

**CLAY COUNTY  
NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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# **CLAY COUNTY, NORTH CAROLINA**

## **BOARD OF COUNTY COMMISSIONERS**

Clay Logan, Board Chairman

Robert Peck

Robert Penland

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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**June 30, 2017**

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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, 2017, 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, 2017, 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 Schedules of Funding Progress and Employer Contributions on page 67, the Local Government Employees' Retirement System Schedules of the County's Proportionate Share of Net Pension Liability and County Contributions, pages 68 and 69, 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 70, 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 71 and 72 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 27, 2017 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 27, 2017



**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, 2017. 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

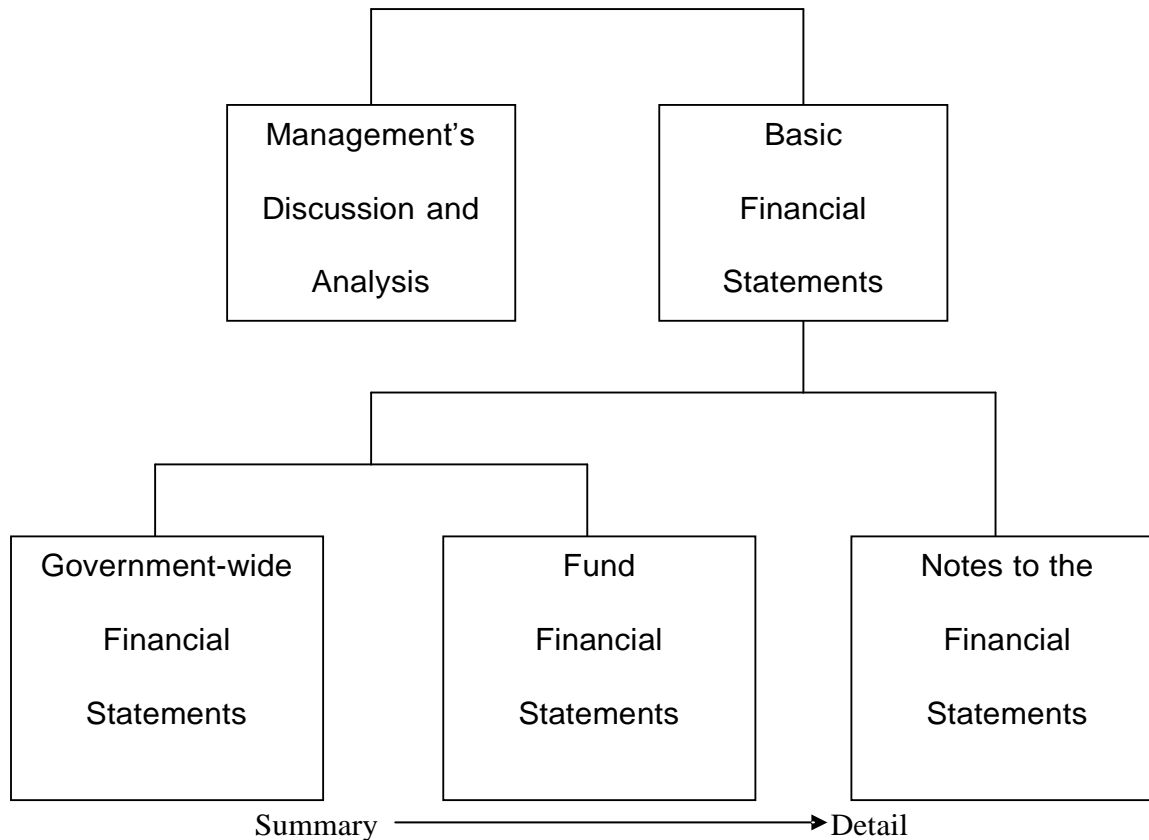
- The assets and deferred outflows of resources of Clay County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 21,993,726 (*net position*).
- The government's total net position decreased by \$676,642, primarily due to the changes in the pension related deferrals.
- As of the close of the current fiscal year, Clay County's governmental funds reported combined ending fund balances of \$ 4,131,957, after a net decrease in fund balance of \$109,936. Approximately 31.89 percent of this total amount or \$1,317,870 is restricted or non-spendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,622,769 or 15.15 percent of total general fund expenditures for the fiscal year.
- Clay County's total debt outstanding increased by \$522,455 during the current fiscal year. The key factor in this change was the only new debt issued related to the purchase of three county vehicles.

### 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 \$ 21,993,726 as of June 30, 2017. The County's net position decreased by \$676,642 for the fiscal year ended June 30, 2017. One of the largest portions \$19,453,923 (88.45%) 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 \$1,290,054 (5.87%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,249,749 (5.68%) is unrestricted.

## Clay County's Net Position

**Figure 2**

	Governmental Activities		Business Type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 5,673,840	\$ 5,243,612	\$ 224,952	\$ 328,760	\$ 5,898,792	\$ 5,572,372
Capital assets	22,982,146	21,894,144	6,761,051	6,223,090	29,743,197	28,117,234
Total assets	<u>28,655,986</u>	<u>27,137,756</u>	<u>6,986,003</u>	<u>6,551,850</u>	<u>35,641,989</u>	<u>33,689,606</u>
Total deferred outflow of resources	483,978	1,878,694	15,078	63,249	499,056	1,941,943
Long-term liabilities outstanding	12,206,551	12,675,398	111,771	165,583	12,318,322	12,840,981
Other liabilities	495,130	326,129	98,659	112,649	593,789	438,778
Total liabilities	<u>12,701,681</u>	<u>13,001,527</u>	<u>210,430</u>	<u>278,232</u>	<u>12,912,111</u>	<u>13,279,759</u>
Total deferred inflow of resources	474,609	355,544	7,078	2,520	481,687	358,064
Net position:						
Net invested in capital assets	13,006,467	13,253,833	6,726,051	6,200,090	19,732,518	19,453,923
Restricted	1,525,338	1,290,054	-	-	1,525,338	1,290,054
Unrestricted	1,431,869	1,115,492	57,522	134,257	1,489,391	1,249,749
Total net position	<u>\$ 15,963,674</u>	<u>\$ 15,659,379</u>	<u>\$ 6,783,573</u>	<u>\$ 6,334,347</u>	<u>\$ 22,747,247</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 97.66 %.
- 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	
	2016	2017	2016	2017	2016	2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,104,734	\$ 2,225,409	\$ 605,273	\$ 614,630	\$ 2,710,007	\$ 2,840,039
Operating grants and contributions	4,049,070	4,079,826	-	-	4,049,070	4,079,826
Capital grants and contributions	92,480	73,072	-	-	92,480	73,072
<b>General Revenues:</b>						
Property taxes	8,194,800	8,335,016	-	-	8,194,800	8,335,016
Other taxes	2,113,284	2,368,826	-	-	2,113,284	2,368,826
Grants and contributions not restricted to specific programs	770,287	709,922	-	-	770,287	709,922
Other	376,389	184,051	315	1,465	376,704	185,516
Total revenues	17,701,044	17,976,122	605,588	616,095	18,306,632	18,592,217
<b>Expenses:</b>						
General government	3,461,025	4,357,812	-	-	3,461,025	4,357,812
Public safety	4,708,431	4,957,452	-	-	4,708,431	4,957,452
Transportation	693,347	678,394	-	-	693,347	678,394
Economic and physical development	668,235	665,869	-	-	668,235	665,869
Human services	4,746,085	4,958,902	-	-	4,746,085	4,958,902
Cultural and recreation	601,866	631,549	-	-	601,866	631,549
Education	1,750,745	1,733,490	-	-	1,750,745	1,733,490
Interest on long-term debt	264,595	236,710	-	-	264,595	236,710
Water and sewer	-	-	1,010,881	1,065,321	1,010,881	1,065,321
Total expenses	16,894,329	18,220,178	1,010,881	1,065,321	17,905,210	19,285,499
Increase in net position before transfers and special items	806,715	(244,056)	(405,293)	(449,226)	401,422	(693,282)
Transfers and special items	-	16,640	-	-	-	16,640
Increase in net position	806,715	(227,416)	(405,293)	(449,226)	401,422	(676,642)
Net position, beginning previously reported	15,156,959	15,963,674	7,188,866	6,783,573	22,345,825	22,747,247
Restatement	-	(76,879)	-	-	-	(76,879)
Net position, beginning restated	15,156,959	15,886,795	7,188,866	6,783,573	22,345,825	22,670,368
Net position, ending	\$ 15,963,674	\$ 15,659,379	\$ 6,783,573	\$ 6,334,347	\$ 22,747,247	\$ 21,993,726

**Business-type activities** - Business-type activities decreased the County's net position by \$450,691, 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 \$2,622,769 while total fund balance reached \$3,938,280. 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 15.15% of general fund expenditures, while total fund balance represents 22.75% of that same amount.

At June 30, 2017, the governmental funds of Clay County reported a combined fund balance of \$4,131,957, a decrease of \$109,936 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 \$2,589,864.

**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 \$134,257. The total decrease in net position for this fund was \$449,226. 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, 2017, total \$ 28,117,234 (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:

- Equipment for a new call center for E911
- Vehicles for various departments
- Tasers and cameras for Sherriff's Department
- EKG machine for the Health Department
- Golf cart for the Recreation Center
- X-ray machine for dental clinic at the Health Department

### Clay County's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business - Type Activities		Total	
	2016	2017	2016	2017	2016	2017
Land	\$ 839,820	\$ 839,820	\$ 120,280	\$ 120,280	\$ 960,100	\$ 960,100
Buildings and System	18,158,170	17,268,732	6,617,433	6,085,849	24,775,603	23,354,581
Improvements Other than Buildings	1,026,817	1,021,180	-	-	1,026,817	1,021,180
Machinery and Equipment	1,587,404	1,546,676	23,338	13,181	1,610,742	1,559,857
Vehicles and Motorized Equipment	1,369,935	1,217,736	-	3,780	1,369,935	1,221,516
Total	<u>\$ 22,982,146</u>	<u>\$ 21,894,144</u>	<u>\$ 6,761,051</u>	<u>\$ 6,223,090</u>	<u>\$ 29,743,197</u>	<u>\$ 28,117,234</u>

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, 2017, Clay County had total bonded debt outstanding of \$ 175,000 all of which is debt backed by the full faith and credit of the County.

Clay County's Outstanding Debt

Figure 5

	Governmental		Business - Type		Total	
	Activities	Activities	Activities	Activities	2016	2017
	2016	2017	2016	2017	2016	2017
General Obligation Bond	\$ 290,000	\$ 175,000	\$ -	\$ -	\$ 290,000	\$ 175,000
Installment purchases	9,949,248	8,610,363	-	-	9,949,248	8,610,363
Capitalized leases	26,430	29,948	-	-	26,430	29,948
Notes payable	-	-	35,000	23,000	35,000	23,000
Net Pension Obligation (LEOSSA)	85,719	176,612	-	-	85,719	176,612
Net Pension Obligation (LGERs)	430,373	2,107,094	13,619	71,907	443,992	2,179,001
Other Post Employment Benefits	1,064,859	1,225,978	51,365	59,716	1,116,224	1,285,694
Compensated Absences	360,126	350,403	11,787	10,960	371,913	361,363
Total	\$ 12,206,755	\$ 12,675,398	\$ 111,771	\$ 165,583	\$ 12,318,526	\$ 12,840,981

Clay County's indebtedness increased by \$522,455 during the fiscal year ending June 30, 2017. While the county paid down its indebtedness on outstanding obligations, the overall indebtedness increased because the net pension obligation for LEOSSA and LGERs increased more than the amount of indebtedness retired by the county.

