13,658	\$ -	\$ 853,478
Capital assets being depreciated:				
Buildings	26,202,805	79,461	-	26,282,266
Other improvements	2,393,528	-	-	2,393,528
Equipment	5,250,798	146,820	-	5,397,618
Vehicles and motor equipment	4,251,832	401,308	178,793	4,474,347
Total capital assets being depreciated	\$ 38,098,963	\$ 627,589	\$ 178,793	\$ 38,547,759
Less accumulated depreciation for:				
Buildings	8,934,073	838,423	-	9,772,496
Other improvements	1,372,348	5,636	-	1,377,984
Equipment	3,704,122	326,593	-	4,030,715
Vehicles	3,034,096	289,040	178,793	3,144,343
Total accumulated depreciation	17,044,639	1,459,692	178,793	18,325,538
Total capital assets being depreciated, net	\$ 21,054,324			\$ 20,222,221
Governmental activity capital assets, net	\$ 21,894,144			\$ 21,075,699

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

General government	\$ 663,293
Public safety	313,195
Transportation	80,743
Economic and Physical development	11,668
Human services	339,366
Cultural and recreational	51,427
Total Depreciation expense	<u>\$ 1,459,692</u>

**Business-type activities:
Water and Sewer District**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 120,280	-	-	\$ 120,280
Construction in progress	-	-	-	-
Total capital assets not being depreciated	120,280	-	-	120,280
Capital assets being depreciated:				
Plant and distribution systems	11,663,051	74,433	-	11,737,484
Furniture and maintenance equipment	157,966	-	-	157,966
Vehicles	14,200	-	-	14,200
Total capital assets being depreciated	11,835,217	74,433	-	11,909,650
Less accumulated depreciation for:				
Plant and distribution systems	5,577,202	529,159	-	6,106,361
Furniture and maintenance equipment	144,785	4,937	-	149,722
Vehicles	10,420	1,440	-	11,860
Total accumulated depreciation	5,732,407	535,536	-	6,267,943
Water and Sewer District capital assets, net	<u>\$6,223,090</u>			<u>\$5,761,987</u>

Construction commitments

Clay County had a signed contract for a project at the Clay County Recreation fields. The total contract price was \$73,750 but no funds had been spent or billed as of year end. The contract was signed on June 19, 2018.

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2018, was as follows:

	Beginning balances	additions	deletions	Ending balances
Capital assets not being depreciated:				
Land	\$ 25,000	-	-	\$ 25,000
Total capital assets not being depreciated	\$ 25,000	-	-	\$ 25,000
Capital assets being depreciated:				
Building	\$ 252,472	634	-	\$ 253,106
Leasehold Improvements	3,441	-	-	3,441
Store equipment	111,108	18,143	-	129,251
Total capital assets being depreciated	\$ 367,021	\$ 18,777	-	\$ 385,798
Less accumulated depreciation for:				
Buildings	\$ 20,955	\$ 9,590	-	\$ 30,545
Leasehold Improvements	3,441	-	-	3,441
Store equipment	74,665	9,795	-	84,460
Total accumulated depreciation	\$ 99,061	\$ 19,385	-	\$ 118,446
Total capital assets being depreciated, net	\$ 267,960	\$ (608)	-	\$ 267,352
ABC capital assets, net	\$ 292,960			\$ 292,352

B. Liabilities**1. Payables**

Payables at the government-wide level at June 30, 2018, were as follows:

	Vendors	Other	Total
Governmental activities:			
General	\$ 343,743		\$ 343,743
Other governmental	17,642		17,642
Total governmental activities	\$ 361,385		\$ 361,385
Business-type activities:			
Water and Sewer District	\$ 24,363		\$ 24,363
Total business-type activities	\$ 24,363		\$ 24,363

2. Pension Plan and other Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The County's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.50% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the County were \$464,011 for the year ended June 30, 2018. Contributions to the pension plan from the ABC Board were \$9,733 for the same period.

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

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

At June 30, 2018, the County reported a liability of \$1,426,741 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The County’s proportion of the net pension liability was based on projection of the County’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the County’s proportion was .09339%, which was a decrease of .10267% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$502,602. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$82,193	\$40,387
Net difference between projected and actual earnings on pension plan investments	346,414	
Changes in proportion and differences between County contributions and proportionate share of contributions	\$36,804	\$43,356
County contributions subsequent to the measurement date	467,874	
Change of assumptions	203,758	
Total	<u>\$1,137,043</u>	<u>\$83,743</u>

\$467,874 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$	88,840
2020		413,453
2021		200,297
2022		(117,163)
2023		
Thereafter		-
	\$	<u>585,427</u>

The fiscal year ended June 30, 2018 was the first year for Clay County ABC to participate in the plan. At June 30, 2018, the Board's proportionate share of the net pension liability was not reflected in the financial statements because they did not start participating in the plan until after the date of the last actuarial valuation. The pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension was considered immaterial.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the net pension liability to changes in the discount rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the County's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease <u>(6.20%)</u>	Discount Rate (7.20%)	1% Increase <u>(8.20%)</u>
County's proportionate share of the net pension liability (asset)	4,283,107	1,426,741	(957,424)

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

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

Clay County administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years

of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitle to but not yet receiving benefits	0
Active plan members	<u>13</u>
Total	<u>16</u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

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

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

3. Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.5 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16%

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

Mortality rates are based on the RP-2014 Mortality tables with adjustment for mortality improvements based on a Scale AA.

4. Contributions.

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made

in the General Fund operating budget. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are financed through investment earnings. The County paid \$25,400 as benefits came due for the reporting period.

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

At June 30, 2018, the County reported a total pension liability of \$151,250. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the County recognized pension expense of \$12,627.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 19,300
Change of assumptions	\$ 6,732	\$ 2,117
County benefits payments and plan administrative expenses subsequent to the measurement date	<u>\$ 14,994</u>	
Total	<u><u>\$ 21,726</u></u>	<u><u>\$ 21,417</u></u>

The County paid \$14,994 in benefit payments subsequent to the measurement date that are reported as deferred outflows of resources related to pensions which will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (3,402)
2020	(3,402)
2021	(3,402)
2022	(3,363)
2023	(1,116)
Thereafter	0

Sensitivity of the County's total pension liability to changes in the discount rate. The following presents the County's total pension liability calculated using the discount rate of 3.16 percent, as well as what the County's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease 2.16%	Discount Rate (3.16%)	1% Increase 4.16%
Total pension liability	\$ 162,494	\$ 151,250	\$ 141,118

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

	2018
Beginning balance	\$ 176,612
Service Cost	9,142
Interest on the total pension liability	6,327
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(23,696)
Changes of assumptions or other inputs	8,265
Benefit payments	(25,400)
Other changes	-
Ending balance of the total pension liability	<u>\$ 151,250</u>

Changes of assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.86% to 3.16% at June 30, 2017.

Changes in Benefit Terms. Reported compensation adjusted to reflect the assumed rate of pay as of the valuation date.

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. 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 County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

The County contributed \$30,803 for the reporting year. No amounts were forfeited.

d. Registers of Deeds' Supplemental Pension Fund

Plan Description. Clay County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, cost-sharing multiple employer defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consist of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Registers of Deeds' Supplemental 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 Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least 10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

Contributions. Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and for the foreseeable future is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the county were \$3,998 for the year ended June 30, 2018.

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

At June 30, 2018 the County reported an asset of \$25,685 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the

actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2017 the County's proportion was .15048% which was a decrease of .15135% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$5,698. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$441	\$83
Net difference between projected and actual earnings on pension plan investments	\$2,183	
Changes in proportion and differences between County contributions and proportionate share of contributions	\$1,082	
County contributions subsequent to the measurement date	\$1,422	
Change of assumptions	\$4,334	
Total	<u>\$ 9,462</u>	<u>\$83</u>

\$1,422 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$4,796
2020	2,355
2021	250
2022	557
2023	-
Thereafter	-
	<u><u>\$7,958</u></u>

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 7.75 percent, including inflation and productivity factor
Investment rate of return	3.75 percent, net of pension plan investment expenses, including inflation

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through the review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2017 is 1.4%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate. The following presents the County’s proportionate share of the net pension asset calculated using the discount rate of 3.75%, as well as what the County’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75 percent) or 1-percentage point higher (4.75 percent) than the current rate:

	1% Decrease <u>(2.75%)</u>	Discount Rate (3.75%)	1% Increase <u>(4.75%)</u>
County's proportionate share of the net pension liability (asset)	(20,188)	(25,685)	(30,308)

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

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

The net pension liability for LGERS and ROD was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability for LEOSSA was measured as of June 30, 2017, with an actuarial valuation date of December 31, 2016. The County's proportion of the net pension liability was based on the County's share of contributions to the pension plan relative to the contribution of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>LGERS</u>	<u>ROD</u>	<u>LEOSSA</u>	<u>TOTAL</u>
Proportionate Share of Net Pension Liability (Asset)	\$ 1,426,741	\$ (25,685)	\$ -	\$ 1,401,056
Proportion of the Net Pension Liability (Asset)	0.09339%	0.15048%	n/a	
Total Pension Liability	-	-	\$ 151,250	\$ 151,250
Pension Expense	\$ 502,602	\$ 4,090	\$ 12,627	\$ 519,319

