

**CLAY COUNTY  
NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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# **CLAY COUNTY, NORTH CAROLINA**

## **BOARD OF COUNTY COMMISSIONERS**

Edward Roach, Board Chairman

Robert Peck

Robert Penland

Clay Logan

Randy Nichols

## **COUNTY OFFICIALS**

Paul Leek, County Manager

Betty Patton, Director of Finance

Phyllis Maney, Register of Deeds

Rehnaye Talley, Tax Administrator

Chester M. Jones, County Attorney

**Clay County, North Carolina**  
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## Independent Auditor's Report

To the Board of County Commissioners  
Clay County, North Carolina

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Clay County, North Carolina, as of and for the year then ended June 30, 2015, 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. Those statements were audited by other auditors whose report thereon has been furnished to me, and 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 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, 2015, 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, the Law Enforcement Officers' Special Separation Allowance, the other Post Employment Benefit's Schedules of Funding Progress and Employer Contributions, the Local Government Employees' Retirement System Schedules of the County's Proportionate Share of Net Pension Asset and County Contributions, and the Register of Deeds' Supplemental Pension Fund Schedule of the County's Proportionate Share of the Net Pension Asset and Schedule of County Contributions on pages 4 through 13 and 66 through 74, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, 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 19, 2015 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.

 11/23/2015 09:37:18 am

Shawn Long, CPA  
Hayesville, North Carolina

November 19, 2015

**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, 2015. 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

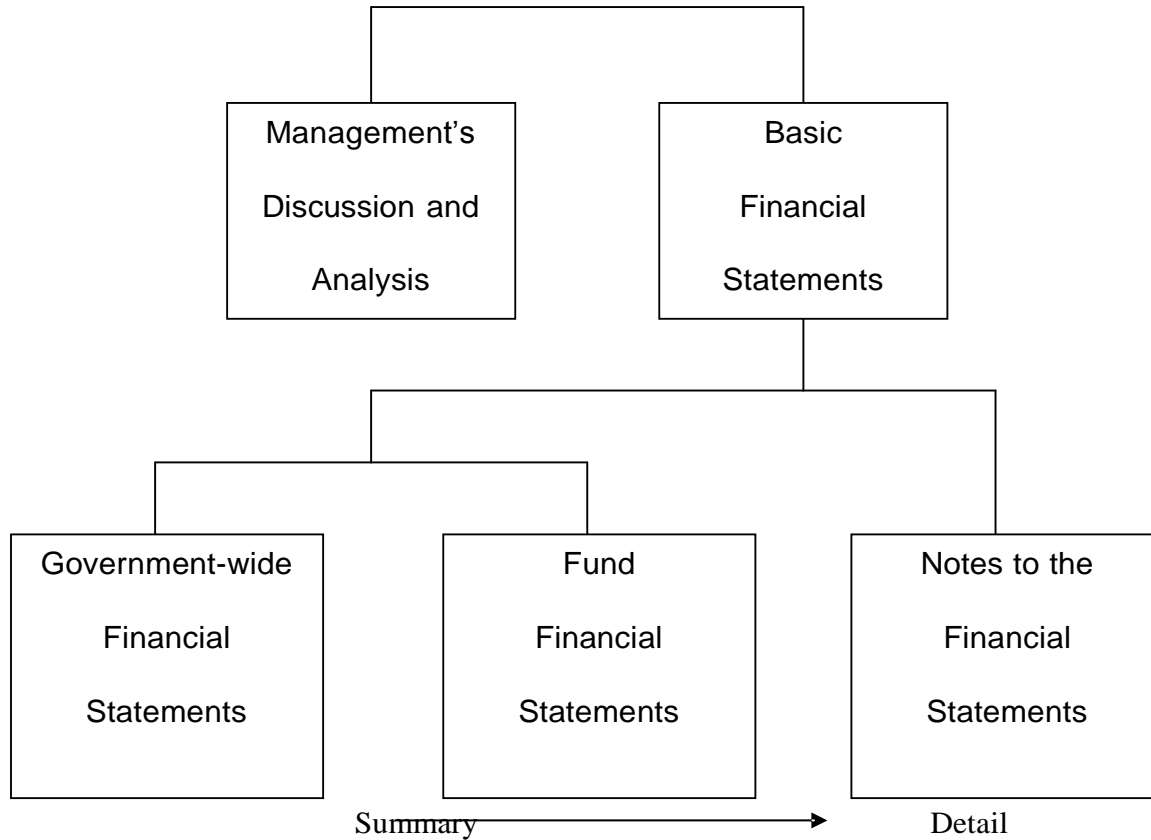
- The assets and deferred outflow of resources of Clay County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$ 22,345,825 (*net position*).
- The government's total net position increased by \$1,157,285, due to decreased net position in the Governmental Funds of \$1,065,192 and a increase in the Water & Sewer Fund of \$ 2,222,477.
- As of the close of the current fiscal year, Clay County's governmental funds reported combined ending fund balances of \$ 4,779,013, after a net decrease in fund balance of \$2,460,945. Approximately 73.61 percent of this total amount or \$3,517,622 is restricted or non-spendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,317,200 or 7.12 percent of total general fund expenditures for the fiscal year.
- Clay County's total debt decreased by \$500,197 during the current fiscal year. The key factor in this change was the only new debt was unspent loan proceeds for the construction of the health department facility and the purchase of three county vehicles.
- Clay County maintained its AAA bond rating.

### 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 \$ 22,345,825 as of June 30, 2015. The County's net position increased by \$1,157,285 for the fiscal year ended June 30, 2015. One of the largest portions \$19,200,314 (85.92%) 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 \$2,129,353 (9.53%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,016,158 (4.55%) is unrestricted.