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 \$161,058,980.

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, 2017**

**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 \$17,442,317.

The County has chosen not to appropriate fund balance in the original fiscal year 2018 budget. Management increased the property tax levy slightly to provide for key services and will continue restrictions on spending to maintain the County's financial position. As the County considers future revenue sources, it will weigh the benefit of increasing the property tax rate against the costs associated with doing so.

### **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, 2017**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Clay County ABC Board
<b>ASSETS</b>				
Cash and cash equivalents	3,633,474	\$ 134,306	\$ 3,767,780	\$ 363,321
Restricted cash	-	89,219	89,219	
Receivables (net)	1,148,290	105,235	1,253,525	
Due from other governments	405,736	-	405,736	
Inventories	-	-	-	270,125
Internal Balances	-	-	-	-
Prepaid Items	27,816	-	27,816	5,982
Net pension asset	28,296	-	28,296	-
Capital assets:				
Land, improvements, and construction in progress	839,820	120,280	960,100	25,000
Other capital assets, net of depreciation	21,054,324	6,102,810	27,157,134	267,960
Total capital assets	<u>21,894,144</u>	<u>6,223,090</u>	<u>28,117,234</u>	<u>292,960</u>
Total assets	<u>27,137,756</u>	<u>6,551,850</u>	<u>33,689,606</u>	<u>932,388</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,878,694	63,249	1,941,943	-
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	326,129	23,430	349,559	185,387
Customer Deposits	-	89,219	89,219	-
Long-term liabilities:				
Net pension liability - LGERS	2,107,094	71,907	2,179,001	
Total pension liability - LEOSSA	176,612	-	176,612	
Due within one year	1,489,906	12,000	1,501,906	-
Due in more than one year	8,901,786	81,676	8,983,462	4,007
Total liabilities	<u>13,001,527</u>	<u>278,232</u>	<u>13,279,759</u>	<u>189,394</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	355,544	2,520	358,064	-
<b>NET POSITION</b>				
Net Investment in capital assets	13,253,833	6,200,090	19,453,923	292,960
Restricted				
Stabilization of State Statute	1,079,262	-	1,079,262	-
Register of Deeds	41,365	-	41,365	-
Public Safety	81,349	-	81,349	-
Industrial Purposes	88,078	-	88,078	
Working Capital	-	-	-	69,058
Unrestricted (deficit)	1,115,492	134,257	1,249,749	380,976
Total net position	<u>\$ 15,659,379</u>	<u>\$ 6,334,347</u>	<u>\$ 21,993,726</u>	<u>\$ 742,994</u>

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, 2017**

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	
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 4,357,812	\$ 104,796	\$ 221,082	\$ -	\$ (4,031,934)	\$ -	\$ (4,031,934)	\$ -
Public safety	4,957,452	1,058,112	327,449	-	(3,571,891)	-	(3,571,891)	-
Transportation	678,394	143,846	285,633	73,072	(175,843)	-	(175,843)	-
Economic and physical developmer	665,869	388,836	48,759	-	(228,274)	-	(228,274)	-
Environmental Protection	-	-	-	-	-	-	-	-
Human services	4,958,902	330,232	3,158,232	-	(1,470,438)	-	(1,470,438)	-
Cultural and recreation	631,549	199,587	-	-	(431,962)	-	(431,962)	-
Education	1,733,490	-	38,671	-	(1,694,819)	-	(1,694,819)	-
Interest on long-term debt	236,710	-	-	-	(236,710)	-	(236,710)	-
Total governmental activities	18,220,178	2,225,409	4,079,826	73,072	(11,841,871)	-	(11,841,871)	-
Business-type activities:								
Water and Sewer	1,065,321	614,630	-	-	-	(450,691)	(450,691)	-
Total business-type activities	1,065,321	614,630	-	-	-	(450,691)	(450,691)	-
	\$ 19,285,499	\$ 2,840,039	\$ 4,079,826	\$ 73,072	(11,841,871)	(450,691)	(12,292,562)	-
Component unit:								
ABC Board	2,286,573	2,320,734	-	-	-	-	-	34,161
Total component unit	2,286,573	2,320,734	-	-	-	-	-	34,161
General revenues:								
Taxes:								
Property taxes, levied for general purpose					8,335,016	-	8,335,016	-
Local option sales tax					2,275,752	-	2,275,752	-
Other taxes and licenses					93,074	-	93,074	-
Grants and contributions not restricted to specific programs					709,922	-	709,922	-
Investment earnings, unrestricted					23,206	1,465	24,671	318
Miscellaneous, unrestricted					160,845	-	160,845	-
Total general revenues excluding transfers and special items					11,597,815	1,465	11,599,280	318
Special item- gain on sale of building					16,640	-	16,640	-
Total general revenues, special items, and transfers					11,614,455	1,465	11,615,920	34,479
Change in net position					(227,416)	(449,226)	(676,642)	34,479
Net position, beginning, previously reported					15,963,674	6,783,573	22,747,247	708,515
Restatement					(76,879)	-	(76,879)	-
Net position, beginning, restated					15,886,795	6,783,573	22,670,368	-
Net position, ending					\$ 15,659,379	\$ 6,334,347	\$ 21,993,726	\$ 742,994

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

**Clay County, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	Non-Major		
	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,466,272	\$ 167,202	\$ 3,633,474
Restricted cash	-	-	-
Receivables, net	1,092,074	56,216	1,148,290
Due from other governments	405,736	-	405,736
Due from other funds	3,859	7,518	11,377
Prepaid items	27,816	-	27,816
Total assets	<u>\$ 4,995,757</u>	<u>\$ 230,936</u>	<u>\$ 5,226,693</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 324,695	\$ 1,434	\$ 326,129
Due to Other Funds	7,518	3,859	11,377
Total liabilities	<u>332,213</u>	<u>5,293</u>	<u>337,506</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>725,264</u>	<u>31,966</u>	<u>757,230</u>
Fund balances:			
Nonspendable:			
Prepays	27,816	-	27,816
Restricted:			
Stabilization by State Statute	1,055,012	24,250	1,079,262
Register of Deeds	41,365	-	41,365
Other	-	169,427	169,427
Committed:			
Tax Revaluation	191,318	-	191,318
Assigned :			
Subsequent year's expenditures	-	-	-
Unassigned :			
	2,622,769	-	2,622,769
Total fund balances	<u>3,938,280</u>	<u>193,677</u>	<u>4,131,957</u>
Total liabilities and fund balances	<u>\$ 4,995,757</u>	<u>\$ 230,936</u>	

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

Total Fund balance, Governmental Funds	4,131,957
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.	21,894,144
Net pension asset	28,296
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position	447,144
Benefit payments and pension administration costs for LEOSSA are deferred outflow of resources on the Statement of Net Position	13,807
Pension related deferrals	1,340,805
Net Pension Liability	(2,107,094)
Total Pension Liability	(176,612)
Deferred inflows of resources for taxes and special assessments receivable	478,624
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>(10,391,692)</u>
Net position of governmental activities	<u>15,659,379</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, 2017**

	Major	Non-Major	Total
	General Fund	Other Governmental Funds	
<b>REVENUES</b>			
Ad valorem taxes	\$ 7,997,060	\$ 509,529	\$ 8,506,589
Local option sales taxes	2,275,752	-	2,275,752
Other taxes and licenses	121,107	-	121,107
Unrestricted intergovernmental	405,020	-	405,020
Restricted intergovernmental	4,206,684	165,070	4,371,754
Permits and fees	637,669	-	637,669
Sales and services	1,645,753	-	1,645,753
Investment earnings	22,005	1,201	23,206
Miscellaneous	160,845	-	160,845
Total revenues	17,471,895	675,800	18,147,695
<b>EXPENDITURES</b>			
Current:			
General government	3,098,292	-	3,098,292
Public safety	4,141,137	1,015,655	5,156,792
Transportation	626,716	-	626,716
Economic and physical development	665,686	-	665,686
Human services	4,733,795	-	4,733,795
Cultural and recreational	574,478	-	574,478
Intergovernmental:			
Education	1,733,490	-	1,733,490
Capital outlay	-	-	-
Debt service:			
Principal	1,505,345	-	1,505,345
Interest	234,655	-	234,655
Total expenditures	17,313,594	1,015,655	18,329,249
Excess (deficiency) of revenues over expenditures	158,301	(339,855)	(181,554)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Sale of capital assets	16,640	-	16,640
Capitalized lease obligations issued	25,030	-	25,030
Installment purchase obligations issued	29,948	-	29,948
Payment to refunded bond escrow agent	-	-	-
Total other financing sources and uses	71,618	-	71,618
Net change in fund balance	229,919	(339,855)	(109,936)
Fund balances, beginning	3,708,361	533,532	4,241,893
Restatement	-	-	-
Fund balance, beginning restated	3,708,361	533,532	4,241,893
Fund balances, ending	\$ 3,938,280	\$ 193,677	\$ 4,131,957

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, 2017**

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

Net changes in fund balances - total governmental funds	\$ (109,936)
<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	\$ 472,217
Depreciation expense for governmental assets	(1,560,219)
Depreciation in the current period	\$ (1,088,002)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	447,144
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position	13,807
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(182,940)
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.	1,450,367
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>(757,856)</u>
Total changes in net position of governmental activities	<u><u>\$ (227,416)</u></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, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 7,847,844	\$ 8,172,612	\$ 7,997,060	\$ (175,552)
Local option sales tax	2,331,042	2,403,992	2,275,752	(128,240)
Other taxes and licenses	128,000	128,000	121,107	(6,893)
Unrestricted intergovernmental	380,000	392,312	405,020	12,708
Restricted intergovernmental	3,648,692	5,062,783	4,206,684	(856,099)
Permits and fees	574,250	638,502	637,669	(833)
Sales and services	1,308,504	1,886,978	1,645,753	(241,225)
Investment earnings	10,500	10,500	22,005	11,505
Miscellaneous	114,600	237,617	160,845	(76,772)
Total revenues	<u>16,343,432</u>	<u>18,933,296</u>	<u>17,471,895</u>	<u>(1,461,401)</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	2,769,795	3,290,144	3,098,292	191,852
Public safety	3,937,806	4,418,712	4,141,137	277,575
Transportation	712,230	713,402	626,716	86,686
Economic and physical development	634,889	736,284	665,686	70,598
Human services	4,315,628	5,765,873	4,733,795	1,032,078
Cultural and recreational	487,446	668,743	574,478	94,265
<b>Intergovernmental:</b>				
Education	1,650,000	1,735,172	1,733,490	1,682
<b>Debt service:</b>				
Principal retirement	1,610,306	1,602,631	1,505,345	97,286
Interest and other charges	227,332	235,007	234,655	352
Total expenditures	<u>16,345,432</u>	<u>19,165,968</u>	<u>17,313,594</u>	<u>1,852,374</u>
Revenues over (under) expenditures	<u>(2,000)</u>	<u>(232,672)</u>	<u>158,301</u>	<u>390,973</u>
<b>Other financing sources (uses):</b>				
Installment Obligations Issued	-	30,000	29,948	(52)
Capitalized lease obligations issued		30,000	25,030	(4,970)
Sale of capital assets	2,000	20,000	16,640	(3,360)
Total other financing sources (uses)	<u>2,000</u>	<u>80,000</u>	<u>71,618</u>	<u>(8,382)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (152,672)</u>	<u>229,919</u>	<u>382,591</u>
Appropriated Fund Balance	-	152,672	-	-
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>-</u>	<u>229,919</u>	<u>-</u>
Fund balance, beginning			3,708,361	
Restatement			-	
Fund balance, beginning restated			<u>3,708,361</u>	
Fund balance, ending			<u>\$ 3,938,280</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, 2017**