At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>LGERS</u>	<u>ROD</u>	<u>LEOSSA</u>	<u>TOTAL</u>
<i><u>Deferred Outflows of Resources:</u></i>				
Differences between expected and actual experience	\$ 82,193	\$ 441	\$ -	\$ 82,634
Change of assumptions	\$ 203,758	\$ 4,334	\$ 6,732	\$ 214,824
Net difference between projected and actual earnings on pension plan investments	\$ 346,414	\$ 2,183	\$ -	\$ 348,597
Changes in proportion and differences between County contributions and proportionate share of contributions	\$ 36,804	\$ 1,082	\$ -	\$ 37,886
County contributions (LGERS, ROD)/ benefit payments and administrative costs (LEOSSA) subsequent to the measurement date	\$ 467,874	\$ 1,422	\$ 14,994	\$ 484,290
<i><u>Deferred Inflows of Resources</u></i>				
Differences between expected and actual experience	\$ 40,387	\$ 83	\$ 19,300	\$ 59,770
Changes of assumptions	\$ -	\$ -	\$ 2,117	\$ 2,117
Changes in proportion and differences between County contributions and proportionate share of contributions	\$ 43,356			\$ 43,356

f. Other Post Employment Benefits - Clay County

Healthcare Benefits

Plan Description. Under the terms of a County resolution, the County administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The plan provides postemployment healthcare benefits to retirees of the County, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the County. The County pays the full cost of coverage for these benefits through private insurers. The Board of Commissioner may amend the benefit provisions. A separate report was not issued for the plan.

Sworn Officers who meet any of the retirement conditions set forth under the provisions of the NCLGERS and have (1) obtained age 55 and have completed 10 years of service with the County or (2) have completed 20 years of service with the County are eligible to remain on the County's retiree health care plan.

General employees who meet any of the retirement conditions set forth under the provisions of the NCLGERS and have (1) obtained age 60 and have completed 10 years of service with the County or (2) have completed 15 years of service with the County are eligible to remain on the County's retiree health care plan.

Membership of the HCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation

Membership Data as of June 30, 2017:

Inactive Members or Beneficiaries Currently Receiving Benefits	13
Inactive Members Entitled to But Not Yet Receiving Benefits	0
Active Members	<u>174</u>
Total Membership	187

Benefits Provided. The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees that choose Plan 1 Retiree only coverage, \$605.01 per month under a County resolution that can be amended by Board of Commissioners. The retiree is responsible for premiums in excess of this amount. Employees who leave employment without meeting the requirements described above cannot remain on the health plan. Health care and prescription drugs are provided in the County's fully-insured health care plan until the retiree reaches Medicare eligibility. Dental coverage is available, and must be paid in full by the retiree. Dependent coverage cost must be paid in full by the retiree and ends at the earlier of the retiree's death, the retiree reaching age 65, or when the dependent reaches age 65. The County has chosen to fund the healthcare benefits on a pay as you go basis.

	PLAN 1	PLAN 2	PLAN 3		
Retiree Only	\$ 605.01	\$ 640.45	\$ 701.50		
Retiree and Spouse	\$1,210.04	\$1,280.89	\$1,402.98		
Retiree and Child(ren)	\$1,058.78	\$1,120.77	\$1,227.61		
Family	\$1,361.30	\$1,441.01	\$1,578.36		

Total OPEB Liability

The County's total OPEB liability of \$3,356,035 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Salary increases, including wage inflation	
General employees	3.5% - 7.75%
Law Enforcement Officers	3.5% - 7.35%
Real wage growth	1.00%
Wage inflation	3.5%
Municipal Bond Index Rate	
Prior Measurement Date	3.01%

Measurement Date	3.56%
Health Care Cost Trends	
Pre-Medicare	7.5% for 2017 decreasing to an ultimate rate of 5% by 2023

The discount rate used to measure the TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer.

Changes in the Total OPEB Liability- At June 30, 2018, the components of the net OPEB liability of the County, measured as of June 30, 2017, were as follows:

Total OPEB Liability	
Balance at June 30, 2016	\$ 3,313,583
Changes for the year:	
Service Cost at the end of year	251,274
Interest on TOL and Cash Flows	98,074
Change in benefit terms	-
Difference between expected and actual experience	(16,094)
Changes of assumptions or other inputs	(179,323)
Benefit payments and implicit subsidy credit	(111,479)
Net Changes	<u>\$ 42,452</u>
Balance at June 30, 2017	<u>\$ 3,356,035</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

Mortality rates were based on the RO-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.56 percent) or 1-percentage point higher (4.56 percent) than the current discount rate:

	2.56%	3.56%	4.56%
	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$ 3,690,081	\$ 3,356,035	\$ 3,056,280

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	\$ 2,966,500	\$ 3,356,035	\$ 3,821,986

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the County recognized OPEB expense of \$325,236. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,067
Changes of assumptions	-	156,738
Benefit payments and administrative costs made subsequent to the measurement date	<u>110,717</u>	<u>-</u>
Total	\$ 110,717	\$ 170,805

\$110,717 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ (24,612)
2020	\$ (24,612)
2021	\$ (24,612)
2022	\$ (24,612)
2023	\$ (26,517)
Thereafter	\$ -

g. Other Employment Benefits

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees

who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. The County has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The County considers these contributions to be immaterial.

3. Closure and Postclosure Care Costs – Clay County Landfill

State and federal laws and regulations require the County to place a final cover on its Landfill Facility when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Because the landfill stopped accepting waste before April 9, 1994, the County is eligible for exemption from certain cap system requirements pertaining to the 30 year monitoring.

4. Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
(Pensions, OPEB)- difference between expected and actual experience	\$ 82,634	\$ 73,837
(Pensions, OPEB)-Net difference between projected and actual investment earnings	348,597	
Pensions- change in proportion and difference between employer contributions and proportionate share of contributions	37,886	43,356
(Pensions, OPEB)- change in assumptions	214,824	158,855
Contributions to pension plan subsequent to measurement date (LGERS, ROD)	469,296	
Benefit payments for the OPEB plan paid subsequent to measurement date	110,717	
Benefit payments/administration costs paid subsequent to the measurement date (LEOSSA)	14,994	
Prepaid taxes not yet earned (General)		63,225
Taxes receivable, net, less penalties (General)		413,998
Taxes receivable, net, less penalties (Special Revenue)		33,105
Grants not yet earned		225,195
	<hr/>	
Total	\$ 1,278,948	\$ 1,011,571

5. Risk Management

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$200 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the North Carolina statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Both of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 retention up to a \$2 million limit for liability coverage, \$1,750,000 of each loss in excess of a \$250,000 per occurrence retention for property, and auto physical damage. For workers compensation there is a per occurrence retention of \$750,000. The County provides employee health benefits provided by Aetna Insurance Company.

In accordance with GS 159-29, the County employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Director of Finance, Commissioners and Register of Deeds are each individually bonded for \$50,000 each. The Tax Collector is bonded for \$250,000.

The County does not carry flood insurance as this has not been an area of concern in the past.

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

6. Contingent Liabilities

At June 30, 2018, the County was a defendant to various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

7. Long-Term Obligations

a. Capital Leases

The County entered into a lease agreement to lease a 2016 Ford police interceptor sedan. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception.

The agreement was executed on January 6, 2017 for the lease of public safety vehicles and requires an annual payment of \$10,886.97. Under the terms of the agreement, title passes to the County at the end of the lease term.

At June 30, 2018, the County leased vehicles valued at:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles and motorized equipment	\$29,948	\$8,985	\$20,963

For Clay County, the future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018 were as follows:

<u>Year Ending June 30</u>	
2019	\$10,887
2020	<u>\$10,887</u>
Total minimum lease payments	\$21,774
Less: amount representing interest	<u>1,814</u>
Present value of the minimum lease payments	<u>\$19,960</u>

b. Installment Purchase

As authorized by State law [G.S.160A-20 and 153A-158.1], the County financed several capital assets by installment purchases, as follows:

The County financed the Courthouse Capital Project on July 29, 2005 for \$8,000,000. This installment purchase requires semi annual payments of \$266,666.67, plus interest at 3.87% until January 2013 then decreased interest to 1.69% until July 29, 2020.

The County financed the Jail Capital Project on May 10, 2007 for \$4,400,000. This installment purchase requires semi annual payments of \$146,666.67, plus interest at 3.99% until May 10, 2013, then decreased interest to 1.73% until May 10, 2021.

The County financed the Sheriff Complex Capital Project on April 16, 2009 for \$1,500,000. This installment purchase requires semi-annual principal payments of \$37,500, plus semi-annual interest payments of 3.73% until April 16, 2013, then decreased interest to 2.59% until April 16, 2028.