## Clay County's Net Position

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 6,849,964	\$ 8,793,529	\$ 132,724	\$ 96,842	6,982,688	\$ 8,890,371
Capital assets	<u>23,060,671</u>	<u>22,297,932</u>	<u>\$ 7,286,275</u>	<u>5,082,862</u>	<u>30,346,946</u>	<u>27,380,794</u>
Total assets	<u>29,910,635</u>	<u>31,091,461</u>	<u>7,418,999</u>	<u>5,179,704</u>	<u>37,329,634</u>	<u>36,271,165</u>
 Total deferred outflow of resources	 476,611	 6,427	 -0-	 -0-	 476,611	 6,427
 Long-term liabilities						
Outstanding	13,057,081	13,360,429	93,032	84,283	13,150,113	13,444,712
Other liabilities	<u>593,863</u>	<u>582,999</u>	<u>105,582</u>	<u>103,896</u>	<u>699,445</u>	<u>686,895</u>
Total liabilities	<u>13,650,944</u>	<u>13,943,428</u>	<u>198,614</u>	<u>188,179</u>	<u>13,849,558</u>	<u>14,131,607</u>
 Total deferred inflow of resources	 1,579,343	 259,777	 48,165	 -0-	 1,627,508	 259,777
 Net position:						
Net invested in capital asset	11,961,039	10,855,323	7,239,275	5,024,862	19,200,314	15,880,185
Restricted	2,129,353	2,915,727	-0-	-0-	2,129,353	2,915,727
Unrestricted	<u>1,066,567</u>	<u>3,123,633</u>	<u>(50,409)</u>	<u>(33,337)</u>	<u>1,016,158</u>	<u>3,090,296</u>
Total net position	<u>\$ 15,156,959</u>	<u>\$ 16,894,683</u>	<u>\$ 7,188,866</u>	<u>\$ 4,991,525</u>	<u>\$ 22,345,825</u>	<u>\$ 21,886,208</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 96.17 %.
- 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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 1,781,734	\$ 1,100,879	\$ 550,847	\$ 558,589	\$ 2,332,581	\$ 1,659,468
Operating grants and Contributions	4,105,499	4,482,683	-0-	-0-	4,105,499	4,482,683
Capital grants and Contributions	917,035	373,655	2,436,300	300,126	3,353,335	673,781
General revenues:						
Property taxes	8,117,908	8,161,808	-0-	-0-	8,117,908	8,161,808
Other taxes	2,056,142	2,738,138	-0-	-0-	2,056,142	2,738,138
Grants and contributions not restricted to specific programs	578,804	264,103	-0-	-0-	578,804	264,103
Other	50,286	201,497	92	2960	50,378	204,457
<b>Total revenues</b>	<b>17,607,408</b>	<b>17,322,763</b>	<b>2,987,239</b>	<b>861,675</b>	<b>20,594,647</b>	<b>18,184,438</b>
Expenses:						
General government	3,484,684	3,315,858	-0-	-0-	3,484,684	3,315,858
Public safety	4,577,196	4,564,800	-0-	-0-	4,577,196	4,564,800
Transportation	675,443	695,725	-0-	-0-	675,443	695,725
Economic and physical Development	1,596,985	1,260,159	-0-	-0-	1,596,985	1,260,159
Human services	4,611,305	4,433,233	-0-	-0-	4,611,305	4,433,233
Cultural and recreation	541,937	51,280	-0-	-0-	541,937	51,280
Education	1,667,701	1,775,635	-0-	-0-	1,667,701	1,775,635
Interest on long-term Debt	292,025	297,212	-0-	-0-	292,025	297,212
Water and sewer	-0-	-0-	1,990,086	887,794	1,990,086	887,794
<b>Total expenses</b>	<b>17,447,276</b>	<b>16,393,902</b>	<b>1,990,086</b>	<b>887,794</b>	<b>19,437,362</b>	<b>17,281,696</b>
Increase in net position before transfers and special items	160,132	928,861	997,153	(26,119)	1,157,285	902,742
Transfers	(1,225,324)	(147,166)	1,225,324	147,166	-0-	-0-
Increase in net position	(1,065,192)	781,695	2,222,477	121,047	1,157,285	902,742
Net position, beginning, previously reported	16,894,683	16,112,988	4,991,525	4,870,478	21,886,208	20,983,466
Net position, beginning, restated	16,222,151	16,112,988	4,966,389	4,870,478	21,188,540	20,983,466
<b>Net position, ending</b>	<b>15,156,959</b>	<b>16,894,683</b>	<b>7,188,866</b>	<b>4,991,525</b>	<b>22,345,825</b>	<b>21,886,208</b>



**Business-type activities.** Business-type activities increased the County's net position by \$ 2,222,477, thereby accounting for all of the growth in the net position of Clay County. Key elements of this increase are as follows:

- Grant funding received for county sewer projects

### **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 \$1,317,200 while total fund balance reached \$ 4,384,673. The Governing Body of Clay County has determined that the county should maintain an available fund balance of 5% 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 14.07% of general fund expenditures, while total fund balance represents 25.62% of that same amount.

At June 30, 2015, the governmental funds of Clay County reported a combined fund balance of \$4,779,013, a decrease of \$2,460,945 over last year. The primary reason for this decrease in fund balance in the General Fund is due to construction costs for the health department building.

**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 \$4,483,388.

**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 negative \$ 50,409. The total increase in net position for this fund was \$1,222,477. 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, 2015, totals \$ 30,346,949 (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:

- Construction of new health department building
- Water and sewer line projects
- Purchased new equipment and vehicles for various Departments

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

**Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 839,820	839,820	\$ 120,280	\$ 120,280	\$ 960,100	\$ 960,100
Buildings and System	15,341,522	15,335,081	7,150,842	4,699,004	22,492,364	20,034,085
Improvements Other than Buildings	1,031,133	1,038,090	-0-	-0-	1,031,133	1,038,090
Machinery and Equipment	1,688,054	1,786,842	12,993	10,422	1,701,047	1,797,264
Vehicles and Motorized equipment	1,038,758	1,044,841	2,160	-0-	1,040,918	1,044,841
Construction in Progress	3,121,387	2,253,258	-0-	253,156	3,121,387	2,506,414
<b>Total</b>	<b>\$ 23,060,674</b>	<b>22,297,932</b>	<b>7,286,275</b>	<b>5,082,862</b>	<b>30,346,949</b>	<b>\$ 27,380,794</b>

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, 2015, Clay County had total bonded debt outstanding of \$ 13,464,325 all of which is debt backed by the full faith and credit of the County.