	<b>Water and Sewer District</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 134,306	\$ 134,306
Receivables, net	105,235	105,235
Total current assets	239,541	239,541
Noncurrent assets:		
Restricted cash and cash equivalents	89,219	89,219
Capital assets:		
Land and construction in progress	120,280	120,280
Plant and distribution systems, net of depreciation	6,088,149	6,088,149
Furniture and maintenance equipment, net of depreciation	10,881	10,881
Vehicles, net of depreciation	3,780	3,780
Total capital assets	6,223,090	6,223,090
Total noncurrent assets	6,312,309	6,312,309
Total assets	6,551,850	6,551,850
DEFERRED OUTFLOWS OF RESOURCES	63,249	63,249
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	23,430	23,430
Due to other funds	-	-
Notes Payable- current	12,000	12,000
Customer deposits	89,219	89,219
Total current liabilities	124,649	124,649
Noncurrent liabilities:		
Other postemployment benefits	59,716	59,716
Compensated absences	10,960	10,960
Net Pension Liability	71,907	71,907
Notes Payable- noncurrent	11,000	11,000
Total noncurrent liabilities	153,583	153,583
Total liabilities	278,232	278,232
DEFERRED INFLOWS OF RESOURCES	2,520	2,520
<b>NET ASSETS</b>		
Net investment in capital assets	6,200,090	6,200,090
Unrestricted	134,257	134,257
Total net position	6,334,347	6,334,347

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, 2017**

	<b>Water and Sewer District</b>	<b>Total</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 566,811	\$ 566,811
Water and sewer taps	4,650	4,650
Miscellaneous	43,169	43,169
Total operating revenues	614,630	614,630
<b>OPERATING EXPENSES</b>		
Administration	525,610	525,610
Depreciation	537,961	537,961
Total operating expenses	1,063,571	1,063,571
Operating income (loss)	(448,941)	(448,941)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	1,465	1,465
Interest expense and fees	(1,750)	(1,750)
Total nonoperating revenue (expenses)	(285)	(285)
<b>Income (loss) before contributions and transfers</b>	<b>(449,226)</b>	<b>(449,226)</b>
Capital Contributions	-	-
Transfers from General	-	-
<b>Change in net position</b>	<b>(449,226)</b>	<b>(449,226)</b>
Total net position, beginning	\$ 6,783,573	\$ 6,783,573
Total net position, ending	\$ 6,334,347	\$ 6,334,347

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

**Clay County, North Carolina  
Statement of Cash Flows  
Enterprise Fund  
For The Fiscal Year Ended June 30, 2017**

	<b>Water and Sewer District</b>	<b>Totals June 30, 2017</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 572,440	\$ 572,440
Cash paid for goods and services	(235,274)	(235,274)
Cash paid to employees for services	(262,372)	(262,372)
Change in customer deposits	(1,602)	(1,602)
Other operating revenue	43,169	43,169
Net cash provided by operating activities	116,361	116,361
<b>Cash flows from noncapital financing</b>		
Transfer from other funds	-	-
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	-	-
Principal paid on notes payables and installment purchases	(12,000)	(12,000)
Interest paid on note payable and installment purchases	(1,750)	(1,750)
Capital contributions	-	-
Net cash used by capital and related financing activities	(13,750)	(13,750)
<b>Cash flows from investing activities:</b>		
Interest on investments	1,465	1,465
Net increase (decrease) in cash and cash equivalents	104,076	104,076
Cash and cash equivalents, beginning	119,449	119,449
Cash and cash equivalents, ending	\$ 223,525	\$ 223,525

(continued)

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

**Clay County, North Carolina  
Statement of Cash Flows  
Enterprise Fund  
For The Fiscal Year Ended June 30, 2017**

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

Operating income	<u>\$ (448,941)</u>	<u>\$ (448,941)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	537,961	537,961
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	978	978
(Increase) decrease in sales tax receivable	(710)	(710)
Increase in net pension liability	58,288	
Increase (decrease) in accounts payable and accrued liabilities	15,592	15,592
Decrease in deferred inflow of resour	(4,558)	
Decrease in accrued vacation pay	(828)	(828)
Increase in OPEB payable	8,352	8,352
(Increase) decrease in deferred outflows of resources for pensions	(48,171)	(48,171)
Increase (decrease) in customer deposits	(1,602)	(1,602)
Total adjustments	<u>565,302</u>	<u>565,302</u>
Net cash provided by operating activities	<u><u>\$ 116,361</u></u>	<u><u>\$ 116,361</u></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, 2017**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 12,064</u>
<b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ -
Miscellaneous liabilities	12,064
Intergovernmental payable	<u>          </u>
Total liabilities	<u>12,064</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, 2017**

**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 48 Creekside Circle 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. As of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 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 are 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 Cash Portfolio, a SEC-registered (2a-7) external investment pool, 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, 2016. 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

Capital assets of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Furniture and equipment	3-7
Leasehold improvements	10 – 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 related deferrals, and contributions made to the pension plan 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 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 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"). 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. Investments 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 \$11,527,422 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)	\$ 38,938,783
Less accumulated depreciation	(17,044,639)
Net capital assets	\$ 21,894,144
Benefit payments and pension administrative costs for LEOSSA	13,807
Contributions to the pension plan in the current fiscal year	447,144
Deferred inflows of resources for taxes and special assessments receivable	478,624
Net Pension asset	28,296
Pension related deferrals	1,340,805
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	(8,815,311)
Compensated absences	(350,403)
Other Post Employment Benefits	(1,225,978)
Net Pension liability	(2,283,706)
Total adjustment	<u>\$11,527,422</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 (\$117,480) 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	\$ 472,217
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	(1,560,219)
New debt issued during the year is recorded as a source of funds on the fund statements; it has not effect on the statement of activities – it affects only the government wide statement of net Position	(54,979)
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	1,505,346
Contributions to the pension plan in the current fiscal year not included on the Statement of Activities	447,144
Benefit payments and administrative costs for LEOSSA are deferred outflows of resources on the Statement of Net Position	13,807
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	9,723
Other postemployment benefits	(161,119)
Pension expense	(606,460)
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	(182,940)
Total Adjustment	<u>(\$117,480)</u>

## **II. Stewardship, Compliance, and Accountability**

### **A. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2017, the expenditures made in the County's Fire Tax Fund exceeded the authorized appropriations made by the governing board for public safety expenditures by \$14,620. This over-expenditure occurred because of unplanned revenues that the county collected on behalf of the various local fire departments. Management and the Board will more closely review the budget 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, 2017, the County's deposits had a carrying amount of \$1,529,024 and a bank balance of \$1,725,479. Of the bank balance, \$662,421, was covered by federal depository insurance and \$1,063,058 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2017, Clay County had \$ 664 cash on hand.

At June 30, 2017, the Clay County ABC Board's deposits had a carrying amount of \$361,621 and a bank balance of \$359,134. A portion of the bank balance, \$109,134, 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, 2017.

## 2. Investments

As of June 30, 2017, 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	\$ 2,339,375	N/A	N/A
Total	\$ 2,339,375	\$ -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, 2017.

## 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
2014	421,067	109,477	530,544
2014	430,118	83,873	513,991
2015	442,867	28,786	471,653
2016	446,427	-	446,427
Total	\$ 1,740,479	\$ 222,136	\$ 1,962,615

**4. Receivables**

Receivables at the government-wide level at June 30, 2017, were as follows:

	Accounts	Taxes and Related Accrued Interest	Total
<b>Governmental Activities:</b>			
General	\$ 702,606	\$ 484,721	\$ 1,187,327
Other governmental	24,250	31,966	56,216
<b>Total Receivables</b>			
Allowance for doubtful accounts	-	(95,253)	(95,253)
<b>Total-governmental activities</b>	<b>\$ 726,856</b>	<b>\$ 421,434</b>	<b>\$ 1,148,290</b>
<b>Business Activities:</b>			
Water and Sewer	\$ 105,235	-	\$ 105,235
<b>Total Receivables</b>	<b>105,235</b>	<b>-</b>	<b>105,235</b>
	-		-
<b>Total business-type Activities</b>	<b>\$ 105,235</b>	<b>-</b>	<b>\$ 105,235</b>

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

Local option sales tax	\$ 392,925
Franchise fee	5,686
Solid Waste disposal tax	2,134
White goods disposal tax	1,063
Scrap tire tax	3,928
<b>Total</b>	<b>\$ 405,736</b>

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

Due to General	\$ 3,859	Due from Emergency Telephone System Fund
Due from General	\$ 7,518	Due to Fire Tax Fund

Due to General from Emergency Telephone System Fund is for a reimbursement of expenses.  
 Due from General to Fire Tax Fund is collection of fire taxes for the month of June 2017.

## 5. Capital Assets

### Primary Government

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 839,820	\$ -	\$ -	\$ 839,820
Construction in progress	-	-	-	-
Total capital assets not being depreciated	\$ 839,820	-	\$ -	\$ 839,820
<b>Capital assets being depreciated:</b>				
Buildings	26,202,805	-	-	26,202,805
Other improvements	2,393,528	-	-	2,393,528
Equipment	4,888,148	362,650	-	5,250,798
Vehicles and motor equipment	4,142,265	109,567	-	4,251,832
Total capital assets being depreciated	\$ 37,626,746	\$ 472,217	\$ -	\$ 38,098,963
Less accumulated depreciation for:				
Buildings	8,044,635	889,438	-	8,934,073
Other improvements	1,366,711	5,637	-	1,372,348
Equipment	3,300,744	403,378	-	3,704,122
Vehicles	2,772,330	261,766	-	3,034,096
Total accumulated depreciation	15,484,420	1,560,219	-	17,044,639
Total capital assets being depreciated, net	\$ 22,142,326			\$ 21,054,324
<b>Governmental activity capital assets, net</b>	<b>\$ 22,982,146</b>			<b>\$ 21,894,144</b>

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

General government	\$ 710,939
Public safety	277,777
Transportation	97,635
Economic and Physical development	11,526
Human services	395,652
Cultural and recreational	66,690
Total Depreciation expense	<u>\$ 1,560,219</u>

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 120,280	-	-	\$ 120,280
Construction in progress	-	-	-	-
Total capital assets not being depreciated	120,280	-	-	120,280
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	11,663,051	-	-	11,663,051
Furniture and maintenance equipment	157,966	-	-	157,966
Vehicles	14,200	-	-	14,200
Total capital assets being depreciated	11,835,217	-	-	11,835,217
Less accumulated depreciation for:				
Plant and distribution systems	5,045,618	531,584	-	5,577,202
Furniture and maintenance equipment	139,848	4,937	-	144,785
Vehicles	8,980	1,440	-	10,420
Total accumulated depreciation	5,194,446	537,961	-	5,732,407
<b>Water and Sewer District capital assets, net</b>	<b><u>\$6,761,051</u></b>			<b><u>\$6,223,090</u></b>

**Construction commitments**

The government had no active construction projects at year-end.