The County financed the Hwy 69 Water and Sewer project by an ARRA Capitalization Grants for State Revolving Funds during fiscal year June 30, 2010. This loan requires annual payments of \$26,832.20. This loan has no interest and is paid over 20 years until May 2031.

The County financed the Department of Social Service Building Capital Project on March 17, 2011 for \$2,000,000. This installment purchase requires semi-annual principal payments of \$66,667, plus semi-annual interest payments of 3.71% until March 17, 2013, then decreased interest to 2.36% until March 17, 2026.

The County financed the Health Department Building on November 7, 2013 for \$2,700,000. This transaction requires semi-annual payments by the County of \$90,000, plus semi-annual interest payments of 3.36% until November 7, 2028.

The County financed a town sewer line project on June 13, 2014. The total approved loan proceeds were \$1,104,060 and was financed by United Community Bank. This transaction will require semi-annual payments of \$45,304.87 including interest at a rate of 2.79% until June 15, 2029.

The County financed an ambulance on February 29, 2016 for \$174,363. This transaction requires semi-annual payments by the County of \$18,682.04 which includes interest at 2.512%. Ten payments are required with the first payment being due on August 31, 2016. The loan will be paid in full on February 28, 2021 and was financed by Nantahala Bank & Trust Company.

The County financed an ambulance remount in the amount of \$59,775 with United Community Bank. This loan requires three annual payments of \$20,850.84 including interest. The first payment is due on January 25, 2017 and will be paid in full on January 25, 2019. The interest rate on the loan is 2.29%.

The County financed a 2016 Dodge Charger in the amount of \$25,030 with Ally. This loan requires monthly payments of \$744.70 including interest. The first payment is due on November 27, 2016 and will be paid in full on October 27, 2019. The interest rate on the loan is 4.39%.

The County financed 3 vehicles for the sheriff's department in the amount of \$86,679 with United Community

Bank. This loan requires annual payments of \$18,652.01 including interest. The first payment is due on August 18, 2018 and will be paid in full on August 18, 2022. The interest rate on the loan is 2.49%.

The County financed an ambulance in the amount of \$224,939 with United Community Bank. This loan requires annual payments of \$79,049.31 including interest. The first payment is due on December 15, 2018 and will be paid in full on December 5, 2020. The interest rate on the loan is 2.69%.

For Clay County, the future minimum payments as of June 30, 2018, including \$ 786,786 of interest, are:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	1,462,406	174,441
2020	1,441,488	143,327
2021	1,177,234	112,710
2022	506,024	90,310
2023	508,520	76,677
2024 and after	2,477,016	189,321
Principal payments	<u>\$ 7,572,688</u>	
Total interest payments		<u>\$ 786,786</u>

c. General Obligation Indebtedness

The County records long-term debt of the governmental funds at face value in the general long-term debt account group. All general obligation bonds serviced by the County’s general fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest payments are appropriated when due.

The County's general obligation bonds payable at June 30, 2018 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$ 1,630,000 2004 General Obligation Refunding Bonds
 due on June 1 through June 1, 2019, interest at 3.125 % \$ 65,000

Annual debt service requirements to maturity for the County's general obligation bond, including interest of \$ 1,219 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	65,000	1,219
Total	<u>\$ 65,000</u>	<u>\$ 1,219</u>

d. Enterprise Fund Debt

a. Long-Term Debt – Town of Hayesville/Farmers Home Administration

In July 1995, in conjunction with the transfer of the Town’s water and sewer systems to the District, the District agreed to make the payments on the Town’s obligation pertaining to the water and sewer systems owed by the Town of Hayesville to the Farmers Home Administration. This obligation requires annual varying payments of \$11,550 to \$13,150 including interest at 5%. Future minimum payments including interest are as follows:

June 30, 2019	11,550
Total Minimum Note	<u>11,550</u>
Payments	11,550
Less: Amount Representing	<u>550</u>
Interest	
Present Value of the Note	<u>\$ 11,000</u>
Payment	

Debt Related to Capital Activities- Of the total Governmental Activities debt listed only \$ 7,244,467 relates to assets the County holds title.

e. Long-Term Obligation Activity

The following is a summary of changes in the County’s long-term obligations for the fiscal year ended June 30, 2018:

	Beginning balance, restated	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
General Obligation debt	\$ 175,000	-	\$ 110,000	\$ 65,000	\$ 65,000
Installment purchase	8,630,464	311,618	1,369,394	7,572,688	1,462,406
Capitalized leases	29,948	-	9,550	20,398	9,977
Net Pension liability (LGERS)	2,107,094	-	730,290	1,376,804	-
Total Pension obligation (LEOSSA)	176,612	-	25,362	151,250	-
Total OPEB Liability	3,224,396	38,150	-	3,262,546	-
Compensated absences	350,403	227,709	283,602	294,510	-
Total Governmental activities	<u>\$ 14,693,917</u>	<u>\$ 577,477</u>	<u>\$ 2,528,198</u>	<u>\$ 12,743,196</u>	<u>\$ 1,537,383</u>
Business-type activities:					
Notes payable	\$ 23,000	-	\$ 12,000	\$ 11,000	\$ 11,000
Total OPEB Liability	89,187	4,302	-	93,489	-
Net Pension liability (LGERS)	71,907	-	29,868	42,039	-
Compensated absences	10,960	3,719	10,619	4,060	-
Total Business-type activities	<u>\$ 195,054</u>	<u>\$ 8,021</u>	<u>\$ 52,487</u>	<u>\$ 150,588</u>	<u>\$ 11,000</u>

Net pension liability, total pension liability, and net other postemployment liability for governmental activities are all typically liquidated in the general fund. Compensated absences for governmental activities typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

C. Interfund Balance and Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

Due to General Fund from the Emergency Telephone- for unreimbursed expenditures	\$ 20,724
Due to General Fund from the Water & Sewer Fund- for unreimbursed expenditures	\$ 31,244
Due to Fire Tax fund- taxes collected	\$ 8,184

The interfund balances resulted from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

D. Net Investment in Capital Assets

	Governmental		Business-type
Capital assets	\$21,075,699		\$5,761,987
Less: long-term debt	7,244,467		11,000
Less: current portion of long-term debt			11,000
Add: unexpended debt proceeds	-0-		-0-
Net investment in capital assets	\$13,831,232		\$5,761,987

E. Fund Balance

Clay County has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officers will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-county funds, county funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the County.

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

Total fund balance- General Fund	\$ 4,404,170
Less:	
Nonspendables-Prepaid	118,601
Stabilization by State Statute	1,456,037
Appropriated Fund Balance in 2018 budget	
Register of Deeds	39,370
Tax Revaluation	41,250
Working Capital/Fund Balance Policy	<u>1,479,003</u>
Remaining Fund Balance	<u>\$ 1,269,909</u>

Clay County has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the County in such a manner that available fund balance is at least equal to or greater than 8% of budgeted expenditures.

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

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

IV. Related Organization

Clay County Rural Development Authority

The County’s Governing board is responsible for appointing the members of the board of the Clay County Rural Development Authority, but the County’s accountability does not extend beyond making these appointments. The Authority was created for the purpose of the economic development and to provide recreational activities for the county residents of Clay County. The Authority has developed three projects: Chatuge Shores Recreation Area, Mooreview Homesites, and Hayesville Homesites. The Mooreview and the Hayesville Homesites projects have been completed and closed out. The Chatuge Shores Recreation Area project is ongoing and provides the funds for the Authority. The County is not responsible for the debt issued by the Authority and the Authority’s debt is not included in determining the County’s legal debt limit.

V. Joint Ventures

Nantahala Regional Library

The County participates in a joint venture to operate the Nantahala Regional Library with two other local governments. The County appoints three members to the board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library’s continued existence depends on the participating governments’ continued funding. None of the participating governments has any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2018. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$112,028 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library’s offices at 101 Blumenthal Street, Murphy, NC 28906.

Smoky Mountain Center for Mental Health Developmental Disability and Substance Abuse Services

The County participates in a joint venture to operate the Smoky Mountain Center for Mental Health Developmental Disability and Substance Abuse Services with six other local governments. The County appoints one member to the board of the center. The County has an ongoing financial responsibility for the joint venture because the Center's continued existence depends on the participating governments' continued funding. None of the participating governments has any equity interest in the Center, so no equity interest has been reflected in the financial statements at June 30, 2018. Complete financial statements for the Center can be obtained from the Center's offices at 44 Bonnie Lane, Sylva, NC 28779.

VI. Jointly Governed Organization

Clay-Towns Joint Industrial Park

Clay County, in conjunction with Towns County, purchased property for a joint industrial park. The participating governments will work together to coordinate the planning process for the industrial park, including the process of planning and development for roads to and within the park, and for providing water and sewer services within the park. Each participating County will have three members to serve on the Industrial Park Board.