Clay County's Outstanding Debt

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bond	\$ 405,000	\$ 520,000	-0-	\$ -0-	405,000	\$ 520,000
QZAB	165,249	196,472	-0-	-0-	165,249	196,472
Installment Purchases	11,048,270	12,443,041	-0-	-0-	11,048,270	12,443,041
Less: undrawn loan proceeds		(1,000,432)				(1,000,432)
Capitalized Leases	51,365				51,365	
Notes Payable	-0-	-0-	47,000	58,000	47,000	58,000
Net Pension Obligation	92,380	86,335	-0-	-0-	92,380	86,335
Other Post Employment Benefits	919,417	748,227	42,966	34,144	962,383	782,371
Compensated absences	375,400	366,786	15,616	11,752	391,016	378,538
<b>Total</b>	<b>\$ 13,057,081</b>	<b>\$ 13,360,429</b>	<b>\$ 105,582</b>	<b>\$ 103,896</b>	<b>\$ 13,162,663</b>	<b>\$ 13,464,325</b>

Clay County's total debt decreased by \$500,197 during the past fiscal year. The decrease is primarily due to the fact that the construction debt needs were met in the previous fiscal year.

As mentioned in the financial highlights section of this document, Clay County maintained its Aaa bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation. This bond rating is a clear indication of the sound financial condition of Clay County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

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 \$160,535,074.

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, 2015**

**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 slightly at \$17,092,360.

### **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, 2015**

	Primary Government		Component Unit	
	Governmental Activities	Business-type Activities	Total	Clay County ABC Board
<b>ASSETS</b>				
Cash and cash equivalents	3,482,602	\$ 39,165	\$ 3,521,767	\$ 464,374
Restricted cash	371,318	-	371,318	-
Receivables (net)	2,010,934	96,188	2,107,122	-
Due from other governments	351,111	-	351,111	-
Inventories	-	-	-	265,205
Internal Balances	22,392	(22,392)	-	-
Prepaid Items	14,071	-	14,071	4,931
Net pension asset	597,536	19,763	617,299	-
Capital assets:				
Land, improvements, and construction in progress	3,961,207	120,280	4,081,487	25,000
Other capital assets, net of depreciation	19,099,464	7,165,995	26,265,459	254,936
Total capital assets	23,060,671	7,286,275	30,346,946	279,936
Total assets	29,910,635	7,418,999	37,329,634	1,014,446
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	476,611	16,646	493,257	-
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	593,863	6,777	600,640	336,618
Customer Deposits	-	86,255	86,255	-
Long-term liabilities:				
Due within one year	1,504,830	12,000	1,516,830	-
Due in more than one year	11,552,251	93,582	11,645,833	6,006
Total liabilities	13,650,944	198,614	13,849,558	342,624
<b>DEFERRED INFLOWS OF RESOURCES</b>	1,579,343	48,165	1,627,508	-
<b>NET POSITION</b>				
Net Investment in capital assets	11,961,039	7,239,275	19,200,314	279,936
Restricted				
Stabilization of State Statute	1,728,410	-	1,728,410	-
Register of Deeds	29,625	-	29,625	-
Public Safety	283,240	-	283,240	-
Industrial Purposes	88,078	-	88,078	-
Working Capital	-	-	-	59,645
Unrestricted (deficit)	1,066,567	(50,409)	1,016,158	332,241
Total net position	\$ 15,156,959	\$ 7,188,866	\$ 22,345,825	\$ 671,822

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, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	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	\$ 3,484,684	\$ 86,457	\$ 180,688	\$ -	\$ (3,217,539)	\$ -	\$ (3,217,539)	\$ -
Public safety	4,577,196	877,266	381,659	-	(3,318,271)	-	(3,318,271)	-
Transportation	675,443	102,264	315,511	79,916	(177,752)	-	(177,752)	-
Economic and physical developmer	1,596,985	297,491	27,716	837,119	(434,659)	-	(434,659)	-
Human services	4,611,305	251,309	3,091,794	-	(1,268,202)	-	(1,268,202)	-
Cultural and recreation	541,937	166,947	430	-	(374,560)	-	(374,560)	-
Education	1,667,701	-	107,701	-	(1,560,000)	-	(1,560,000)	-
Interest on long-term debt	292,025	-	-	-	(292,025)	-	(292,025)	-
Total governmental activities	17,447,276	1,781,734	4,105,499	917,035	(10,643,008)	-	(10,643,008)	-
Business-type activities:								
Water and Sewer	1,990,086	550,847	-	2,436,300	-	997,061	997,061	-
Total business-type activities	1,990,086	550,847	-	2,436,300	-	997,061	997,061	-
	\$ 19,437,362	\$ 2,332,581	\$ 4,105,499	\$ 3,353,335	(10,643,008)	997,061	(9,645,947)	-
Component unit:								
ABC Board	1,980,536	2,004,334	-	-	-	-	-	23,798
Total component unit	1,980,536	2,004,334	-	-	-	-	-	23,798
General revenues:								
Taxes:								
Property taxes, levied for general purpose					8,117,908	-	8,117,908	-
Local option sales tax					1,921,740	-	1,921,740	-
Other taxes and licenses					134,402	-	134,402	-
Grants and contributions not restricted to specific programs					578,804	-	578,804	-
Investment earnings, unrestricted					2,864	92	2,956	552
Miscellaneous, unrestricted					47,422	-	47,422	-
Total general revenues excluding transfers and special items					10,803,140	92	10,803,232	552
Transfers					(1,225,324)	1,225,324	-	-
Total general revenues, special items, and transfers					9,577,816	1,225,416	10,803,232	24,350
Change in net position					(1,065,192)	2,222,477	1,157,285	24,350
Net position, beginning, previously reported					16,894,683	4,991,525	21,886,208	647,472
Restatement					(672,532)	(25,136)	(697,668)	-
Net position, beginning, restated					16,222,151	4,966,389	21,188,540	-
Net position, ending					\$ 15,156,959	\$ 7,188,866	\$ 22,345,825	\$ 671,822

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

**Clay County, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2015**

	Non-Major		
	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,452,424	\$ 30,178	\$ 3,482,602
Restricted cash	-	371,318	371,318
Receivables, net	1,937,308	73,626	2,010,934
Due from other governments	351,111	-	351,111
Due from other funds	27,827	-	27,827
Prepaid items	14,071	-	14,071
Total assets	<u>\$ 5,782,741</u>	<u>\$ 475,122</u>	<u>\$ 6,257,863</u>

**LIABILITIES AND FUND BALANCES**

Liabilities:

Accounts payable and accrued liabilities	\$ 569,120	\$ 24,743	\$ 593,863
Due to Other Funds	-	5,435	5,435
Total liabilities	<u>569,120</u>	<u>30,178</u>	<u>599,298</u>