**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2017, was as follows:

	Beginning balances	additions	deletions	Ending balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 25,000	-	-	\$ 25,000
Total capital assets not being depreciated	\$ 25,000	-	-	\$ 25,000
<b>Capital assets being depreciated:</b>				
Building	\$ 237,509	14,963	-	\$ 252,472
Leasehold Improvements	3,441	-	-	3,441
Store equipment	106,115	4,993	-	111,108
Total capital assets being depreciated	\$ 347,065	\$ 19,956	-	\$ 367,021
Less accumulated depreciation for:				
Buildings	\$ 20,840	\$ 6,561	-	\$ 27,401
Leasehold Improvements	3,441	-	-	3,441
Store equipment	58,989	9,230	-	68,219
Total accumulated depreciation	\$ 83,270	\$ 15,791	-	\$ 99,061
Total capital assets being depreciated, net	\$ 263,795	\$ 4,165	-	\$ 267,960
<b>ABC capital assets, net</b>	<b>\$ 288,795</b>			<b>\$ 292,960</b>

**B. Liabilities****1. Payables**

Payables at the government-wide level at June 30, 2017, were as follows:

	Vendors	Other	Total
Governmental activities:			
General	\$ 324,695		\$ 324,695
Other governmental	1,434		1,434
Total governmental activities	\$ 326,129		\$ 326,129
Business-type activities:			
Water and Sewer District	\$ 23,430		\$ 23,430
Total business-type activities	\$ 23,430		\$ 23,430

## **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](http://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, 2017, was 8.00% of compensation for law enforcement officers and 7.25% 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 \$461,051 for the year ended June 30, 2017.

*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, 2017, the County reported a liability of \$2,179,001 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the County’s proportion was .10267%, which was an increase of .00374% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$606,310. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$40,940	\$76,355
Net difference between projected and actual earnings on pension plan investments	1,204,714	
Changes in proportion and differences between County contributions and proportionate share of contributions	\$60,698	
County contributions subsequent to the measurement date	461,051	
Change of assumptions	149,242	
Total	<u>\$1,916,645</u>	<u>\$76,355</u>

\$461,051 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$	224,066
2019		224,113
2020		582,316
2021		348,747
2022		
Thereafter		-
	\$	<u>1,379,242</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 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	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 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, 2016 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	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

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 3.00%. All rates of return and inflation are annualized.

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

*Sensitivity of the 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Discount Rate (7.25%)	1% Increase <u>(8.25%)</u>
County’s proportionate share of the net pension liability (asset)	5,171,787	2,179,001	(320,795)

*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	14
Total	17

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, 2015 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 3.75 percent, including inflation and productivity factor
Discount rate	3.86%

The discount rate used to measure the TPL is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

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 \$27,067 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, 2017, the County reported a total pension liability of \$176,612. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was rolled forward to December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the County recognized pension expense of \$16,850.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
Change of assumptions		\$ 2,656
County benefits payments and plan administrative expense made subsequent to the measurer	\$ 13,807	
Total	<u>\$ 13,807</u>	<u>\$ 2,656</u>

\$13,807 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 539
2019	539
2020	539
2021	539
2022	500
Thereafter	0

\$13,627 paid as benefits came due and \$180 of administrative expenses subsequent to the measurement dates are reported as deferred outflows of resources.

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 3.86 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 (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease -2.86%	Discount Rate (3.86%)	1% Increase -4.86%
Total pension liability	\$ 187,993	\$ 176,612	\$ 166,224

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

	2017
Beginning balance	\$ 187,997
Service Cost	10,951
Interest on the total pension liability	6,258
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(3,195)
Benefit payments	(25,399)
Other changes	-
Ending balance of the total pension liability	\$ 176,612

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, 2015 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 \$39,206 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](http://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 \$1,308 for the year ended June 30, 2017.

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

At June 30, 2017 the County reported an asset of \$28,296 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016 the County's proportion was .15135% which was a decrease of .00745% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the County recognized pension expense of \$3,308. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$30	\$366
Net difference between projected and actual earnings on pension plan investments	\$48	
Changes in proportion and differences between County contributions and proportionate share of contributions	\$2,566	\$81
County contributions subsequent to the measurement date	\$1,308	
Change of assumptions	\$7,539	
<b>Total</b>	<b><u>\$11,491</u></b>	<b><u>\$447</u></b>

\$1,308 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$4,574
2019	3,964
2020	1,519
2021	(317)
Thereafter	<u>-</u>
	<u>\$9,740</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 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, 2015 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, 2016 is 1.4%.

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 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 (4.75 percent) or 1-percentage-point higher (6.75 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)	(22,816)	(28,296)	(32,900)

*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. 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 December 31, 2014, the date of the latest actuarial valuation*

**Active Members**

Law Enforcement Officers

Number	12
Covered Payroll	\$426,581
Valuation Compensation	\$456,972

General Employees

Number	173
Covered Payroll	\$5,698,345
Valuation Compensation	\$6,058,204

*Funding Policy.* The County pays the full cost of coverage for the healthcare benefits paid to qualified retirees that choose Plan OAMC3 or Plan OAMC8 Retiree only coverage, \$582.22 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.

	<b>OAMC3</b>	<b>OAMC8</b>	<b>OAMC4</b>		
Retiree Only	\$ 550.01	\$ 582.22	\$ 637.22		
Retiree and Spouse	\$1,100.03	\$1,164.44	\$1,245.43		
Retiree and Child(ren)	\$ 962.52	\$1,018.88	\$1,116.00		
Family	\$1,237.54	\$1,310.00	\$1,310.00		

The current annual required contribution (ARC) rate is 4.55% of annual covered payroll. For the current year, the County contributed \$111,478 or 1.82% of annual covered payroll. The County obtains healthcare coverage through private insurers. The County's required contributions, under a County resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.40% and .11% of covered payroll, respectively. The County's contributions totaled \$111,478 in fiscal year 2017. There were no contributions made by retirees, except for dependent coverage or if they select a plan other than plan 4. Retirees contributed \$8,598 during the fiscal year. The County's obligation to contribute to HCB Plan is established and may be amended by the County Commissioners.

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

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

Annual required contribution	\$ 278,953
Interest on net OPEB obligation	44,649
Adjustment to annual required contribution	(42,654)
Annual OPEB cost (expense)	280,948
Contributions made	(111,478)
Increase (decrease) in net OPEB obligation	169,470
Net OPEB obligation, beginning of year	1,116,224
Net OPEB obligation, end of year	\$1,285,694

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017 were as follows:

3 Year Trend Information			
For Year Ended June	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 272,227	33.9%	\$ 962,383
2016	\$ 272,548	43.6%	\$1,116,224
2017	\$ 280,948	39.7%	\$1,285,694

*Funded Status and Funding Progress.* As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus the unfunded actuarial accrued liability (UAAL) was \$2,564,650. The covered payroll (annual payroll of active employees covered by the plan) was \$6,124,926, and the ratio of the UAAL to the covered payroll was 41.9 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expense), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.5 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2014 is 30 years.

#### **f. 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**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pensions- difference between expected and actual experience	\$ 40,970	\$ 76,721
Pensions- difference between projected and actual investment earnings	1,204,762	
Pensions- change in proportion and difference between employer contributions and proportionate share of contributions	63,264	81
Pensions- change in assumptions	156,781	2,656
Contributions to pension plan subsequent to measurement date (LGERS, ROD)	462,359	
Benefit payments/administration costs paid subsequent to the measurement date (LEOSSA)	13,807	
Prepaid taxes not yet earned (General)		61,180
Taxes receivable, net, less penalties (General)		446,658
Taxes receivable, net, less penalties (Special Revenue)		31,966
Grants not yet earned		217,426
Total	<u>\$ 1,941,943</u>	<u>\$ 836,688</u>

### **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.

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 performed 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, 2017, 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, 2017, 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	\$2,995	\$26,953

For Clay County, the future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 were as follows:



<u>Year Ending June 30</u>	
2018	\$10,887
2019	\$10,887
2020	<u>\$10,887</u>
Total minimum lease payments	\$32,661
Less: amount representing interest	<u>2,713</u>
Present value of the minimum lease payments	<u>\$29,948</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 finance 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%.

For Clay County, the future minimum payments as of June 30, 2017, including \$ 1,175,964 of interest, are:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2018	1,369,952	194,419
2019	1,373,494	165,634
2020	1,350,227	136,886
2021	1,083,544	108,699
2022	488,898	88,784
2023 and after	2,944,249	260,599
Principal payments	<u>\$ 8,610,364</u>	
Total interest payments		<u>\$ 955,021</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, 2017 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 %                   \$       175,000

Annual debt service requirements to maturity for the County's general obligation bond, including interest of \$ 33,304 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2018	110,000	6,398
2019	65,000	2,437
Total	<u>\$ 175,000</u>	<u>\$ 8,835</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, 2018	13,150
2019	11,550
Total Minimum Note	<u>24,700</u>
Payments	24,700
Less: Amount Representing	<u>1,700</u>
Interest	1,700
Present Value of the Note	<u>26,400</u>
Payment	<u>\$ 26,400</u>

**Debt Related to Capital Activities-** Of the total Governmental Activities debt listed only \$ 8,640,311 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, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
<b>Governmental activities:</b>					
General Obligation debt	\$ 290,000	-	\$ 115,000	\$ 175,000	\$ 110,000
Installment purchase	9,949,248	25,030	1,363,915	8,610,363	1,369,956
Capitalized leases	26,430	29,949	26,431	29,948	9,950
Net Pension liability (LGERS)	430,373	1,676,721	-	2,107,094	-
Net Pension obligation (LEOSSA)	85,719	90,893	-	176,612	-
OPEB	1,064,859	161,119	-	1,225,978	-
Compensated absences	360,126	265,359	275,082	350,403	-
Total Governmental activities	<u>\$ 12,206,755</u>	<u>\$ 2,249,071</u>	<u>\$ 1,780,428</u>	<u>\$ 12,675,398</u>	<u>\$ 1,489,906</u>
<b>Business-type activities:</b>					
Notes payable	\$ 35,000	-	\$ 12,000	\$ 23,000	\$ 12,000
OPEB	51,365	8,351	-	59,716	-
Net Pension liability (LGERS)	13,619	58,288	-	71,907	-
Compensated absences	11,787	8,970	9,797	10,960	-
Total Business-type activities	<u>\$ 111,771</u>	<u>\$ 75,609</u>	<u>\$ 21,797</u>	<u>\$ 165,583</u>	<u>\$ 12,000</u>

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, 2017, consist of the following:

Due to General Fund from the Emergency Telephone- for unreimbursed expenditures	\$ 3,859
Due to Fire Tax fund- taxes collected	\$ 7,518

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	\$21,894,144		\$6,223,090
Less: long-term debt	8,640,311		11,000
Less: current portion of long-term debt			12,000
Add: unexpended debt proceeds	-0-		-0-
Net investment in capital assets	\$13,253,833		\$6,200,090

**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	\$ 3,938,280
Less:	
Nonspendables-Prepaid	27,816
Stabilization by State Statute	1,055,012
Appropriated Fund Balance in 2018 budget	
Register of Deeds	41,365
Tax Revaluation	191,318
Working Capital/Fund Balance Policy	<u>1,533,277</u>
Remaining Fund Balance	\$ 1,089,492

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, 2017. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$112,039 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, 2017. 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, 2017. 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 \$ 133,335 during the fiscal year June 30, 2017. 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.