VII. Commitments

Tri-County Community College

The County has a commitment to help fund Tri-County Community College with two other local governments. The County does not appoint any members to the board of the College. The County has an ongoing financial responsibility for the joint venture because the College's continued existence depends on the participating governments' continued funding. None of the participating governments has any equity interest in the College, so no equity interest has been reflected in the financial statements at June 30, 2018. The County has an ongoing financial responsibility for the college because of statutory responsibilities to provide funding for the College's facilities. The County contributed \$ 154,167 during the fiscal year June 30, 2018. Complete financial statements for the College may be obtained from the College's administrative offices at 2300 Highway 64 E., Murphy, NC 28906.

VIII. Benefit Payments Issued by the State

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. County personnel are involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	Federal	State
Temporary assistance to needy families	\$ 21,377	\$ -
Medicaid	10,906,119	5,733,440
Adoption assistance	72,157	56,171
Adult assistance	-	76,402
SSA/SAD	-	2,856
Independent Living Transitional	1,425	-
State foster home	-	3,677
Title IV-E, foster care	48,010	11,519
Total	<u>\$ 11,049,088</u>	<u>\$ 5,884,065</u>

IX. Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

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

X. Significant Effects of Subsequent Events

Management has evaluated subsequent events through November 30, 2018, the date the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

XI. Change in Accounting Principles/Restatement

The County implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the County to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the County related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$1,907,032 and \$29,471 for the business-type activities.

Required Supplemental Financial Data

- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Proportionate Share of Net Pension Asset for Register of Deeds Supplemental Pension Fund
- Schedule of Contributions to Register of Deeds' Supplemental Pension Fund
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered-Employee Payroll
- Schedule of Changes in Total OPEB Liability

Schedule of Clay County's Proportionate Share of the Net Pension Liability (Asset)
Local Government Employees' Retirement System
*Last Five Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.10267%	0.09893%	0.09798%	0.0961%
County's proportionate share of the net pension liability (asset) \$	\$ 2,179,001	\$ 443,992	\$ (577,833)	\$ 1,158,374
County's covered payroll	\$ 6,151,143	\$ 6,187,548	\$ 5,971,989	\$ 5,988,458
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	35.42%	7.180%	-9.676%	19.343%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%
	 <u>2018</u> 			
County's proportion of the net pension liability (asset) %	0.09339%			
County's proportionate share of the net pension liability (asset) \$	\$ 1,426,741			
County's covered payroll	\$ 6,176,701			
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	23.10%			
Plan fiduciary net position as a percentage of the total pension liability	94.18%			

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

Schedule of County Contributions
Local Government Employees' Retirement System
Last 5 Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribut	\$ 467,874	\$ 461,051	\$ 421,332	\$ 439,329	\$ 423,384
Contributions in relation to the					
contractually required contril	\$ 467,874	\$ 461,051	\$ 421,332	\$ 439,329	\$ 423,384
Contribution deficiency (excess)					
County's covered payroll	\$ 6,238,320	\$ 6,201,819	\$ 6,151,143	\$ 6,187,548	\$ 5,971,989
Contributions as a percentage					
of covered payroll	7.50%	7.43%	6.85%	7.10%	7.09%

Schedule Of Clay County's Proportionate Share Of The Net Pension Liability (Asset)
Register of Deeds' Supplemental Pension Fund
*Last Five Fiscal Years **

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	15.048%	0.15135%	0.1588%	0.17416%	0.168%
County's proportionate share of the net pension liability (asset) \$	\$(25,685)	\$ (28,296)	\$ (36,800)	\$ (39,464)	\$(35,900)
Plan fiduciary net position as a percentage of the total pension liability	153.77%	160.17%	197.29%	193.88%	190.50%

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

Schedule of Clay County's Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,422	\$ 1,308	\$ 1,236	\$ 1,801	\$ 1,422
Contributions in relation to the contractually required contribution	<u>1,422</u>	<u>1,308</u>	<u>1,236</u>	<u>1,801</u>	<u>1,422</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Clay County, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
For the Year Ended June 30, 2018

	2018	2017
Beginning balance	\$ 176,612	\$ 187,997
Service cost	\$ 9,142	\$ 10,951
Interest on the total pension liability	\$ 6,327	\$ 6,258
Changes of benefit terms	\$ -	\$ -
Differences between expected and actual experience in the measurement of the total pension liability	\$ (23,696)	\$ -
Changes of assumptions or other inputs	\$ 8,265	\$ (3,195)
Benefit payments	\$ (25,400)	\$ (25,399)
Other changes	\$ -	\$ -
Ending balance of the total pension liability	<u>\$ 151,250</u>	<u>\$ 176,612</u>

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

Clay County, North Carolina
 Schedule of Total Pension Liability as a Percentage of Covered Payroll
 Law Enforcement Officers' Special Separation Allowance
 For the Year Ended June 30, 2018

	2018	2017
Total pension liability	\$ 151,250	\$ 176,612
Covered payroll	616,060	515,583
Total pension liability as a percentage of covered payroll	24.55%	34.25%

Notes to the schedules:

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

Clay County
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2018

	2018
Total OPEB Liability	
Service Cost	\$ 251,274
Interest	98,074
Changes in benefit terms	-
Differences between expected and actual experience	(16,094)
Changes of assumptions	(179,323)
Benefit payments	(111,479)
Net change in total OPEB liability	42,452
Total OPEB liability- beginning	3,313,583
Total OPEB liability- ending	\$ 3,356,035
Covered payroll	\$ 6,332,202
Total OPEB liability as a percentage of covered payroll	53.00%

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal year	Rate
2018	3.56%

**INDIVIDUAL FUND
STATEMENTS AND
SCHEDULES**

Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 8,183,357	
Interest		81,165	
Total	<u>\$ 8,328,952</u>	<u>8,264,522</u>	<u>\$ (64,430)</u>
Local option sales taxes:			
Article 39 and 44		1,213,222	
Article 40 one - half of one percent		780,205	
Article 42 one - half of one percent		483,396	
Total	<u>2,388,562</u>	<u>2,476,823</u>	<u>88,261</u>
Other taxes and licenses:			
Deed stamp excise tax		88,175	
Scrap tire disposal tax		24,197	
White goods disposal tax		7,247	
Franchise fees		22,185	
Privilege licenses		1,630	
Total	<u>129,825</u>	<u>143,434</u>	<u>13,609</u>
Unrestricted intergovernmental:			
Payments in lieu of taxes-outside sources		353,211	
Beer and wine tax		47,458	
Total	<u>402,638</u>	<u>400,669</u>	<u>(1,969)</u>
Restricted intergovernmental:			
State grants		614,567	
Federal grants		1,620,510	
Court facility fees		12,369	
Enforcement fund		905	
Other Revenue		1,584,517	
ABC profits for law enforcement		14,000	
ABC bottle taxes		15,836	
Total	<u>4,556,610</u>	<u>3,862,704</u>	<u>(693,906)</u>
Permits and fees:			
Building and well permits		104,409	
Inspection fees		83,047	
Landfill permits and user fees		412,519	
Recreation fees		19,635	
Gun Permits and other		11,319	
Register of deeds		68,374	
Total	<u>724,360</u>	<u>699,303</u>	<u>(25,057)</u>

Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative) (cont.)
Sales and services:			
Rents, concessions, and fees		49,793	
Jail fees		182,860	
Ambulance and rescue squad fees		490,348	
Police fees		70,895	
Recreation fees		186,063	
Health Department fees		339,345	
Senior Center Meal fees		2,479	
Transportation fees		135,906	
Total	<u>1,605,511</u>	<u>1,457,689</u>	<u>(147,822)</u>
Investment earnings	<u>50,500</u>	<u>59,360</u>	<u>8,860</u>
Miscellaneous:			
Donations		32,148	
Other		71,736	
Total	<u>235,824</u>	<u>103,884</u>	<u>(131,940)</u>
Total revenues	<u>18,422,782</u>	<u>17,468,388</u>	<u>(954,394)</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		176,155	
Other operating expenditures		103,087	
Insurance other property		222,370	
Capital Outlay		-	
Total	<u>589,339</u>	<u>501,612</u>	<u>87,727</u>
County Appropriations		178,358	
Total	<u>199,193</u>	<u>178,358</u>	<u>20,835</u>
Elections:			
Salaries and employee benefits		155,675	
Other operating expenditures		51,684	
Capital outlay		65,410	
Total	<u>303,576</u>	<u>272,769</u>	<u>30,807</u>
Finance:			
Salaries and employee benefits		195,859	
Other operating expenditures		23,754	
Total	<u>256,280</u>	<u>219,613</u>	<u>36,667</u> (cont.)

Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Taxes supervisor:			
Salaries and employee benefits		145,899	
Other operating expenditures		31,397	
Total	<u>206,802</u>	<u>177,296</u>	<u>29,506</u>
Taxes collector:			
Salaries and employee benefits		197,316	
Other operating expenditures		25,243	
Capital outlay		-	
Total	<u>226,315</u>	<u>222,559</u>	<u>3,756</u>
Legal:			
Contracted services	<u>206,289</u>	<u>165,104</u>	<u>41,185</u>
Register of deeds:			
Salaries and employee benefits		154,721	
Other operating expenditures		46,420	
Total	<u>247,344</u>	<u>201,141</u>	<u>46,203</u>
Public buildings:			
Salaries and employee benefits		241,978	
Other operating expenditures		505,149	
Capital Outlay		13,658	
Total	<u>795,140</u>	<u>760,785</u>	<u>34,355</u>
Senior Center			
Salaries and employee benefits		113,781	
Other operating expenditures		117,397	
Capital Outlay		-	
Total	<u>236,665</u>	<u>231,178</u>	<u>5,487</u>
Total general government	<u>3,266,943</u>	<u>2,930,415</u>	<u>336,528</u>
Public safety:			
Sheriff and communications:			
Salaries and employee benefits		1,276,666	
Other operating expenditures		266,337	
Capital outlay		98,619	
Total	<u>1,569,713</u>	<u>1,641,622</u>	<u>(71,909)</u>
Jail:			
Salaries and employee benefits		677,876	
Other operating expenditures		303,126	
Capital Outlay		11,519	
Total	<u>1,023,348</u>	<u>992,521</u>	<u>30,827</u>

**Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative) (cont.)
School Resource Officer:			
Salaries and employee benefits		70,453	
Other operating expenditures		442	
Total	<u>73,955</u>	<u>70,895</u>	<u>3,060</u>
Emergency management:			
Salaries and employee benefits		85,980	
Other operating expenditures		44,585	
Capital outlay		37,882	
Total	<u>179,238</u>	<u>168,447</u>	<u>10,791</u>
Fire:			
Other operating expenditures		40,744	
Total	<u>43,000</u>	<u>40,744</u>	<u>2,256</u>
Inspections:			
Salaries and employee benefits		106,455	
Other operating expenditures		16,546	
Total	<u>138,990</u>	<u>123,001</u>	<u>15,989</u>
Emergency medical services			
Salaries and employee benefits		929,204	
Other operating expenditures		122,817	
Capital outlay		230,195	
Total	<u>1,113,337</u>	<u>1,282,216</u>	<u>(168,879)</u>
Telecommunications			
Salaries and employee benefits		47,928	
Other operating expenditures		10,822	
Capital outlay		-	
Total	<u>64,583</u>	<u>58,750</u>	<u>5,833</u>
Animal Control Officer			
Salaries and employee benefits		47,565	
Other operating expenditures		2,487	
Total	<u>52,074</u>	<u>50,052</u>	<u>2,022</u>
Courthouse Security			
Salaries and employee benefits		13,204	
Other operating expenditures		249	
Total	<u>15,114</u>	<u>13,453</u>	<u>1,661</u> (cont.)

**Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Clerk of Court			
Other operating expenditures		3,876	
Total	7,500	3,876	3,624
Total public safety	4,280,852	4,445,577	(164,725)
Transportation:			
Transportation -Operating			
Salaries and employee benefits		360,397	
Other operating expenditures		84,648	
Capital outlay		-	
Total transportation operations	520,201	445,045	75,156
Transportation -Admin & Capital			
Salaries and employee benefits		138,826	
Other operating expenditures		24,773	
Capital Outlay		51,808	
Total transportation senior center	226,088	215,407	10,681
Total transportation	746,289	660,452	85,837
Economic and physical development:			
Planning and zoning:			
Salaries and employee benefits		-	
Other operating expenditures		-	
Total	-	-	-
Sanitary Landfill			
Salaries and employee benefits		116,570	
Other operating expenditures		276,332	
Capital outlay		20,500	
Total	416,952	413,402	3,550
Soil and Water Conservation			
Salaries and employee benefits		87,128	
Other operating expenditures		26,028	
Capital outlay		-	
Total	95,423	113,156	(17,733)
Agricultural extension:			
Salaries and employee benefits		87,366	
Other operating expenditures		10,809	
Total	155,983	98,175	57,808
Special Appropriations	7,849	7,849	-
Total economic and physical development	676,207	632,582	43,625

**Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Human services:			
Health:			
Administration & health programs:			
Salaries and employee benefits		1,226,431	
Other operating expenditures		370,575	
Capital Outlay		16,529	
Total	1,874,469	1,613,535	260,934
Far West dental			
Salaries and employee benefits		478,431	
Other operating expenditures		94,079	
Capital Outlay		19,833	
Total	734,151	592,343	141,808
Women, infants, and children:			
Salaries and employee benefits		93,622	
Other operating expenditures		2,955	
Total	112,297	96,577	15,720
Care Coordination for children			
Salaries and employee benefits		24,538	
Other operating expenditures		24	
Total	27,809	24,562	3,247
Pregnancy Care Management			
Salaries and employee benefits		25,143	
Other operating expenditures		-	
Total	25,141	25,143	(2)
Smart Start:			
Salaries and employee benefits		24,539	
Other operating expenditures		3,997	
Total	30,123	28,536	1,587
Total health	2,803,990	2,380,696	423,294
Social services:			
Administration:			
Salaries and employee benefits		1,399,849	
Other operating expenditures		184,628	
Capital outlay		3,964	
Janitorial:			
Salaries and employee benefits		21,805	
Total	1,674,577	1,610,246	64,331

**Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
AFDC:			
Assistance payments	128,006	53,817	74,189 (cont.)
Medical assistance program:			
Assistance payments	15,000	2,783	12,217
Bioterrorism			
Salaries and employee benefits		33,393	
Other operating expenditures		-	
	37,566	33,393	4,173
Other assistance:			
Assistance payments	566,251	346,523	219,728
Total social services	2,421,400	2,046,762	374,638
Veterans service officer:			
Salaries and employee benefits		3,908	
Other operating expenditures		470	
Total veterans service officer	4,475	4,378	97
Total human services	5,229,865	4,431,836	798,029
Cultural and recreational:			
Recreation:			
Salaries and employee benefits		185,307	
Other operating expenditures		118,483	
Capital outlay		58,961	
Total	382,835	362,751	20,084
Recreation sports			
Salaries and employee benefits		38,280	
Other operating expenditures		30,252	
Total	70,234	68,532	1,702
Campground			
Operating expenditures		64,485	
Capital Outlay		12,368	
	84,107	76,853	7,254
Libraries:			
Contribution to regional library	112,038	112,028	-
Total cultural and recreational	649,214	620,164	29,040
Education:			
Public schools - current		1,350,000	
Public schools - capital outlay		250,000	
Public schools - other		26,121	

**Clay County, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Public schools- new school expenditures		31,000	
Public schools-school nurse funds		50,000	
Community colleges - current		154,167	
Total education	1,865,210	1,861,288	3,922
			(cont.)
Debt service:			
Principal retirement		1,488,944	-
Interest and other charges		202,712	-
Total debt service	1,772,956	1,691,656	81,300
Total expenditures	18,487,536	17,273,970	1,213,566
Revenues over (under) expenditures	(64,754)	194,418	259,162
Other financing sources (uses):			
Capitalized lease obligations issued:		-	
Installment obligation issued:		311,618	
Transfers (to) from other funds:		-	
Tax Revaluation Fund		(104,246)	
Sale of capital assets		22,850	
Total other financing sources (uses)	64,754	230,222	(165,468)
Revenues and other financing sources over expenditures and other financing uses	-	424,640	424,630
Appropriated fund balance		-	-
Revenues, other sources, and appropriated fund balance over (under) expenditures	\$ -	424,640	\$ 424,630
Fund balance, beginning		3,938,280	
Restatement		-	
Fund balance, beginning restated		3,938,280	
Fund balance, ending		\$ 4,362,920	

Clay County, North Carolina
Tax Revaluation Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance- Budget and Actual
For the Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment Earnings		\$ -	
Expenditures:			
Current:			
General government:			
Tax listing	\$ 135,760	\$ 62,996	\$ 72,764
Revenues over (under) expenditures	\$ 135,760	\$ (62,996)	\$ 72,764
Other financing sources:			
Transfer in:			
General Fund	\$ (135,760)	\$ 104,246	\$ (31,514)
Revenues and other sources over (under) expenditures	\$ -	\$ 41,250	\$ 41,250
Appropriated fund balance	\$ -	\$ -	
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>\$ 41,250</u>	<u>\$ 31,514</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ 41,250</u>	