**DEFERRED INFLOWS OF RESOURCES**

	828,948	50,604	879,552
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Fund balances:

Nonspendable:			
Prepays	14,071	-	14,071
Restricted:			
Stabilization by State Statute	1,705,388	23,022	1,728,410
Register of Deeds	29,625	-	29,625
Other	-	371,318	371,318
Committed:			
Tax Revaluation	355,000	-	355,000
Assigned :			
Subsequent year's expenditures	53,080	-	53,080
Human Services Capital	910,309	-	910,309
Unassigned :	1,317,200	-	1,317,200
Total fund balances	<u>4,384,673</u>	<u>394,340</u>	<u>4,779,013</u>

Total liabilities and fund balances	<u>\$ 5,782,741</u>	<u>\$ 475,122</u>
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Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

	-
Total Fund balance, Governmental Funds	4,779,013
Charges related to advance refunding bond issue	4,372
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	23,060,674
Net pension asset	597,536
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position	426,105
Pension related deferrals	(1,315,122)
Deferred inflows of resources for taxes and special assessments receivable	661,462
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>(13,057,081)</u>
Net position of governmental activities	<u>15,156,959</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, 2015**

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds</u>
<b>REVENUES</b>			
Ad valorem taxes	\$ 7,686,074	\$ 481,167	\$ 8,167,241
Local option sales taxes	1,921,740	-	1,921,740
Other taxes and licenses	108,886	-	108,886
Unrestricted intergovernmental	363,938	-	363,938
Restricted intergovernmental	4,086,403	1,102,134	5,188,537
Permits and fees	556,006	-	556,006
Sales and services	1,300,107	-	1,300,107
Investment earnings	2,622	242	2,864
Miscellaneous	47,422	-	47,422
Total revenues	<u>16,073,198</u>	<u>1,583,543</u>	<u>17,656,741</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,948,102	-	2,948,102
Public safety	3,984,920	628,664	4,613,584
Transportation	609,443	-	609,443
Economic and physical development	745,140	837,119	1,582,259
Human services	6,084,060	-	6,084,060
Cultural and recreational	608,046	-	608,046
Intergovernmental:			
Education	1,667,701	-	1,667,701
Capital outlay	-	-	-
Debt service:			
Principal	1,565,185	-	1,565,185
Interest	293,796	-	293,796
Total expenditures	<u>18,506,393</u>	<u>1,465,783</u>	<u>19,972,176</u>
Excess (deficiency) of revenues over expenditures	<u>(2,433,195)</u>	<u>117,760</u>	<u>(2,315,435)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Transfers to other funds	(1,225,324)	-	(1,225,324)
Discount on debt issued	-	-	-
Refunding bonds issued	-	-	-
Installment purchase obligations issued	1,079,814	-	1,079,814
Payment to refunded bond escrow agent	-	-	-
Total other financing sources and uses	<u>(145,510)</u>	<u>-</u>	<u>(145,510)</u>
Net change in fund balance	(2,578,705)	117,760	(2,460,945)
Fund balances, beginning	6,963,378	276,580	7,239,958
Fund balances, ending	<u>\$ 4,384,673</u>	<u>\$ 394,340</u>	<u>\$ 4,779,013</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, 2015**

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

Net changes in fund balances - total governmental funds	\$ (2,460,945)
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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	\$ 762,742
Capital outlay expenditures which were capitalized	\$ 2,109,260
Depreciation expense for governmental assets	(1,346,518)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	426,105
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	49,333
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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.	489,197
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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.	(51,505)
Compensated absences & Pension Obligation	(14,659)
Increase in Other Post Employee Benefits	(263,405)
Amortization of Bond Proceeds	(2,055)

Total changes in net position of governmental activities	<u>\$ (1,065,192)</u>
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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, 2015**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 8,068,595	\$ 8,068,595	\$ 7,686,074	\$ (382,521)
Local option sales tax	2,095,549	2,095,549	1,921,740	(173,809)
Other taxes and licenses	138,000	128,000	108,886	(19,114)
Unrestricted intergovernmental	420,000	436,633	363,938	(72,695)
Restricted intergovernmental	3,998,560	8,351,456	4,086,403	(4,265,053)
Permits and fees	527,000	565,609	556,006	(9,603)
Sales and services	1,219,624	1,269,962	1,300,107	30,145
Investment earnings	10,000	10,000	2,622	(7,378)
Miscellaneous	63,000	97,912	47,422	(50,490)
Total revenues	<u>16,540,328</u>	<u>21,023,716</u>	<u>16,073,198</u>	<u>(4,950,518)</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	2,863,507	3,191,963	2,948,102	243,861
Public safety	3,904,002	4,326,319	3,984,920	341,399
Transportation	771,405	785,755	609,443	176,312
Economic and physical development	797,237	847,319	745,140	102,179
Human services	4,258,346	7,940,361	6,084,060	1,856,301
Cultural and recreational	380,308	632,674	608,046	24,628
<b>Intergovernmental:</b>				
Education	1,691,223	1,698,925	1,667,701	31,224
<b>Debt service:</b>				
Principal retirement	1,529,859	1,559,859	1,565,185	(5,326)
Interest and other charges	315,365	315,365	293,796	21,569
Total expenditures	<u>16,511,252</u>	<u>21,298,540</u>	<u>18,506,393</u>	<u>2,792,147</u>
Revenues over (under) expenditures	<u>29,076</u>	<u>(274,824)</u>	<u>(2,433,195)</u>	<u>(2,158,371)</u>
<b>Other financing sources (uses):</b>				
Installment Obligations Issued	-	(291,607)	1,079,814	1,371,421
Transfers (to) from other funds	(277,007)	-	(1,225,324)	(1,225,324)
Total other financing sources (uses)	<u>(277,007)</u>	<u>(291,607)</u>	<u>(145,510)</u>	<u>146,097</u>
Net change in fund balance	<u>\$ (247,931)</u>	<u>\$ (566,431)</u>	<u>(2,578,705)</u>	<u>(2,012,274)</u>
Appropriated Fund Balance	247,931	566,431	-	-
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	<u>-</u>	<u>(2,578,705)</u>	<u>-</u>
Fund balance, beginning			6,963,378	
Fund balance, ending			<u>\$ 4,384,673</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, 2015**