	<u>Federal</u>	<u>State</u>
Temporary assistance to needy families	\$ 21,719	\$ -
Medicaid	10,290,126	5,576,837
Adoption assistance	71,652	17,868
Adult assistanct	-	79,227
SSA/SAD	-	2,975
State foster home	-	7,830
Title IV-E, foster care	7,957	2,386
Total	<u>\$ 10,391,454</u>	<u>\$ 5,687,123</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 27, 2017, 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. Special Item**

During the year ended June 30, 2017, the County sold surplus property. This item is reflected on the government-wide statements as a special item because it is unusual in nature but under the control of management. The County sold the building for \$16,640.

## **XII. Change in Accounting Principles/Restatement**

The County implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the County to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the County to the Law Enforcement Officers' Special Separation Allowance during the measurement period. As a result, net position for the governmental activities decreased \$76,879. The County also implemented GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans for the Healthcare Benefits Plan. The implementation of this statement had no effect on net position.



### **Required Supplemental Financial Data**

- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Schedule of County's Proportionate Share of Net Pension Liability (LGERS)
- Schedule of County Contributions (LGERS)
- Schedule of County's Proportionate Share of Net Pension Asset (ROD)
- Schedule of County Contributions (ROD)
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered-Employee Payroll

Clay County, North Carolina  
Other Postemployment Benefits  
Required Supplementary Information

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Projected Unit Credit (b-a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (_c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2011	\$ -	\$ 2,396,657	\$ 2,396,657	0%	\$ 5,124,165	46.8%
12/31/2014	\$ -	\$ 2,564,650	\$ 2,564,650	0%	\$ 6,124,926	41.9%

**Schedule of Employer Contributions**

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2015	\$ 272,227	33.9%
2016	\$ 272,548	43.6%
2017	\$ 280,948	39.70%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/14
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of Pay, Open
Remaining amortization period	30
Amortization Factor	26.1695
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment rate of return*	4.0%
Medical trend assumptions	
Pre-Medicare Trend Rate	7.50% - 5.00%
Year of Ultimate Trend Rate	2020
*Includes inflation at	3.0%

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

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

\* 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 4 Fiscal Years*

	2017	2016	2015	2014
Contractually required contribution	\$ 461,051	\$ 421,332	\$ 439,329	\$ 423,384
Contributions in relation to the contractually required contribution	\$ 461,051	\$ 421,332	\$ 439,329	\$ 423,384
Contribution deficiency (excess)				
County's covered payroll	\$ 6,201,819	\$ 6,151,143	\$ 6,187,548	\$ 5,971,989
Contributions as a percentage of covered payroll	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 Four Fiscal Years \**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) %	0.15135%	0.1588%	0.17416%	0.168%
County's proportionate share of the net pension liability (asset) \$	\$ (28,296)	\$ (36,800)	\$ (39,464)	\$ (35,900)
County's covered payroll	\$ 52,307	\$ 57,027	\$ 62,211	\$ 55,802
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-54.10%	-64.53%	-63.44%	-64.33%
Plan fiduciary net position as a percentage of the total pension liability	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,308	\$ 1,236	\$ 1,801	\$ 1,422
Contributions in relation to the contractually required contribution	<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>
County's covered payroll	54,319	\$ 52,307	\$ 57,027	\$ 62,211
Contributions as a percentage of covered payroll	2.41%	2.36%	3.16%	2.29%

Clay County, North Carolina  
 Schedule of Changes in Total Pension Liability  
 Law Enforcement Officers' Special Separation Allowance  
 For the Year Ended June 30, 2017

	2017
Beginning balance	\$ 187,997
Service cost	\$ 10,951
Interest on the total pension liability	\$ 6,258
Changes of benefit terms	\$ -
Differences between expected and actual experience in the measurement of the total pension liability	\$ -
Changes of assumptions or other inputs	\$ (3,195)
Benefit payments	\$ (25,399)
Other changes	\$ -
Ending balance of the total pension liability	\$ 176,612

*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, 2017

	<u>2017</u>
Total pension liability	\$ 176,612
Covered payroll	515,583
Total pension liability as a percentage of covered payroll	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.

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
<b>Ad valorem taxes:</b>			
Taxes		\$ 7,876,127	
Interest		120,933	
Total	<u>\$ 8,172,612</u>	<u>7,997,060</u>	<u>\$ (175,552)</u>
<b>Local option sales taxes:</b>			
Article 39 and 44		1,105,671	
Article 40 one - half of one percent		732,487	
Article 42 one - half of one percent		437,594	
Total	<u>2,403,992</u>	<u>2,275,752</u>	<u>(128,240)</u>
<b>Other taxes and licenses:</b>			
Deed stamp excise tax		68,057	
Scrap tire disposal tax		23,693	
White goods disposal tax		4,340	
Franchise fees		22,542	
Privilege licenses		2,475	
Total	<u>128,000</u>	<u>121,107</u>	<u>(6,893)</u>
<b>Unrestricted intergovernmental:</b>			
Payments in lieu of taxes-outside sources		356,599	
Beer and wine tax		48,421	
Total	<u>392,312</u>	<u>405,020</u>	<u>12,708</u>
<b>Restricted intergovernmental:</b>			
State grants		1,893,322	
Federal grants		2,259,165	
Court facility fees		14,589	
Enforcement fund		5,710	
ABC profits for law enforcement		14,000	
ABC bottle taxes		19,898	
Total	<u>5,062,783</u>	<u>4,206,684</u>	<u>(856,099)</u>
<b>Permits and fees:</b>			
Building and well permits		91,764	
Inspection fees		63,800	
Landfill permits and user fees		388,836	
Recreation fees		22,375	
Gun Permits		10,375	
Register of deeds		60,519	
Total	<u>638,502</u>	<u>637,669</u>	<u>(833)</u>
(cont.)			
<b>Sales and services:</b>			

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
Rents, concessions, and fees		43,427	
Jail fees		226,348	
Ambulance and rescue squad fees		560,907	
Police fees		72,454	
Recreation fees		177,212	
Health Department fees		330,233	
Fire fees		90,477	
Senior Center Meal fees		850	
Transportation fees		143,845	
Total	<u>1,886,978</u>	<u>1,645,753</u>	<u>(241,225)</u>
<b>Investment earnings</b>	<u>10,500</u>	<u>22,005</u>	<u>11,505</u>
<b>Miscellaneous:</b>			
Donations		25,080	
Other		135,765	
Total	<u>237,617</u>	<u>160,845</u>	<u>(76,772)</u>
<b>Total revenues</b>	<u><b>18,933,296</b></u>	<u><b>17,471,895</b></u>	<u><b>(1,461,401)</b></u>
<b>Expenditures:</b>			
<b>General government:</b>			
Governing body:			
Salaries and employee benefits		182,227	
Other operating expenditures		353,245	
Insurance other property		208,244	
Capital Outlay		2,744	
Total	<u>836,613</u>	<u>746,460</u>	<u>90,153</u>
County Appropriations		169,764	
Total	<u>172,717</u>	<u>169,764</u>	<u>2,953</u>
Elections:			
Salaries and employee benefits		159,502	
Other operating expenditures		54,351	
Capital outlay		4,503	
Total	<u>223,449</u>	<u>218,356</u>	<u>5,093</u>
Finance:			
Salaries and employee benefits		203,219	
Other operating expenditures		31,385	
Total	<u>252,339</u>	<u>234,604</u>	<u>17,735</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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
Taxes supervisor:			
Salaries and employee benefits		144,972	
Other operating expenditures		36,102	
Total	211,683	181,074	30,609
Taxes collector:			
Salaries and employee benefits		198,282	
Other operating expenditures		62,414	
Capital outlay		-	
Total	266,102	260,696	5,406
Legal:			
Contracted services	57,000	55,909	1,091
Register of deeds:			
Salaries and employee benefits		156,947	
Other operating expenditures		47,865	
Total	241,616	204,812	36,804
Public buildings:			
Salaries and employee benefits		230,137	
Other operating expenditures		-	
Capital Outlay		570,502	
Total	790,319	800,639	(10,320)
Senior Center			
Salaries and employee benefits		113,494	
Other operating expenditures		112,484	
Capital Outlay		-	
Total	238,306	225,978	12,328
<b>Total general government</b>	<b>3,290,144</b>	<b>3,098,292</b>	<b>191,852</b>
<b>Public safety:</b>			
Sheriff and communications:			
Salaries and employee benefits		1,274,804	
Other operating expenditures		214,911	
Capital outlay		106,517	
Total	1,658,474	1,596,232	62,242
Jail:			
Salaries and employee benefits		715,822	
Other operating expenditures		297,211	
Capital Outlay		-	
Total	1,043,452	1,013,033	30,419