**Clay County, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Funds					Capital Projects Funds		
	CDBG Fund	Emergency Telephone System Fund	Fire District Fund	Industrial Fund	Total Nonmajor Special Revenue Funds	School Capital Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS								
Cash and cash equivalents	\$ -	\$ 114,204	\$ 4,826	\$ 88,078	\$ 207,108	\$ -	\$ -	\$ 207,108
Restricted cash	-	-	-	-	-	-	-	-
Accounts receivable, net	-	13,166	-	-	13,166	-	-	13,166
Taxes receivable, net	-	-	33,105	-	33,105	-	-	33,105
Due from other funds	-	-	8,184	-	8,184	-	-	8,184
Due from other governments	-	-	-	-	-	-	-	-
Total assets	\$ -	\$ 127,370	\$ 46,115	\$ 88,078	\$ 261,563	\$ -	\$ -	\$ 261,563
LIABILITIES AND FUND BALANCES								
Liabilities:								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	-	5,274	12,368	-	17,642	-	-	17,642
Due to other funds	-	20,724	-	-	20,724	-	-	20,724
Total liabilities	\$ -	\$ 25,998	\$ 12,368	\$ -	\$ 38,366	\$ -	\$ -	\$ 38,366
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ 33,105	\$ -	\$ 33,105	\$ -	\$ -	\$ 33,105
Fund balances:								
Restricted:								
Other	-	88,206	-	88,078	176,284	-	-	176,284
Stabilization by State Statute	-	13,166	-	-	13,166	-	-	13,166
Fire Protection	-	-	642	-	642	-	-	642
Unassigned	-	-	-	-	-	-	-	-
Total fund balances	-	101,372	642	88,078	190,092	-	-	190,092
Total liabilities, deferred inflows of resources, and fund balances	\$ -	\$ 127,370	\$ 46,115	\$ 88,078	\$ 261,563	\$ -	\$ -	\$ 261,563

Clay County, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds				Capital Projects Funds			
	CDBG Fund	Emergency Telephone System Fund	Fire District Fund	Industrial Fund	Total Nonmajor Special Revenue Funds	School Capital Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES								
Ad valorem taxes	\$ -	\$ -	\$ 483,916	\$ -	\$ 483,916	\$ -	\$ -	\$ 483,916
Local option sales taxes	-	-	-	-	-	-	-	-
Other taxes and licenses	-	-	-	-	-	-	-	-
Restricted intergovernmental	-	144,416	-	-	144,416	-	-	144,416
Investment earnings	-	1,353	-	-	1,353	-	-	1,353
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	-	145,769	483,916	-	629,685	-	-	629,685
EXPENDITURES								
Current:								
Economic and physical development	-	-	-	-	-	-	-	-
Public safety	-	149,996	483,274	-	633,270	-	-	633,270
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	-	149,996	483,274	-	633,270	-	-	633,270
Excess (deficiency) of revenues over expenditures	-	(4,227)	642	-	(3,585)	-	-	(3,585)
OTHER FINANCING SOURCES								
Transfer in from general		-						
Total Other Financing sources and uses		-						
Net change in fund balances	-	(4,227)	642	-	(3,585)	-	-	(3,585)
Fund balances, beginning	-	105,599	-	88,078	193,677	-	-	193,677
Restatement		-			-			-
Fund balance, beginning restated		105,599		88,078	193,677			193,677
Fund balances, ending	\$ -	\$ 101,372	\$ 642	\$ 88,078	\$ 190,092	\$ -	\$ -	\$ 190,092

Clay County, North Carolina
Emergency Telephone System Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
E911 Funding	\$ -	\$ 144,416	\$ -
Interest earned		1,353	
Total revenue	<u>145,716</u>	<u>145,769</u>	<u>53</u>
Expenditures			
Implementation functions		65,481	
Phone and furniture		41,823	
Software maintenance		29,154	
Hardware maintenance		8,948	
Training		4,590	-
Total expenditures	<u>145,716</u>	<u>149,996</u>	<u>(4,280)</u>
Revenues under expenditures	-	(4,227)	(4,227)
Other financing sources:			
Operating transfer in:			
General Fund	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>(4,227)</u>	<u>\$ (4,227)</u>
Fund balance, beginning		<u>105,599</u>	
Fund balance, ending		<u>\$ 101,372</u>	

Clay County, North Carolina
Fire District Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Current year		\$ 475,710	
Prior year		8,206	
Total	\$ 522,134	483,916	\$ (38,218)
Expenditures:			
Current:			
Public safety:			
Fire District No. 1		81,954	-
Fire District No. 2		42,069	-
Fire District No. 3		45,524	
Fire District No. 4		313,727	
Total expenditures	522,134	483,274	38,860
Revenues over expenditures	\$ -	642	\$ 642
Fund balance, beginning		-	
Fund balance, ending		\$ 642	

**Clay County, North Carolina
Industrial Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	\$ -	\$ -
Revenues over (under) expenditures	-	-	\$ -
Other financing sources(uses):			
Operating transfer out:			
Revaluation Fund	-	-	\$ -
Revenues and other sources over (under) expenditures	-	-	\$ -
Appropriated fund balance	-	-	\$ -
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning		<u>88,078</u>	
Fund balance, ending		<u>\$ 88,078</u>	

**Clay County, North Carolina
Water and Sewer District Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Water sales:			
Residential/commercial		\$ 331,787	
Total	\$ 279,500	331,787	\$ 52,287
Sewer charges:			
Residential/commercial		242,220	
Total	279,500	242,220	(37,280)
Water and sewer taps	-	6,875	6,875
Other operating revenues	17,000	50,709	33,709
Total operating revenues	576,000	631,591	55,591
Nonoperating revenues:			
Interest earnings	500	3,918	3,418
Total revenues	576,500	635,509	59,009
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Total revenues and other financing sources	576,500	635,509	59,009
			(continued)
Expenditures:			
Administration:			
Salaries and employee benefits		249,871	
Travel		3,435	
Insurance		6,426	
Repairs		103,903	
Other operating expenditures		159,406	
Total	541,000	523,041	17,959
Debt service:			
Interest and other charges		1,150	
Debt principal		12,000	
Total	14,000	13,150	850

**Clay County, North Carolina
Water and Sewer District Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2018**

	Final Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Vehicles		-	
Machinery and equipment		-	
Water & Sewer Line Expansion		58,433	
Total	<u>21,500</u>	<u>58,433</u>	<u>(36,933)</u>
 Total expenditures	 <u>576,500</u>	 <u>594,624</u>	 <u>(18,124)</u>
 Revenues and other financing sources over expenditures	 <u>-</u>	 40,885	 <u>40,885</u>

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

Revenue and other financing sources over expenditures	<u>\$ 40,885</u>
Reconciling items:	
Debt principal	12,000
Capital outlay	58,433
Decrease in deferred outflows of resources-pensions	(29,860)
Decrease in net pension liability	29,868
Decrease in deferred inflows of resources- pensions	53
Decrease in accrued vacation pay	6,899
Increase in OPEB liability	(4,302)
Increase in deferred outflow of resources- OPEB	2,682
Increase in deferred inflows of resources- OPEB	(4,758)
Depreciation	<u>(535,536)</u>
Total reconciling items	<u>(464,521)</u>
 Change in net position	 <u><u>\$ (423,636)</u></u>

Clay County, North Carolina
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2018

	Beginning Balance	Additions	Deductions	Ending Balance
Social Services				
Assets:				
Cash and cash equivalents	\$ 12,064	\$ 86,720	\$ 87,584	\$ 11,200
Liabilities:				
Miscellaneous liabilities	\$ 12,064	\$ 86,720	\$ 87,584	\$ 11,200
Fines and Forfeitures				
Assets:				
Cash and cash equivalents	\$ -	\$ 41,268	\$ 41,268	\$ -
Liabilities:				
Intergovernmental payable	\$ -	\$ 41,268	\$ 41,268	\$ -
Municipal Tax				
Assets:				
Cash and cash equivalents	\$ -	\$ 97,541	\$ 97,541	\$ -
Liabilities:				
Miscellaneous liabilities	\$ -	\$ 97,541	\$ 97,541	\$ -
Deed of Trust Fund				
Assets:				
Cash and cash equivalents	\$ -	\$84,720	\$84,720	\$ -
Liabilities:				
Intergovernmental payable-NC	\$ -	\$84,720	\$84,720	\$ -
Totals - All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 12,064	\$ 310,249	\$ 311,113	\$ 11,200
Liabilities:				
Miscellaneous liabilities	\$ 12,064	\$ 184,261	\$ 185,125	\$ 11,200
Intergovernmental payable- Clay County Board of Education	-	41,268	41,268	-
Intergovernmental payable- State of North Carolina	-	84,720	84,720	-
Total liabilities	\$ 12,064	\$ 310,249	\$ 311,113	\$ 11,200

Clay County, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2018

Fiscal Year	Uncollected Beginning Balance	Additions	Collections And Credits	Uncollected Ending Balance
2016-2017	\$ -	\$ 8,233,020	8,037,214	\$ 195,806
2015-2016	180,435	-	106,785	73,650
2014-2015	57,938	-	18,691	39,247
2013-2014	36,451	-	8,507	27,944
2012-2013	35,082	-	6,774	28,308
2011-2012	37,328	-	4,788	32,540
2010-2011	32,480	-	2,795	29,685
2009-2010	24,897	-	718	24,179
2008-2009	25,048	-	573	24,475
2007-2008	22,857	-	413	22,444
2006-2007	19,202	-	382	18,820
2005-2006	13,002	-	13,002	0
	<u>484,720</u>	<u>8,233,020</u>	<u>8,200,642</u>	<u>517,098</u>