	<u>Water and Sewer District</u>	<u>Total</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,165	\$ 39,165
Receivables, net	96,188	96,188
Total current assets	<u>135,353</u>	<u>135,353</u>
Noncurrent assets:		
Net pension asset	19,763	19,763
Capital assets:		
Land and construction in progress	120,280	120,280
Plant and distribution systems, net of depreciation	7,154,742	7,154,742
Furniture and maintenance equipment, net of depreciation	9,093	9,093
Vehicles, net of depreciation	2,160	2,160
Total capital assets	<u>7,286,275</u>	<u>7,286,275</u>
Total noncurrent assets	<u>7,306,038</u>	<u>7,306,038</u>
Total assets	<u>7,441,391</u>	<u>7,441,391</u>
 DEFERRED OUTFLOWS OF RESOURCES	 16,646	 16,646
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	6,777	6,777
Due to other funds	22,392	22,392
Notes Payable- current	12,000	12,000
Customer deposits	86,255	86,255
Total current liabilities	<u>127,424</u>	<u>127,424</u>
Noncurrent liabilities:		
Other postemployment benefits	42,966	42,966
Compensated absences	15,616	15,616
Notes Payable- noncurrent	35,000	35,000
Total noncurrent liabilities	<u>93,582</u>	<u>93,582</u>
Total liabilities	<u>221,006</u>	<u>221,006</u>
 DEFERRED INFLOWS OF RESOURCES	 48,165	 48,165
<b>NET ASSETS</b>		
Net investment in capital assets	7,239,275	7,239,275
Unrestricted	(50,409)	(50,409)
Total net position	<u>7,188,866</u>	<u>7,188,866</u>

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, 2015**

	<b>Water and Sewer District</b>	<b>Total</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 499,424	\$ 499,424
Water and sewer taps	1,050	1,050
Miscellaneous	50,373	50,373
Total operating revenues	550,847	550,847
<b>OPERATING EXPENSES</b>		
Administration	524,679	524,679
Depreciation	540,007	540,007
Total operating expenses	1,064,686	1,064,686
Operating income (loss)	(513,839)	(513,839)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	92	92
Interest expense and fees	(2,900)	(2,900)
Total nonoperating revenue (expenses)	(2,808)	(2,808)
<b>Income (loss) before contributions and transfers</b>	<b>(516,647)</b>	<b>(516,647)</b>
Capital Contributions	1,513,800	1,513,800
Transfers from General	1,225,324	1,225,324
<b>Change in net position</b>	<b>2,222,477</b>	<b>2,222,477</b>
Total net position, beginning	\$ 4,991,525	\$ 4,991,525
Restatement	\$ (25,136)	\$ (25,136)
Net Position, beginning, restated	\$ 4,966,389	\$ 4,966,389
Total net position, ending	\$ 7,188,866	\$ 7,188,866

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, 2015**

	<b>Water and Sewer District</b>	<b>Totals June 30, 2015</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 501,000	\$ 501,000
Cash paid for goods and services	(233,723)	(233,723)
Cash paid to employees for services	(284,297)	(284,297)
Customer deposits received	15,850	15,850
Customer deposits returned	(12,545)	(12,545)
Other operating revenue	50,373	50,373
Net cash provided by operating activities	36,658	36,658
<b>Cash flows from noncapital financing</b>		
Transfer from other funds	1,225,324	1,225,324
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(2,743,420)	(2,743,420)
Principal paid on notes payables and installment purchases	(11,000)	(11,000)
Interest paid on note payable and installment purchases	(2,900)	(2,900)
Capital contributions	1,513,800	1,513,800
Net cash used by capital and related financing activities	(1,243,520)	(1,243,520)
<b>Cash flows from investing activities:</b>		
Interest on investments	92	92
Net increase (decrease) in cash and cash equivalents	18,554	18,554
Cash and cash equivalents, beginning	20,611	20,611
Cash and cash equivalents, ending	\$ 39,165	\$ 39,165

(continued)

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, 2015**

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

Operating income	<u>\$ (513,839)</u>	<u>\$ (513,839)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	540,007	540,007
Pension expense	1,645	1,645
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	526	526
(Increase) decrease in sales tax receivable	1,757	1,757
Increase (decrease) in accounts payable and accrued liabilities	5,597	5,597
Increase in accrued vacation pay	3,863	3,863
Increase in OPEB payable	8,822	8,822
(Increase) decrease in deferred outflows of resources for pensions	(15,025)	(15,025)
Increase (decrease) in customer deposits	3,305	3,305
Total adjustments	<u>550,497</u>	<u>550,497</u>
Net cash provided by operating activities	<u>\$ 36,658</u>	<u>\$ 36,658</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, 2015**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 20,454</u>
<b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ -
Miscellaneous liabilities	20,454
Intergovernmental payable	<u>          </u>
Total liabilities	<u>20,454</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, 2015**

**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 a 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. The LEO Special Separation Allowance Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system. The resources in the LEO Special Separation Allowance Fund have been set aside to pay future obligations of the LEO Special Separation Allowance but are not held in a trust that meets the criteria outlined in GASB Statement 68, paragraph 4.

*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 five legally budgeted non-major governmental funds. The Emergency Telephone System Fund, the Industrial Fund, the Fire District Fund, and the CDBG Fund are reported as nonmajor special revenue funds. The School Capital Project Fund is reported as capital projects funds.

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, 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 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 as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

### **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 essentially demand deposits and are considered cash and cash equivalents. The ABC Board consider demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, 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.

### **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, 2014. 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 are recorded at their estimated fair value at the date of donation. 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, deferred 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 provide 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.

*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.

Assigned Human Services Capital - portion of the fund balance that has been budgeted by the board for the construction of a new Health Department.