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
			(cont.)
School Resource Officer:			
Salaries and employee benefits		71,956	
Other operating expenditures		215	
Total	<u>76,717</u>	<u>72,171</u>	<u>4,546</u>
Emergency management:			
Salaries and employee benefits		113,096	
Other operating expenditures		17,312	
Capital outlay		3,396	
Total	<u>220,879</u>	<u>133,804</u>	<u>87,075</u>
Fire:			
Other operating expenditures		33,623	
Total	<u>38,000</u>	<u>33,623</u>	<u>4,377</u>
Inspections:			
Salaries and employee benefits		110,430	
Other operating expenditures		9,758	
Total	<u>123,020</u>	<u>120,188</u>	<u>2,832</u>
Emergency medical services			
Salaries and employee benefits		882,603	
Other operating expenditures		138,670	
Capital outlay		28,539	
Total	<u>1,102,870</u>	<u>1,049,812</u>	<u>53,058</u>
Telecommunications			
Salaries and employee benefits		67,376	
Other operating expenditures		8,706	
Capital outlay		-	
Total	<u>87,182</u>	<u>76,082</u>	<u>11,100</u>
Animal Control Officer			
Salaries and employee benefits		26,656	
Other operating expenditures		5,063	
Total	<u>35,379</u>	<u>31,719</u>	<u>3,660</u>
Courthouse Security			
Salaries and employee benefits		12,363	
Other operating expenditures		-	
Total	<u>25,239</u>	<u>12,363</u>	<u>12,876</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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
Clerk of Court			
Other operating expenditures		2,110	
Total	7,500	2,110	5,390
<b>Total public safety</b>	<b>4,418,712</b>	<b>4,141,137</b>	<b>277,575</b>
<b>Transportation:</b>			
Transportation -Operations			
Salaries and employee benefits		369,645	
Other operating expenditures		80,198	
Capital outlay		-	
Total transportation operations	523,713	449,843	73,870
Transportation -Senior Center			
Salaries and employee benefits		124,100	
Other operating expenditures		27,715	
Capital Outlay		25,058	
Total transportation senior center	189,689	176,873	12,816
<b>Total transportation</b>	<b>713,402</b>	<b>626,716</b>	<b>86,686</b>
<b>Economic and physical development:</b>			
Planning and zoning:			
Salaries and employee benefits		14,575	
Other operating expenditures		697	
Total	18,792	15,272	3,520
Sanitary Landfill			
Salaries and employee benefits		116,550	
Other operating expenditures		256,222	
Capital outlay		2,905	
Total	396,107	375,677	20,430
Soil and Water Conservation			
Salaries and employee benefits		86,425	
Other operating expenditures		74,500	
Capital outlay		-	
Total	168,896	160,925	7,971
Agricultural extension:			
Salaries and employee benefits		93,188	
Other operating expenditures		12,775	
Total	144,640	105,963	38,677
Special Appropriations	7,849	7,849	-
<b>Total economic and physical development</b>	<b>736,284</b>	<b>665,686</b>	<b>70,598</b>

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative) (cont.)
<b>Human services:</b>			
Health:			
Administration & health programs:			
Salaries and employee benefits		1,142,977	
Other operating expenditures		331,749	
Capital Outlay		7,042	
Total	1,602,119	1,481,768	120,351
Far West dental			
Salaries and employee benefits		450,244	
Other operating expenditures		89,135	
Capital Outlay		44,763	
Total	1,019,395	584,142	435,253
Women, infants, and children:			
Salaries and employee benefits		96,364	
Other operating expenditures		6,457	
Total	111,656	102,821	8,835
Care Coordination for children			
Salaries and employee benefits		25,362	
Other operating expenditures		71	
Total	26,980	25,433	1,547
Pregnancy Care Management			
Salaries and employee benefits		26,177	
Other operating expenditures		121	
Total	20,637	26,298	(5,661)
Smart Start:			
Salaries and employee benefits		25,362	
Other operating expenditures		4,577	
Total	30,859	29,939	920
<b>Total health</b>	<b>2,811,646</b>	<b>2,250,401</b>	<b>561,245</b>
Social services:			
Administration:			
Salaries and employee benefits		1,318,511	
Other operating expenditures		175,777	
Capital outlay		8,350	
Total	1,644,675	1,502,638	142,037
AFDC:			
Assistance payments	115,459	31,100	84,359

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
			(cont.)
Medical assistance program:			
Assistance payments	6,100	2,580	3,520
Bioterrorism			
Salaries and employee benefits		36,830	
Other operating expenditures		-	
	36,293	36,830	(537)
Other assistance:			
Assistance payments	1,146,725	905,634	241,091
<b>Total social services</b>	<b>2,949,252</b>	<b>2,478,782</b>	<b>470,470</b>
Veterans service officer:			
Salaries and employee benefits		4,025	
Other operating expenditures		587	
Total veterans service officer	4,975	4,612	363
<b>Total human services</b>	<b>5,765,873</b>	<b>4,733,795</b>	<b>1,032,078</b>
<b>Cultural and recreational:</b>			
Recreation:			
Salaries and employee benefits		167,452	
Other operating expenditures		134,021	
Capital outlay		4,500	
Total	387,019	305,973	81,046
Recreation sports			
Salaries and employee benefits		62,643	
Other operating expenditures		34,097	
Total	106,555	96,740	9,815
Campground			
Operating expenditures		59,726	
Capital Outlay		-	
	63,130	59,726	3,404
Libraries:			
Contribution to regional library	112,039	112,039	-
<b>Total cultural and recreational</b>	<b>668,743</b>	<b>574,478</b>	<b>94,265</b>
<b>Education:</b>			
Public schools - current		1,300,000	
Public schools - capital outlay		224,984	
Public schools - other		25,171	
Public schools-school nurse funds		50,000	
Community colleges - current		133,335	

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
<b>Total education</b>	<u>1,735,172</u>	<u>1,733,490</u>	<u>1,682</u> (cont.)
<b>Debt service:</b>			
Principal retirement		1,505,345	-
Interest and other charges		234,655	-
<b>Total debt service</b>	<u>1,837,638</u>	<u>1,740,000</u>	<u>97,638</u>
<b>Total expenditures</b>	<u>19,165,968</u>	<u>17,313,594</u>	<u>1,852,374</u>
<b>Revenues over (under) expenditures</b>	<u>(232,672)</u>	<u>158,301</u>	<u>390,973</u>
<b>Other financing sources (uses):</b>			
Capitalized lease obligations issued:		25,030	
Installment obligation issued:		29,948	
Transfers (to) from other funds:			
Capital Projects Funds		-	
Sale of capital assets		16,640	
<b>Total other financing sources (uses)</b>	<u>80,000</u>	<u>71,618</u>	<u>8,382</u>
<b>Revenues and other financing sources over expenditures and other financing uses</b>	<u>(152,672)</u>	<u>229,919</u>	<u>382,591</u>
<b>Appropriated fund balance</b>	<u>152,672</u>	<u>-</u>	<u>152,672</u>
<b>Revenues, other sources, and appropriated fund balance over (under) expenditures</b>	<u>\$ -</u>	<u>229,919</u>	<u>\$ 229,919</u>
<b>Fund balance, beginning</b>		<b>3,708,361</b>	
Restatement		-	
<b>Fund balance, beginning restated</b>		<b>3,708,361</b>	
<b>Fund balance, ending</b>		<u><u>\$ 3,938,280</u></u>	



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, 2017

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment Earnings		\$ -	
Expenditures:			
Current:			
General government:			
Tax listing	\$ 250,000	\$ 226,182	\$ 23,818
Revenues over (under) expenditures	\$ 250,000	\$ (226,182)	\$ 23,818
Other financing sources:			
Transfer in:			
General Fund	\$ (250,000)	\$ -	\$ (250,000)
Revenues and other sources over (under) expenditures	\$ -	\$ (226,182)	\$ (226,182)
Appropriated fund balance	\$ -	\$ -	
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>\$ (226,182)</u>	<u>\$ 250,000</u>
Fund balance, beginning		417,500	
Fund balance, ending		<u>\$ 191,318</u>	

**Clay County, North Carolina  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017**

	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
<b>ASSETS</b>								
Cash and cash equivalents	\$ -	\$ 86,642	\$ -	\$ 88,078	\$ 174,720	\$ -	\$ -	\$ 174,720
Restricted cash	-	-	-	-	-	-	-	-
Accounts receivable, net	-	24,250	-	-	24,250	-	-	24,250
Taxes receivable, net	-	-	31,966	-	31,966	-	-	31,966
Due from other funds	-	-	7,518	-	7,518	-	-	7,518
Due from other governments	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 110,892</b>	<b>\$ 39,484</b>	<b>\$ 88,078</b>	<b>\$ 238,454</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 238,454</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Cash and cash equivalents	\$ -	\$ -	\$ 7,518	\$ -	\$ 7,518	\$ -	\$ -	\$ 7,518
Accounts payable and accrued liabilities	-	1,434	-	-	1,434	-	-	1,434
Due to other funds	-	3,859	-	-	3,859	-	-	3,859
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 5,293</b>	<b>\$ 7,518</b>	<b>\$ -</b>	<b>\$ 12,811</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,811</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,966</b>	<b>\$ -</b>	<b>\$ 31,966</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,966</b>
Fund balances:								
Restricted:								
Other	-	81,349	-	88,078	169,427	-	-	169,427
Stabilization by State Statute	-	24,250	-	-	24,250	-	-	24,250
Unassigned	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>105,599</b>	<b>-</b>	<b>88,078</b>	<b>193,677</b>	<b>-</b>	<b>-</b>	<b>193,677</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ -</b>	<b>\$ 110,892</b>	<b>\$ 39,484</b>	<b>\$ 88,078</b>	<b>\$ 238,454</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 238,454</b>

**Clay County, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2017**

	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
<b>REVENUES</b>								
Ad valorem taxes	\$ -	\$ -	\$ 509,529	\$ -	\$ 509,529	\$ -	\$ -	\$ 509,529
Local option sales taxes	-	-	-	-	-	-	-	-
Other taxes and licenses	-	-	-	-	-	-	-	-
Restricted intergovernmental	-	165,070	-	-	165,070	-	-	165,070
Investment earnings	-	1,201	-	-	1,201	-	-	1,201
Miscellaneous	-	-	-	-	-	-	-	-
Total revenues	-	166,271	509,529	-	675,800	-	-	675,800
<b>EXPENDITURES</b>								
Current:								
Economic and physical development	-	-	-	-	-	-	-	-
Public safety	-	506,126	509,529	-	1,015,655	-	-	1,015,655
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	-	506,126	509,529	-	1,015,655	-	-	1,015,655
Excess (deficiency) of revenues over expenditures	-	(339,855)	-	-	(339,855)	-	-	(339,855)
Net change in fund balances	-	(339,855)	-	-	(339,855)	-	-	(339,855)
Fund balances, beginning	-	445,454	-	88,078	533,532	-	-	533,532
Restatement	-	-	-	-	-	-	-	-
Fund balance, beginning restated	-	445,454	-	88,078	533,532	-	-	533,532
Fund balances, ending	\$ -	\$ 105,599	\$ -	\$ 88,078	\$ 193,677	\$ -	\$ -	\$ 193,677

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
E911 Funding	\$ -	\$ 165,070	\$ -
Interest earned		1,201	
Total revenue	<u>493,086</u>	<u>166,271</u>	<u>(326,815)</u>
Expenditures			
Implementation functions		65,905	
Phone and furniture		94,701	
Software maintenance		331,664	
Hardware maintenance		6,086	
Training		7,770	-
Total expenditures	<u>528,086</u>	<u>506,126</u>	<u>21,960</u>
Revenues under expenditures	(35,000)	(339,855)	(304,855)
Other financing sources:			
Operating transfer in:			
General Fund	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	<u>35,000</u>	<u>-</u>	<u>35,000</u>
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ (35,000)</u>	(339,855)	<u>\$ (339,855)</u>
Fund balance, beginning		<u>445,454</u>	
Fund balance, ending		<u>\$ 105,599</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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Current year		\$ 482,239	
Prior year		27,290	
Total	\$ 494,909	509,529	\$ 14,620
<b>Expenditures:</b>			
Current:			
Public safety:			
Fire District No. 1		86,509	-
Fire District No. 2		46,654	-
Fire District No. 3		46,147	
Fire District No. 4		330,219	
Total expenditures	494,909	509,529	(14,620)
Revenues over expenditures	\$ -	-	-
Fund balance, beginning		-	
Fund balance, ending		\$ -	