Less: allowance for uncollectible accounts:
General Fund (103,101)

Ad valorem taxes receivable - net:
General Fund \$ 413,997

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 8,264,522
Penalties collected on ad valorem taxes-	4,283
Reconciling items:	
Interest collected	(81,165)
Discounts allowed	-
Taxes written off	<u>13,002</u>
Total reconciling items	<u>(68,163)</u>
Total collections and credits	<u>\$ 8,200,642</u>

**Clay County, North Carolina
Analysis of Current Tax Levy
County - wide Levy
For the Fiscal Year Ended June 30, 2018**

	County - wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	2,122,824,474	0.380%	\$ 8,066,733	\$ 7,652,600	\$ 414,133
Penalties			5,668	5,668	-
Total	2,122,824,474		8,072,401	7,658,268	414,133
Discoveries:					
Current year taxes	36,451,579	0.380%	138,516	138,516	-
Prior year taxes			27,273	27,273	
Penalties			919	919	
Total	36,451,579		166,708	166,708	0
Releases	(1,602,368)	0.380%	(6,089)	(6,089)	-
Total property valuation	2,157,673,685				
Net levy			8,233,020	7,818,887	414,133
Uncollected taxes at June 30, 2018			195,806	193,030	2,776
Current year's taxes collected			8,037,214	7,625,857	411,357
Current levy collection percentage			97.62%	97.53%	99.33%

Clay County, North Carolina
Analysis of Current Tax Levy
County - wide Levy
For the Fiscal Year Ended June 30, 2018

Secondary Market Disclosures:

Assessed Valuation:

Assessment Ratio	100 %
Real Property	\$ 1,966,054,795
Personal Property	159,541,551
Public Service Companies	<u>32,077,339</u>
Total Assessed Valuation	\$ 2,157,673,685
Tax Rate per \$100	0.380%
Levy (includes discoveries, releases and abatements)	\$ 8,199,160

In addition to the County-wide rate, the following table lists the levies by the County on behalf of the fire protection districts for the fiscal year ended June 30:

Fire Protection Districts	\$ 472,950
---------------------------	------------

**Clay County, North Carolina
Ten Largest Taxpayers
For the Fiscal Year Ended June 30, 2018**

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation
Blue Ridge Mtn EMC	Utility	23,203,136	1.075%
Ingles	Commercial Real Estate	8,683,649	0.402%
Ridges at Mountain Harbour	Commercial Real Estate	6,441,064	0.299%
Elderberry of Hayesville LLC	Commercial Real Estate	3,407,994	0.158%
Hendrikse Nelson J Trustee	Commercial Real Estate	5,471,862	0.254%
Advanced Digital Cable	Utility	5,046,378	0.234%
Coleman Cable	Utility	4,733,983	0.219%
Duke Energy Group	Utility	4,159,622	0.193%
NC4 Hayesville LLC	Commercial Real Estate	4,023,935	0.186%
Glasgow H L & Belote Marie E	Commercial Real Estate	3,790,950	0.176%
Total		<u>68,962,573</u>	<u>3.196%</u>

COMPLIANCE SECTION



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**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 Management and the
Members of the Board of Commissioners
Clay County, North Carolina

I 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 Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Clay County, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises Clay County's basic financial statements, and have issued my report thereon dated November 30, 2018. My report includes a reference to other auditors who audited the financial statements of the Clay County ABC Board, as described in my report on the Clay County, North Carolina's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Clay County ABC Board were not audited in accordance with *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial

statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2018-001 that I consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-002.

Clay County's Responses to Findings

The County's response to the findings identified in my audit are described in the accompanying schedule of findings and responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on it.

Purpose of this Report

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

Shawn Long, CPA

Shawn Powell Long, CPA
Hayesville, North Carolina

November 30, 2018



SHAWN P. LONG, CPA

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Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor’s Report

To Management and the
Members of the Board of Commissioners
Clay County, North Carolina

Report on Compliance for Each Major Federal Program

I have audited the Clay County, North Carolina, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Clay County’s major federal programs for the year ended June 30, 2018. Clay County’s major Federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with Federal and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

My responsibility is to express an opinion on compliance for each of Clay County’s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards* (Uniform Guidance) and the *State Single Audit Implementation Act*. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County’s

compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Clay County's compliance with those requirements.

Opinion on Each Major Federal Program

In my opinion, Clay County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Shawn Long, CPA

Shawn Powell Long, CPA
Hayesville, North Carolina
November 30, 2018



SHAWN P. LONG, CPA

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Report On Compliance With Requirements Applicable To Each Major State Program and Internal Control Over Compliance; In accordance with OMB Circular the Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

To Management and the
Members of the Board of Commissioners
Clay County, North Carolina

Report on Compliance for Each Major State Program

I have audited Clay County, North Carolina, compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of Clay County's major state programs for the year ended June 30, 2018. Clay County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

examining, on a test basis, evidence about Clay County's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

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

Opinion on Each Major State Program

In my opinion, Clay County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Shawn Long, CPA

Shawn Powell Long, CPA
Hayesville, North Carolina

November 30, 2018

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

Section 1- Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant Deficiency(s) Yes None reported

Noncompliance material to financial statements noted Yes No

Federal Awards

Internal control over major federal programs:

* Material weakness(es) identified? Yes No

* Significant Deficiency(s) identified Yes None reported

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

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

Identification of major federal programs:

93.778	Medical Assistance Program (Title XIX- Medicaid)
10.561	Supplemental Nutrition Assistance Program
20.509	Nonurbanized Area Formula Program

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

Auditee qualify as low-risk auditee? Yes X No

State Awards

General Aid to Counties
School Nurse Funding Initiative
Medical Assistance Program
Juvenile Crime Prevention Programs
Rural Operating Assistance Program (ROAP) Cluster
 Elderly and Disabled Transportation Assistance Program (E&DTAP)
 Rural General Public Program (RGP)
 Work First Transitional/Employment Transportation Assistance Program

Section II. Financial Statement Findings

Finding: **2018-001** Segregation of Duties

MATERIAL WEAKNESS

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Clay County personnel.

Questioned Costs: There are no questioned costs with this type of finding.

Context: N/A

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2017-1.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The Board of Commissioners agrees with this finding. Please refer to the corrective action plan beginning on page 108.

Finding: **2018-002**

MATERIAL NONCOMPLIANCE

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: Clay County expended \$164,000 more for public safety and \$2,079 for interest costs in the general fund than appropriated in the annual budget ordinance. They also over expended \$4,280 in the Emergency Telephone System Fund and \$36,933 for capital outlay expenditures in the Water and Sewer Fund.

Effect: Moneys were spent that had not been appropriated.

Cause: The County failed to budget for capital outlay expenditures that were originally unforeseen and also failed to review the budget to actual reports timely.

Recommendation: Budget amendments should be adopted when capital outlay needs arise that have not been budgeted for in the budget ordinance prior to expending the funds.

Views of responsible officials and planned corrective action: The County agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts. Please refer to the corrective action plan on page 108.

III. Federal Award Findings and Questioned Costs

None reported

IV. State Award Findings and Questioned Costs

None reported

Clay County

P.O. Box 118 Hayesville, North Carolina 28904 (828)389-0089

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

Finding: 2018-1 Segregation of Duties

Name of contact person: Betty Patton, Finance Officer

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

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

Finding: 2018-2

Name of contact person: Betty Patton, Finance Officer

Corrective Action: The Board members and management will review a budget-to-actual report prepared by the finance officer at each monthly board meeting. Budget amendments will be made as will be necessary.

Proposed Completion Date: The Board will implement the above procedure immediately.

COMMISSIONERS

CHAIRMAN: Robert Cline Penland

Clay Logan Ed Roach Dr. Rob Peck Randy Nichols

CLAY COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2018

Finding:	2017-001
Status:	Duties are being separated as much as possible and alternative controls are being Implemented to compensate for lack of separation. However, in small Governments this will continue to be an issue.
Finding:	2017-002
Status:	Corrected
Finding:	2017-003
Status:	Corrected
Finding:	2016-1
Status:	Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this will continue to be an issue.
Finding:	2015-1
Status:	Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this will continue to be an issue.
Finding:	2014-1
Status:	Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this continues to be an issue.
Finding:	2013-1
Status:	Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this continues to be an issue.
Finding:	2013-2
Status:	Corrected
Finding:	2013-3
Status:	Corrected
Finding:	2013-4
Status:	Corrected

Finding: 2013-5
Status: Corrected

Finding: 2012-1
Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this continues to be an issue.

Finding: 2011-1
Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small governments this continues to be an issue.