*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) (collectively, the "state-administered defined benefit pension plans"). For the purposes of measuring the net pension asset, 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 \$10,377,946 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)	\$ 37,045,667
Less accumulated depreciation	<u>13,984,993</u>
Net capital assets	\$ 23,060,674
Deferred charges related to advance refunding bond issued – included on government-wide statement of net position but are not current financial resources	4,372
Contributions to the pension plan in the current fiscal year	426,105
Deferred inflows of resources for taxes and special assessments receivable	661,462
Net Pension asset	597,536
Pension related deferrals	(1,315,122)
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	(11,669,884)
Compensated absences	(375,400)
Other Post Employment Benefits	(919,417)
Pension obligation	<u>(92,380)</u>
Total adjustment	<u>\$ 10,377,946</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 (\$1,395,753) 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	\$ 2,109,260
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	(1,346,518)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities – it affects only the government wide statement of net position	(1,079,814)
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	1,569,011
Contributions to the pension plan in the current fiscal year not included on the Statement of Activities	426,105
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	
Amortization of refunding costs not recorded on fund statements	(2,055)
Compensated absences, other post employment benefits and pension obligations are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(185,849)
County’s portion of collective pension expense	(45,053)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements	
Decrease in deferred inflows of resources- taxes receivable- at end of year	(49,334)
<b>Total Adjustment</b>	<b><u>\$1,395,753</u></b>

## **II. 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, 2015, the County's deposits had a carrying amount \$ 1,558,122 and a bank balance of \$ 1,804,332. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,304,332 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2015, Clay County had \$ 564 cash on hand.

At June 30, 2015, the Clay County ABC Board's deposits had a carrying amount of \$462,655 and a bank balance of \$469,273. A portion of the bank balance, \$219,273, was not covered by federal depository insurance, but was covered by collateral held by authorized agents in the name of the State Treasurer.

#### **2. Investments**

As of June 30, 2015, the County had the following investments and maturities.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than</b>		
		<b>6 Months</b>	<b>6-12 Months</b>	<b>1-3 Years</b>
NC Capital Management Trust – Cash Portfolio	\$ 2,354,853	N/A	N/A	N/A
Total	\$ 2,354,853	\$ -0-	\$ -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 Cash Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2015.

**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
2012	403,203	135,067	538,270
2013	407,359	99,798	507,157
2014	421,067	65,264	486,331
2015	430,118	27,957	458,075
Total	\$ 1,661,747	\$ 328,086	\$ 1,989,833

#### 4. Receivables

Receivables at the government-wide level at June 30, 2015, were as follows:

	<b>Accounts</b>	<b>Taxes and Related Accrued Interest</b>	<b>Total</b>
Government Activities:			
General	\$1,326,450	\$ 765,410	\$1,660,861
Other Governmental	<u>23,022</u>	<u>50,604</u>	<u>83,760</u>
Total receivables	<u>1,349,472</u>	<u>816,014</u>	<u>1,744,621</u>
Allowance for Doubtful accounts	<u>-0-</u>	<u>( 154,552)</u>	<u>(161,729)</u>
 Total governmental Activities	 <u>\$1,349,472</u>	 <u>\$ 661,462</u>	 <u>\$ 2,010,934</u>
 Amounts not Scheduled for Collection during The subsequent Year	 <u>\$ -0-</u>	 <u>\$ -0-</u>	 <u>\$ -0-</u>
 Business-type Activities			
Water & Sewer	<u>96,188</u>	<u>-0-</u>	<u>96,188</u>
Total Receivables	<u>98,188</u>		<u>96,188</u>
Allowance for Doubtful accounts	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Total business-type Activities	 <u>\$ 96,188</u>	 <u>\$ -0-</u>	 <u>\$ 96,188</u>

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

Local option sales tax	\$ 344,776
White goods disposal tax	771
Scrap tire tax	<u>5,564</u>
 Total	 <u>\$ 351,111</u>

## 5. Capital Assets

### Primary Government

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 839,820	-0-	-0-	\$ 839,820
Construction in progress	<u>2,253,258</u>	<u>1,569,657</u>	<u>701,528</u>	<u>3,121,387</u>
Total capital assets not being depreciated	<u>3,093,078</u>	<u>1,569,657</u>	<u>701,528</u>	<u>3,961,207</u>
<b>Capital assets being depreciated:</b>				
Buildings	21,771,428	768,372	-0-	22,539,800
Other improvements	2,393,528	-0-	-0-	2,393,528
Computer Software	-	-	-	-
Equipment	4,262,985	300,671	-0-	4,563,656
Vehicles and motor equipment	<u>3,415,388</u>	<u>172,088</u>	<u>-0-</u>	<u>3,587,476</u>
Total capital assets being depreciated	<u>31,843,329</u>	<u>1,241,131</u>	<u>-0-</u>	<u>33,084,460</u>
Less accumulated depreciation for:				
Buildings	6,436,347	761,931	-0-	7,198,278
Other improvements	1,355,438	6,957	-0-	1,362,395
Equipment	2,484,696	390,906	-0-	2,875,602
Computer Software	-	-	-	-
Vehicles and motor equipment	<u>2,361,994</u>	<u>186,724</u>	<u>-</u>	<u>2,548,718</u>
Total accumulated depreciation	<u>12,638,475</u>	<u>1,346,518</u>	<u>-0-</u>	<u>13,984,993</u>
Total capital assets being Depreciated, net	<u>19,204,854</u>			<u>19,099,467</u>
<b>Governmental activity capital assets, net</b>	<b><u>\$22,297,932</u></b>			<b><u>\$23,060,674</u></b>

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

General government	\$ 698,554
Public safety	216,018
Transportation	84,196
Economic and physical Development	16,864
Human services	265,251
Cultural and recreational	<u>65,635</u>
Total depreciation Expense	<u>\$ 1,346,518</u>



	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>Water and Sewer District</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 120,280	-0-	-0-	120,280
Construction in progress	253,156	-0-	253,156	-0-
Total capital assets not being depreciated	<u>373,436</u>	-0-	253,156	120,280
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	8,674,671	2,988,380		11,663,051
Furniture and maintenance equipment	142,408	5,496	-0-	147,904
Vehicles	7,000	2,700	-0-	9,700
Total capital assets being depreciated	<u>8,824,079</u>	2,996,576	-0-	11,820,655
Less accumulated depreciation for:				
Plant and distribution systems	3,975,667	536,542	-0-	4,512,209
Furniture and maintenance equipment	131,986	2,925	-0-	134,911
Vehicles	7,000	540	-0-	7,540
Total accumulated depreciation	<u>4,114,653</u>	540,007	-0-	4,654,660
<b>Water and Sewer District capital assets, net</b>	<b><u>\$ 5,082,862</u></b>			<b><u>\$ 7,286,275</u></b>

#### Construction commitments

The government had one active construction project as of June 30, 2015, the new health department facility. At June 30, 2015 the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Health Department	\$ 2,934,063	\$401,734