**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, 2017**

	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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Charges for services:			
Water sales:			
Residential/commercial		\$ 335,125	
Total	\$ 279,500	335,125	\$ 55,625
Sewer charges:			
Residential/commercial		231,686	
Total	279,500	231,686	(47,814)
Water and sewer taps	-	4,650	4,650
Other operating revenues	17,000	43,169	26,169
Total operating revenues	576,000	614,630	38,630
Nonoperating revenues:			
Interest earnings	500	1,465	965
Total revenues	576,500	616,095	39,595
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Total revenues and other financing sources	576,500	616,095	39,595
			(continued)
<b>Expenditures:</b>			
Administration:			
Salaries and employee benefits		263,199	
Travel		3,677	
Insurance		4,836	
Repairs		79,356	
Other operating expenditures		161,459	
Total	541,000	512,527	28,473
Debt service:			
Interest and other charges		1,750	
Debt principal		12,000	
Total	14,000	13,750	250

**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, 2017**

	Final Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Vehicles		-	
Machinery and equipment		-	
Water & Sewer Line Expansion		-	
Total	<u>21,500</u>	<u>-</u>	<u>21,500</u>
Total expenditures	<u>576,500</u>	<u>526,277</u>	<u>50,223</u>
Revenues and other financing sources over expenditures	<u>-</u>	89,818	<u>89,818</u>

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

Revenue and other financing sources over expenditures	<u>\$ 89,818</u>
Reconciling items:	
Debt principal	12,000
Capital outlay	-
Increase in deferred outflows of resources-pensions	48,171
Increase in net pension liability	(58,288)
Decrease in deferred inflows of resources- pensions	4,558
Decrease in accrued vacation pay	827
Increase in other postemployment benefits	(8,351)
Depreciation	<u>(537,961)</u>
Total reconciling items	<u>(539,044)</u>
Change in net position	<u>\$ (449,226)</u>



**Clay County, North Carolina**  
**Agency Funds**  
**Combining Statement of Changes in Assets and Liabilities**  
**For the Fiscal Year Ended June 30, 2017**

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Social Services</b>				
Assets:				
Cash and cash equivalents	\$ 17,892	\$ 90,472	\$ 96,300	\$ 12,064
Liabilities:				
Miscellaneous liabilities	\$ 17,892	\$ 90,472	\$ 96,300	\$ 12,064
<b>Fines and Forfeitures</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 40,751	\$ 40,751	\$ -
Liabilities:				
Intergovernmental payable	\$ -	\$ 40,751	\$ 40,751	\$ -
<b>Municipal Tax</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 116,863	\$ 116,863	\$ -
Liabilities:				
Miscellaneous liabilities	\$ -	\$ 116,863	\$ 116,863	\$ -
<b>Deed of Trust Fund</b>				
Assets:				
Cash and cash equivalents	\$ -	\$81,207	\$81,207	\$ -
Liabilities:				
Intergovernmental payable-NC	\$ -	\$81,207	\$81,207	\$ -
<b>Totals - All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 17,892	\$ 329,293	\$ 335,121	\$ 12,064
Liabilities:				
Miscellaneous liabilities	\$ 17,892	\$ 207,335	\$ 213,163	\$ 12,064
Intergovernmental payable- Clay County Board of Education	-	40,751	40,751	-
Intergovernmental payable- State of North Carolina	-	81,207	81,207	-
Total liabilities	\$ 17,892	\$ 329,293	\$ 335,121	\$ 12,064

Clay County, North Carolina  
 General Fund  
 Schedule of Ad Valorem Taxes Receivable  
 June 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Beginning Balance</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Ending Balance</u>
2015-2016	\$ -	\$ 7,712,709	7,532,274	\$ 180,435
2014-2015	254,680	-	196,742	57,938
2013-2014	136,397	-	100,010	36,387
2012-2013	84,790	-	52,908	31,882
2011-2012	63,161	-	32,035	31,126
2010-2011	46,279	-	18,887	27,392
2009-2010	31,082	-	11,130	19,952
2008-2009	25,995	-	8,670	17,325
2007-2008	20,002	-	7,302	12,700
2006-2007	15,909	-	5,273	10,636
2005-2006	7,860	-	667	7,193
	<u>686,155</u>	<u>7,712,709</u>	<u>7,965,898</u>	<u>432,966</u>

Less: allowance for uncollectible accounts:  
 General Fund (92,253)

Ad valorem taxes receivable - net:  
 General Fund \$ 340,713

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 7,997,060
Penalties collected on ad valorem taxes-	67,600
Reconciling items:	
Interest collected	(120,933)
Discounts allowed	-
Taxes written off	22,171
Total reconciling items	<u>(98,762)</u>
Total collections and credits	<u>\$ 7,965,898</u>

**Clay County, North Carolina  
Analysis of Current Tax Levy  
County - wide Levy  
For the Fiscal Year Ended June 30, 2017**

	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	1,998,633,894	0.360%	\$ 7,195,082	\$ 7,195,082	\$ 387,021
Penalties			5,531	5,531	-
<b>Total</b>	<b>1,998,633,894</b>		<b>7,587,634</b>	<b>7,200,613</b>	<b>387,021</b>
Discoveries:					
Current year taxes	40,038,889	0.360%	144,140	143,799	341
Prior year taxes			52	52	
Penalties			3,260	3,260	
<b>Total</b>	<b>40,038,889</b>		<b>147,452</b>	<b>147,111</b>	<b>341</b>
Releases	(6,215,833)	0.360%	(22,377)	(22,377)	-
<b>Total property valuation</b>	<b>2,032,456,950</b>				
Net levy			7,712,709	7,325,347	387,362
Uncollected taxes at June 30, 2017			180,435	180,435	-
Current year's taxes collected			7,532,274	7,144,912	387,362
Current levy collection percentage			97.66%	97.54%	100.00%

**Clay County, North Carolina  
 Analysis of Current Tax Levy  
 County - wide Levy  
 For the Fiscal Year Ended June 30, 2017**

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**Secondary Market Disclosures:**

Assessed Valuation:

Assessment Ratio	100 %
Real Property	\$ 1,949,661,406
Personal Property	48,972,488
Public Service Companies	33,823,056
Total Assessed Valuation	\$ 2,032,456,950
Tax Rate per \$100	0.360%
Levy (includes discoveries, releases and abatements)	\$ 7,316,845

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	\$ 459,632
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**Clay County, North Carolina  
Ten Largest Taxpayers  
For the Fiscal Year Ended June 30, 2017**

<b>Taxpayer</b>	<b>Type of Business</b>	<b>Assessed Valuation</b>	<b>Percentage of Total Assessed Valuation</b>
Blue Ridge Mtn EMC	Utility	23,206,764	1.142%
Ingles	Commercial Real Estate	8,988,205	0.442%
Ridges at Mountain Harbour	Commercial Real Estate	7,062,665	0.347%
Elderberry of Hayesville LLC	Commercial Real Estate	3,407,994	0.168%
Hendrikse Nelson J Trustee	Commercial Real Estate	5,355,094	0.263%
Advanced Digital Cable	Utility	4,963,741	0.244%
Coleman Cable	Utility	4,638,047	0.228%
Nantahala Bank	Financial Service	4,102,935	0.202%
Duke Energy Group	Utility	3,988,587	0.196%
NC4 Hayesville LLC	Commercial Real Estate	4,023,323	0.198%
Total		<u>69,737,355</u>	<u>3.431%</u>

# **COMPLIANCE SECTION**



**SHAWN P. LONG, CPA**

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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, 2017, 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 27, 2017. 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.

My consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the

accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. I consider the deficiency described in the accompanying schedule of findings and responses to be material weaknesses. **2017-1**

#### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### 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

This 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 27, 2017





**SHAWN P. LONG, CPA**

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**Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance; In Accordance 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, 2017. 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 the requirements of laws, regulations, contracts, and grants 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, OMB 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.

#### Basis for Qualified Opinion on the Medical Assistance Program

As described in the accompanying schedule of findings and questioned costs, Clay County did not comply with the requirements regarding CFDA # 93.778 as described in finding number 2017-002 for Eligibility. Compliance with such requirements is necessary, in my opinion, for the County to comply with the requirements applicable to that program.

#### Qualified Opinion on the Medical Assistance Program

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Medical Assistance Program for the year ended June 30, 2017.

#### Other Matters

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-003. My audit opinion on each major federal program is not modified with respect to these matters.

The county's response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

#### 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 OMB 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and responses as item 2017-002 that I consider to be significant deficiencies.

The County's response to the internal control over compliance findings identified in my audit are described in the accompanying corrective action plan. The County was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

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 OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Shawn Long, CPA*

Shawn Powell Long, CPA  
Hayesville, North Carolina  
November 27, 2017



**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, 2017. 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, 2017.

#### Other Matters

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of the Uniform Guidance as described in the Audit Manual for Governmental Auditors in North Carolina and which are described in the accompanying schedule of findings and questioned costs as items 2017-2. My opinion on each major state program is not modified with respect to these matters.

The County's response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

#### 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-2 that I consider to be significant deficiencies.

The County's response to the internal control over compliance findings identified in my audit are described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

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 27, 2017

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2017

**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, for all federal programs except for the Medical Assistance Program which was modified.

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)

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

Internal control over major State programs:

\* Material weakness(es) identified? \_\_\_ Yes **X** No

\* Significant Deficiency(s) identified  
that are not considered to be material  
weaknesses **X** Yes \_\_\_ None reported

Type of auditor's report issued on compliance for major State programs: Unmodified,  
For all state programs except for the Medical Assistance Program, which was modified.

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

Identification of major State programs:

Program Name  
Title XIX- Medicaid



## Section II. Financial Statement Findings

---

Finding: **2017-1** 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

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 103.

### III. Federal Award Findings and Questioned Costs

---

US Department of Health and Human Services  
Passed through the NC Dept. of Health and Human Services  
Program Name: Medical Assistance Program (Medicaid; Title XIX)  
CFDA # 93.778  
Grant Number: XXXX

Finding: **2017-2**

#### SIGNIFICANT DEFICIENCY

##### Eligibility

Criteria: Caseworkers should review the documentation with amounts entered into NC Fast.

Condition: One applicant had resources that were below the state provided resource limit but was not receiving the benefits.

Questioned Costs: There are no questioned costs with this finding. No incorrect eligibility determinations were made where benefits were paid when they should not have been paid.

Context: 93 case files were examined and 9 cases had internal control issues that didn't affect eligibility. In one case an applicant received lesser benefits than what he was entitled to.

Effect: One applicant was denied MAA benefits when he was eligible.

Cause: Human error in data input.

Recommendation: Caseworkers should review and compare the results from NC Fast with their documentation. This would help ensure that items have been correctly entered. Policies and procedures need to be put in place regarding the end dating of checking accounts. More emphasis should be placed on internal quality control reviews.

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 107.

US Department of Health and Human Services  
Passed through the NC Dept. of Health and Human Services  
Program Name: Medical Assistance Program (Medicaid; Title XIX)  
CFDA # 93.778  
Grant Number: XXXX

Finding: **2017-3**

**NONCOMPLIANCE**

Eligibility

Criteria: Caseworkers have deadlines to perform reviews on cases for various Medicaid programs.