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2018

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Passed through to Sub- Recipients	Local Expenditures
Federal Awards:						
<u>U.S. Dept. of Agriculture</u>						
Passed-through the N.C. Dept. of Health and Human Services:						
Division of Social Services:						
Administration:						
State Administrative Matching Grants for the Supplemental Nutrition Assist. Program	10.561	XXXX	127,484	-		127,484
Total Food Stamp Cluster			127,484	-		127,484
Passed-through the N.C. Dept. of Health and Human Services:						
Division of Public Health:						
Administration:						
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	XXXX	62,454	-		-
Total Women, Infants & Children			62,454	-		-
Total U.S. Department of Agriculture			189,938	-		127,484
<u>U.S. Dept. of Transportation</u>						
Passed-through the N.C. Department of Transportation:						
Nonurbanized Area Formula Program	20.509	XXXX	188,047	-		-
Enhanced Mobility of Seniors and Individuals with Dis	20.513	XXXX	25,000	-		-
18-AD-020 Capital		DOT-14		5,207		-
18-CT-020 Admin		DOT-11		9,149		-
18-CO-020 Operating		DOT-11		43,711		-
Rural Operating Assistance Program (ROAP Cluster)						-
ROAP EDTAP		DOT-16CL	-	50,159		-
ROAP Employment		DOT-16CL	-	4,639		-
ROAP RGP		DOT -16CL	-	47,441		-
Total Rural Operating Asst. Program (ROAP Cluster)				102,239		-
Total U.S. Department of Transportation			213,047	160,306		-
<u>U. S. Department of Homeland Security</u>						
Passed-through N.C. Dept. of Crime Control and Public Safety:						
Division of Emergency Management						
Emergency Management Performance Grants	97.042	XXXX	38,642	-		-
Total U. S. Department of Homeland Security			38,642	-		-

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2018

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
<u>U.S. Dept. of Health & Human Services</u>						
<u>Administration on Aging</u>						
<u>Division of Aging and Adult Services</u>						
Passed-through Southwestern NC Planning & Economic Dev Comm:						
Special Programs for the Aging - Title IIIB						
Grants for Supportive Services and Senior Centers	93.044	XXXX	678	76,828		-
Special Programs for the Aging- Title III-C	93.045	XXXX	5,111	87,825		-
Nutrition Services						
Total Aging Cluster			5,789	164,653		-
<u>Administration for Children and Families</u>						
Passed-through the N.C. Dept. of Health and Human Services:						
Division of Social Services:						
<u>Foster Care and Adoption Cluster</u>						
Title IV-E Foster Care - Administration	93.658	XXXX	83,249	6,112		61,932
IV-E Foster Care & Extend Max/Reg	93.658	XXXX	48,010	11,519		11,519
Adoption Assistance- Training	93.659	XXXX	661	-		16,011
Total Foster Care and Adoption Cluster			131,920	17,631		89,462
Division of Social Services						
Work First Administration and Service	93.558	XXXX	87,553	-		109,519
Division of Public Health						
Temporary Assistance for Needy Families	93.558	XXXX	534			
Total TANF Cluster			88,087	-	-	109,519
Division of Social Services						
Foster Care	N/A	XXXX	25,351			54,170
Child Support Enforcement	93.563	XXXX	107,985	-		55,628
Low-Income Home Energy Assistance Block Grant:						
Administration	93.568	XXXX	6,561	-		-
Energy Assistance Payments	93.568	XXXX	39,800	-		-
Crisis Intervention Program	93.568	XXXX	39,310	-		-
Total Low-Income Home Energy Assistance			85,671			
Family Preservation	93.556	XXXX	10,108	-		-
Child Welfare Services - State Grants						
- Permanency Planning - Families for Kids	93.645	XXXX	2,416	-		(141)
LINKS Independent Living Grant	93.674	XXXX	1,396	349		-
Chafee Foster Care Independence Program	93.674	XXXX	1,425			
Division of Aging and Adult Services:						
Division of Social Services:						
Social Service Block Grant	93.667	XXXX	90,660	-		1,834
SSBG - Other Services and Training	93.667	XXXX	39,746	-		13,249
Total Social Service Block Grant			130,406			15,083

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2018

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
Division of Child Development and Early Education:						
Subsidized Child Care						
Child Care Development Fund Cluster						
Division of Social Services						
Child Care Development Fund- Administration	93.596	XXXX	80,000		80,000	
Division of Child Development:						
Child Care Development Fund- Discretionary	93.575	XXXX	(2,741)	-	-	-
Child Care Development Fund- Mandatory	93.596	XXXX	(108)	-	-	-
Child Care Development Fund- Match	93.596	XXXX	3,383	1,900	-	-
Total Child Care Fund Cluster			80,534	1,900	80,000	-
Temporary Assistance for Needy Families	93.558	XXXX	(230)	-	-	-
TANF- MOE		XXXX	-	639	-	-
Total Subsidized Child Care Cluster			80,304	2,539	80,000	-
Passed-through the N.C. Dept. of Health and Human Services:						
Division of Medical Assistance:						
Division of Social Services:						
Administration:						
Medical Assistance Program	93.778	XXXX	374,662	1,459		163,447
State Children's Insurance Program - N.C. Health Choic	93.767	XXXX	27,998	3		-
Passed through NC Dept. of Health and Human Services						
Division of Public Health						
Family Planning Services	93.217	XXXX	18,897	-		-
Care Prevention and Control Programs for State,	93.898	XXXX	255	-		-
Preparedness (PHEP) Aligned Coop. Agreements		XXXX		-		-
Health Funds	93.074	XXXX	27,459	-		-
Immunization Infrastructure and Performance						
financed in part by Prevention & Public Health	93.539	XXXX	4,656			
Tribal Organizations financed in part by Prevention						
and Public Health Funds	93.752	XXXX	255			
Project Grants and Cooperative Agreements for						
Tuberculosis Control Programs	93.116	XXXX	50	-		-
Preventive Health Serv-Sexually Transmitted Dis	93.977	XXXX	692			
Preventive Health and Health Services Block Grant						
funded solely with Prevention and Public Health						
funds (PPHF)	93.758	XXXX	39,484			
Maternal and Child Health Services Block Grant	93.994	XXXX	19,658	14,746		-
Total U.S. Department of Health & Human Services			1,184,924	201,380	80,000	487,168
Total federal awards			\$ 1,626,551	\$ 361,686	\$ 80,000	\$ 614,652

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2018

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
State Awards:						
<u>N.C. Dept. of Health and Human Services</u>						
Division of Social Services:						
St SHLD Welfare/CPS/CS		XXXX	-	16,281		-
IV-E Adopt & Vendor & County Funded Programs		XXXX	(6,041)	(1,496)		(1,496)
Non Allocating County Cost		XXXX	-	-		253,472
Wrk Frt Non Reimbursable		XXXX	-	-		97,526
State Foster Home		XXXX	-	3,677		158,647
Total Division of Social Service			<u>(6,041)</u>	<u>18,462</u>		<u>3,677</u>
						<u>511,826</u>
Division of Public Health						
Other Receipts/State Supported Expenditures						
General Aid to Counties		XXXX	-	76,226		-
Food and Lodging Fees		XXXX	-	4,289		-
Child Health		XXXX	-	1,090		-
Family Planning State		XXXX	-	6,214		-
Maternal Health		XXXX	-	1,205		-
Women's Health Service Fund		XXXX	-	2,945		-
Breast and Cervical Cancer Program		XXXX	-	7,905		-
General Communicable Disease Control		XXXX	-	11,294		-
HIV/STD State		XXXX	-	500		-
School Nurse Funding Initiative		XXXX	-	50,000	50,000	-
TB Control		XXXX	-	1,210		-
Total Division of Public Health			<u>-</u>	<u>162,878</u>	<u>50,000</u>	<u>-</u>
Total N. C. Department of Health and Human Services			<u>(6,041)</u>	<u>181,340</u>	<u>130,000</u>	<u>511,826</u>
<u>Department of Public Safety</u>						
Juvenile Crime Prevention Programs		XXXX	-	57,991	57,991	-
<u>Department of Environmental Quality</u>						
Community Waste Reduction and Recycling Grant		XXXX		12,000		
<u>N.C. Department of Insurance</u>						
Shiip Grant		XXXX	-	1,550		
Total State awards			<u>(6,041)</u>	<u>252,881</u>		<u>511,826</u>
Total federal and State awards			<u>\$ 1,620,510</u>	<u>\$ 614,567</u>	<u>\$ 187,991</u>	<u>\$ 1,126,478</u>

CLAY COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2018

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Passed through to Sub- Recipients	Local Expenditures
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Notes to the Schedule of Expenditures of Federal and State Financial Awards:

1. **Basis of Presentation**
 The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Clay County under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of Clay County, it is not intended to and does not present the financial position, changes in net position or cash flows of Clay County.

2. **Summary of Significant Accounting Policies**
 Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Clay County has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. **Cluster of Programs**
 The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes: Subsidized Child Care and Foster Care and Adoption.

4. **Indirect Cost Rate**
 Clay County has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.