**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	25,000	-0-	-0-	25,000
Total capital assets not being depreciated	25,000	-0-	-0-	25,000
<b>Capital assets being depreciated:</b>				
Buildings	229,199	-0-	-0-	229,199
Leasehold Improvements	3,441	-0-	-0-	3,441
Store equipment	58,776	34,475	-0-	93,251
Total capital assets being depreciated	291,416	34,475		325,891
Less accumulated depreciation for:				
Buildings	2,865	5,730	-0-	8,595
Leasehold Improvements	3,207	233	-0-	3,440
Furniture and maintenance equipment	58,776	144	-0-	58,920
Total accumulated depreciation	64,848	6,107	-0-	70,955
Total capital assets being depreciated, net	226,568	28,368	-0-	254,936
<b>ABC capital assets, net</b>	<b>\$ 251,568</b>			<b>\$ 279,936</b>

**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2015, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:			
General	\$ 569,120	\$ -0-	\$ 569,120
Other governmental	24,743	-0-	24,743
Total governmental activities	\$ 593,863	-0-	\$ 593,863
Business-type Activities:			
Water and Sewer District	6,777	-0-	6,777
Total business-Type activities	\$ 6,777	\$ -0-	\$ 6,777

## **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, 2015, was 7.51% of compensation for law enforcement officers and 7.07% 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 \$439,328 for the year ended June 30, 2015.

*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, 2015, the County reported an asset of \$577,833 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The County’s proportion of the net pension asset 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, 2014, the County’s proportion was .098%, which was an increase of .002% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$48,105. At June 30, 2015, 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		\$63,138
Net difference between projected and actual earnings on pension plan investments		1,345,183
Changes in proportion and differences between County contributions and proportionate share of contributions	\$47,393	
County contributions subsequent to the measurement date	439,329	
<b>Total</b>	<u><b>\$486,722</b></u>	<u><b>\$1,408,321</b></u>

\$486,722 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$	(340,242)
2017		(340,242)
2018		(340,242)
2019		(340,203)
2020		
Thereafter		-
	\$	<u>(1,360,928)</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk 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, 2014 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	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	<u>4.5%</u>	3.7%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilized different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*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 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 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)	1,961,416	(577,833)	(2,715,800)

*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. 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. For reporting purposes, the Separation Allowance is presented as a pension trust fund; however, it does not meet the criteria for trust funds outlined in GASB Statement 68.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2014, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitle to but not yet receiving benefits	0
Active plan members	16
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 and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

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

**3. Contributions.**

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

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00 % investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85 % per year. Both (a) and (b) included an inflation component of 3.0 %. The assumptions did not include post-employment benefit increases.

*Annual Pension Cost and Net Pension Obligation.* The County’s annual pension costs and net pension obligation to the Separation Allowance for the current year were as follow:

Annual required contribution	\$	21,580
Interest on net pension obligation		4,317
Adjustment to annual required contribution		<u>(7,293)</u>
Annual pension cost	\$	18,604
Contributions made		<u>(12,559)</u>
Increase (decrease) in net pension obligation	\$	6,045
Net pension obligation beginning of year		<u>86,335</u>
Net pension obligation end of year	\$	92,380

### 3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 14,814	00.00%	\$ 75,471
2014	14,817	26.68%	86,335
2015	18,604	67.51%	92,380

#### **4. *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 the unfunded actuarial accrued liability (UAAL) was \$147,399. The covered payroll (annual payroll of active employees covered by the plan) was \$587,297 and the ratio of the UAAL to the covered payroll was 25.10 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### **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. Contributions for the year ended June 30, 2015 were \$ 29,683, which consisted of \$ 27,483 from the County and \$2,200 from the law enforcement officers.

**d. Registers of Deeds' Supplemental Pension Fund**

*Plan Description.* Clay County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory, 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 \$1,801 for the year ended June 30, 2015.

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

At June 30, 2015 the County reported an asset of \$39,464 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 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, 2014 the County's proportion was .17% which was a decrease of .01% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the County recognized pension expense of \$(1,408). At June 30, 2015, 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	\$362	
Net difference between projected and actual earnings on pension plan investments		\$212
Changes in proportion and differences between County contributions and proportionate share of contributions		887
County contributions subsequent to the measurement date	1,801	
<b>Total</b>	<b><u>\$2,163</u></b>	<b><u>\$1,099</u></b>

\$1,801 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$ (291)
2017	(291)
2018	(101)
2019	(53)
2020	
Thereafter	<u>          -</u>
	<u><u>\$ (737)</u></u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 7.75 percent, including inflation and productivity factor
Investment rate of return	5.75 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, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through 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, 2014 is 2.5%.

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 5.75%. 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 5.75%, 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>(4.75%)</u>	Discount Rate (5.75%)	1% Increase <u>(6.75%)</u>
County’s proportionate share of the net pension liability (asset)	(35,437)	(39,464)	(42,925)

*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 4 Retiree only coverage, \$578.58 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>Plan 4</b>	<b>Plan 5</b>
Retiree Only	\$578.58	\$630.44
Retiree and Spouse	\$1,157.16	\$1,260.88
Retiree and Child(ren)	\$1,012.51	\$1,103.28
Family	\$1,301.81	\$1,418.50

The current annual required contribution (ARC) rate is 4.15% of valuation compensation. For the current year, the County contributed \$92,215 or 1.51% 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 \$92,215 in fiscal year 2015. There were \$1,887 of contributions made by employees. 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	\$ 270,828
Interest on net OPEB obligation	31,295
Adjustment to annual required contribution	(29,896)
Annual OPEB cost (expense)	272,227
Contributions made	(92,215)
Increase (decrease) in net OPEB obligation	180,012
Net OPEB obligation, beginning of year	782,371
Net OPEB obligation, end of year	<u>\$ 962,383</u>

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, 2015 were as follows:

3 Year Trend Information			
For Year Ended June	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 340,879	33.3%	\$ 510,252
2014	\$ 298,949	9.00%	\$ 782,371
2015	\$ 272,227	33.9%	\$ 962,383

*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.

**c. 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-



## **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, 2015, 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 3 certain equipment. 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 August 22, 2014 for the lease of public safety vehicles and requires an annual payment of \$28,016.68. Under the terms of the agreement, title passes to the County at the end of the lease term.