Condition: Two applicants' benefits were discontinued due to late reviews of the cases.

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

Context: 93 case files were examined and 2 cases had late reviews. Caseworkers were unaware of that coverage had ended until clients called the DSS office.

Effect: New computer system did not alert caseworkers for reviews when they were a forced eligibility the prior year.

Cause: Change in computer systems (NC Fast).

Recommendation: This was discovered internally and policies for manual tracking of these cases have already been enforced.

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 107.

**IV. State Award Findings and Questioned Costs**

---

Same as Federal. The only major State program for Clay County is the Medical Assistance Program (93.778), which is State match on a federal program.

**CLAY COUNTY, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2017**

**Section II - Financial Statement Findings**

**Finding: 2017-1 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.

**Section III – Federal Award Findings and Questioned Costs**

**Finding: 2017-2**

Name of contact person: Becky Grindstaff, IM Supervisor

Corrective Action: Supervisor met with all Medicaid Income Maintenance staff to discuss how resources are to be entered correctly into the NC Fast system. Policies and procedures will be put into place so that caseworkers will end date resources from the prior year before entering current year resources. Caseworkers are to review and ensure amounts entered into the NC Fast system match the verifications provided. Caseworkers are also to review case files to make sure all resources in the case file are included on the dashboard. The resource tab of the determinations section of the eligibility check are to be reviewed by the caseworkers to ensure the case is reading resources correctly. Any case not reading resources correctly will be submitted to the NC Fast Help Desk for a ticket and further evaluation.

Proposed Completion Date: Effective immediately.

**Finding: 2017-3**

Name of contact person: Becky Grindstaff, IM Supervisor

Corrective Action: Caseworkers are now aware that Forced Cases are not showing on recertification reports. Caseworkers are manually tracking certification periods to ensure Forced Cases are reviewed at the appropriate time.

Proposed Completion Date: Effective immediately.

#### **Section IV - State Award Findings and Questioned Costs**

Same as Federal.

**CLAY COUNTY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
For the Year Ended June 30, 2017

**Finding:** 16-1  
**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:** 15-1  
**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:** 14-1  
**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:** 13-1  
**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:** 13-2  
**Status:** Corrected

**Finding:** 13-3  
**Status:** Corrected

**Finding:** 13-4  
**Status:** Corrected

**Finding:** 13-5  
**Status:** Corrected

**Finding:** 12-1  
**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:** 11-1  
**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, 2017**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
<b>Federal Awards:</b>						
<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	136,460	-		136,460
Total Food Stamp Cluster			<u>136,460</u>	<u>-</u>		<u>136,460</u>
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	57,470	-		-
Direct Benefit Payments:						
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	XXXX	168,554	-		-
Total Women, Infants & Children			<u>226,024</u>	<u>-</u>		<u>-</u>
USDA- Community Facilities Grant	10.766		26,554	-		-
Total U.S. Department of Agriculture			<u>389,038</u>	<u>-</u>		<u>136,460</u>
<u>U.S. Dept. of Transportation</u>						
Passed-through the N.C. Department of Transportation:						
Formula Grants for Rural Areas	20.509	DOT-11	137,803	10,587		-
Formula Grants for Rural Areas	20.509	DOT-14	64,953	8,119		-
Formula Grants for Rural Areas	20.509	XXXX	30,650	-		-
Enhanced Mobility of Seniors and Individuals with Dis	20.513	XXXX	4,354	-		-
ROAP EDTAP		DOT-16CL	-	50,159		-
ROAP Employment		DOT-16CL	-	4,639		-
ROAP RGP		DOT -16CL	-	47,441		-
Total U.S. Department of Transportation			<u>237,760</u>	<u>120,945</u>		<u>-</u>

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2017**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
<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	38,584	-		-
Total U. S. Department of Homeland Security			38,584	-		-
<u>U.S. Dept. of Health &amp; 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	53,707	3,428		-
Social Service Block Grant (SSBG)- In home servic	93.667	XXXX	115,981	3,587		-
Total Aging Cluster			169,688	7,015		-
<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	52,679	5,196		47,090
Adoption Assistance- Training	93.659	XXXX	1,271	-		1,170
Foster Care- Title IV-E - Direct Benefit Payments	93.658	XXXX	7,957	2,386		2,386
Adoption Assistance- Direct Benefit Payments	93.659	XXXX	(5,808)	(1,480)		(1,480)
Total Foster Care and Adoption Cluster			56,099	6,102		49,166
Work First Administration and Service	93.558	XXXX	89,358	-		105,197
TANF- Direct Benefits	93.558	XXXX	21,719	-		-
Child Support Enforcement	93.563	XXXX	142,314	-		73,313
Low-Income Home Energy Assistance Block Grant:						
Administration	93.568	XXXX	6,939	-		-
Energy Assistance Payments	93.568	XXXX	42,000	-		-
Crisis Intervention Program	93.568	XXXX	41,227	-		-
Family Preservation	93.556	XXXX	8,169	-		-



**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2017**

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Child Welfare Services - State Grants						
- Permanency Planning - Families for Kids	93.645	XXXX	2,160	-		720
LINKS Independent Living Grant	93.674	XXXX	187	47		-
Division of Aging and Adult Services:						
Division of Social Services:						
Social Service Block Grant	93.667	XXXX	105,718	-		2,265
SSBG - Other Services and Training	93.667	XXXX	28,603	2,690		10,431
Subsidized Child Care						
<u>Child Care Development Fund Cluster</u>						
Division of Social Services						
Child Care Development Fund- Administration	93.596	XXXX	73,333		73,333	
Division of Child Development:						
Child Care Development Fund- Discretionary	93.575	XXXX	166,786	-	166,786	-
Child Care Development Fund- Mandatory	93.596	XXXX	66,571	-	66,571	-
Child Care Development Fund- Match	93.596	XXXX	46,241	12,872	59,113	-
Total Child Care Fund Cluster			352,931	12,872	365,803	-
Temporary Assistance for Needy Families	93.558	XXXX	52,599	-	-	-
Smart Start		XXXX		34		
State Appropriations		XXXX	-	98,082	-	-
TANF- MOE		XXXX	-	46,855	-	-
Foster Care Title IV-E	93.658	XXXX	5,487	2,736	-	-
Total Subsidized Child Care Cluster			411,017	160,579	365,803	-
Passed-through the N.C. Dept. of Health and Human Services:						
Division of Medical Assistance:						
<b>Direct Benefit Payments:</b>						
Medical Assistance Program	93.778	XXXX	10,290,126	5,576,837		-
State Children's Insurance Program- N.C. Health Choic	93.767	XXXX	251,699	2,245		-

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2017**

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Division of Social Services:						
Administration:						
Medical Assistance Program	93.778	XXXX	397,898	1,480		170,681
State Children's Insurance Program - N.C. Health Choi	93.767	XXXX	32,811	21		52
Passed through NC Dept. of Health and Human Services						
Centers for Disease Control and Prevention						
Division of Public Health						
HIV Prevention Activities- Health Dept based	93.940	XXXX	3,000	-		-
Immunization Grants	93.268	XXXX	1,927	-		-
Preparedness (PHEP) Aligned Coop. Agreements		XXXX		-		-
Health Funds	93.074	XXXX	33,559	-		-
Immunization Infrastructure and Performance						
financed in part by Prevention & Public Health	93.539	XXXX	2,729			
Tribal Organizations financed in part by Prevention						
and Public Health Funds	93.752	XXXX	1,785			
Project Grants and Cooperative Agreements for						
Tuberculosis Control Programs	93.116	XXXX	21	-		-
Injury Prevention & Control Research & State &						
Community Based Programs	93.136	XXXX	1,500			
Preventive Health Serv-Sexually Transmitted Dis	93.977	XXXX	988			
Temporary Assistance for Needy Families	93.558	XXXX	534			
Preventive Health and Health Services Block Grant						
funded solely with Prevention and Public Health						
funds (PPHF)	93.758	XXXX	26,707			
Health Resources and Service Administration passed						
through NC Dept. of Health and Human Services						
Division of Public Health						
Maternal and Child Health Services Block Grant	93.994	XXXX	25,782	19,338		-
Passed through NC Dept. of Health and Human Services						
Office of Population Affairs						
Family Planning Services	93.217	XXXX	15,392	-		-
Total U.S. Department of Health and Human Services:			<u>\$ 12,211,656</u>	<u>\$ 5,776,354</u>	<u>\$ 365,803</u>	<u>\$ 411,825</u>
Total federal awards			<u>\$ 12,877,038</u>	<u>\$ 5,897,299</u>	<u>\$ 365,803</u>	<u>\$ 548,285</u>

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2017**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
<b>State Awards:</b>						
<u>N.C. Dept. of Health and Human Services</u>						
Division of Social Services:						
St SHLD Welfare/CPS/CS		XXXX	-	15,202		-
IV-E Adopt & Vendor & County Funded Programs		XXXX	77,460	19,348		19,348
Non Allocating County Cost		XXXX	-	-		253,389
Wrk Frt Non Reimbursable		XXXX	-	-		89,754
State Foster Home		XXXX	-	7,830		7,830
CWS Adoption Subsidy		XXXX	-	40,253		13,418
SAA/SAD HB 1030		XXXX	-	2,975		2,635
Foster Care		XXXX	26,204	-		66,838
SC SA Domiciliary Care Payment		XXXX	-	79,227		79,227
Total Division of Social Service			103,664	164,835		653,922
Division of Public Health						
Other Receipts/State Supported Expenditures						
General Aid to Counties		XXXX	-	76,200		-
Food and Lodging Fees		XXXX	-	3,652		-
Public Health Nursing		XXXX	-	800		-
Child Health		XXXX	-	1,090		-
HMHC- Family Planning		XXXX	-	2,129		-
Maternal Health (HMHC)		XXXX	-	1,066		-
Women's Health Service Fund		XXXX	-	4,335		-
Breast and Cervical Cancer Program		XXXX	-	5,355		-
General Communicable Disease Control		XXXX	-	11,294		-
HIV/STD State		XXXX	-	100		-
HIV/STD SSBG Aid		XXXX	-	400		-
Sexually Transmitted Diseases		XXXX	-	17		-
School Nurse Funding Initiative		XXXX	-	50,000	50,000	-
TB Medical Service		XXXX	-	540		-
Tuberculosis		XXXX	-	670		-
Total Division of Public Health			-	157,648	50,000	-
Total N. C. Department of Health and Human Services			103,664	322,483	415,803	653,922

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2017**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Passed through to Sub- Recipients</u>	<u>Local Expenditures</u>
<u>Department of Public Safety</u> Juvenile Crime Prevention Programs		XXXX	-	60,421	60,421	-
<u>N.C. Department of Insurance</u> Shiip Grant		XXXX	-	4,290		
Total State awards			103,664	387,194		653,922
<b>Total federal and State awards</b>			<b>\$ 12,980,702</b>	<b>\$ 6,284,493</b>	<b>\$ 476,224</b>	<b>\$ 1,202,207</b>

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, 2017. 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 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.