At June 30, 2015, 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	\$79,382	\$13,230	\$66,152

For Clay County, the future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015 were as follows:

<u>Year Ending June 30</u>	
2016	\$28,017
2017	<u>\$28,017</u>
Total minimum lease payments	\$56,034
Less: amount representing interest	<u>4,668</u>
Present value of the minimum lease payments	<u>\$51,366</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 \$140,495 for an ambulance for the Emergency Medical Services Department. The transaction requires annual payments by the County of \$31,029 including interest payments at a rate of 3.4%, until 2016.

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 \$62,093 for three Ford Crown Victorians for the Sheriff Department during the 2013 fiscal year. The transaction requires annual payments by the County of \$21,915, including interest payments at a rate of 6.0%, until July 2014.

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 two vehicles for the Sherriff's Department on January 14, 2014. The transaction requires two annual payments of \$24,967.11 including interest at 7.95%.

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. However, as of June 30, 2014 the entire loan proceeds had not been drawn by the County. Therefore as of June 30, 2014 there were there were unspent loan proceeds of \$1,000,432. During the current fiscal year the \$1,000,432 of the previous years' loan proceeds were used. This transaction will require semi-annual payments of \$45,304.87 including interest at a rate of 2.79% until June 15, 2029.

For Clay County, the future minimum payments as of June 30, 2015, including \$ 1,454,340 of interest, are:

Year Ending June 30	<u>Governmental Activities</u>	
	Principal	Interest
2016	1,333,672	245,027
2017	1,305,478	216,967
2018	1,307,266	189,954
2019	1,309,105	162,891
2020	1,310,937	135,833
2021 and after	4,481,811	463,568
Principal payments	<u>\$ 11,048,269</u>	
Total interest payments		<u>\$ 1,414,240</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, 2015 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 %	\$	405,000
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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
2016	115,000	14,103
2017	115,000	10,365
2018	110,000	6,398
2019	65,000	2,438
Total	\$ 405,000	\$ 33,304

**d. Advance Refunding**

The County issued \$ 1,630,000 of general obligation refunding bonds to incur a lower interest rate. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$145,000. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce the interest rate and will result in an economic gain of \$453,785.

**e. Qualified Zone Academy Bonds**

The County financed construction-in-progress on a building for use by Clay County Board of Education during the fiscal year ended June 30, 2003 by obtaining a QZAB. The bond was issued pursuant to a deed of trust, which requires that legal title remain with the County as long as the debt is outstanding. The County has entered into a lease with Clay County Board of Education transferring the rights and responsibilities for maintenance and insurance of the property to the Board of Education. The lease calls for nominal annual lease payments and also contains a bargain purchase option. The lease term is the same as that of the QZAB obligation. Due to the economic substance of the transaction, the fixed assets associated with the QZAB obligation will be recorded by the Board of Education.

The QZAB was executed on May 20, 2002 for property improvements for use by Clay County Board of Education. The transaction requires the County to repay the advancement in eighteen annual installments of \$31,223, beginning May 2003, and one final payment in May 2021 of \$9,136, at an interest rate of 0.0%.

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2016	31,223	-0-
2017	31,223	-0-
2018	31,223	-0-
2019	31,222	-0-
2020	31,222	-0-
2021	9,136	-0-
Total	\$ 165,249	\$ -0-

**f. 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 \$14,350 including interest at 5%. Future minimum payments including interest are as follows:

June 30, 2016	14,350
2017	13,750
2018	13,150
2019	11,550
Total Minimum Note	
Payments	<u>52,800</u>
Less: Amount Representing	
Interest	<u>5,800</u>
Present Value of the Note	
Payment	<u>\$ 47,000</u>

**Debt Related to Capital Activities-** Of the total Governmental Activities debt listed only \$ 11,099,635 relates to assets the County holds title.

**g. 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, 2015:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion of Balance
<b><i>Governmental</i></b>					
<b><i>Activities:</i></b>					
General obligation					
Debt	\$ 520,000	\$ -0-	\$ 115,000	405,000	115,000
QZAB	196,472	-0-	31,223	165,249	31,223
Installment purchase	11,442,609	1,000,432	1,394,771	11,048,270	1,333,672
Capitalized leases		79,382	28,017	51,365	24,935
Net Pension obligation	86,335	18,604	12,559	92,380	-
Other Post Employment					
Benefits	748,227	263,405	92,215	919,417	-
Net pension liability(LGERS)	709,854		709,854	-0-	
Compensated absences	<u>366,786</u>	<u>259,983</u>	<u>251,369</u>	<u>375,400</u>	<u>-</u>
Total governmental					
Activities	<u>\$ 14,070,283</u>	<u>\$ 1,621,806</u>	<u>\$ 2,635,008</u>	<u>\$ 13,057,081</u>	<u>\$ 1,504,830</u>

**Business-type**

**Activities:**

Note payable	\$ 58,000	\$ -0-	\$ 11,000	\$ 47,000	\$ 12,000
Other Post Employment					
Benefits	34,144	8,822	-0-	42,966	-
Net pension liability (LGERS)	25,136		25,136	-0-	
Compensated absences	<u>11,752</u>	<u>10,878</u>	<u>7,014</u>	<u>15,616</u>	<u>-</u>
Total business-					
Type activities	<u>\$ 129,032</u>	<u>\$ 19,700</u>	<u>\$ 43,150</u>	<u>\$ 105,582</u>	<u>\$ 12,000</u>

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

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**

Transfer to / from other funds at June 30, 2015, consist of the following:

Due to the General Fund from the Water and Sewer - for unreimbursed expenditures	\$ 22,392
Due to the General Fund from the Emergency Telephone - for unreimbursed expenditures	\$ 5,435

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.

The County had the following transfers to/from other funds during fiscal year ending June 30, 2015:

From the General Fund to the Water and Sewer Fund for grant matching funds used for capital improvements \$1,225,324.

Transfers are made to move unrestricted revenues to finance various programs that the government must account for in other funds accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

**D. Net Investment in Capital Assets**

	Governmental		Business-type
Capital assets	\$23,060,674		\$7,286,275
Less: long-term debt	11,099,635		35,000
Less: current portion of long-term debt			12,000
Add: unexpended debt proceeds	-0-		-0-
Net investment in capital assets	\$11,961,039		\$7,239,275

**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:

<b>Total fund balance-General Fund</b>	<b>\$4,384,673</b>
Less:	
Nonspendables –Prepaid	14,071
Stabilization by State Statute	1,705,388
Appropriated Fund Balance in 2015 budget	53,080
Register of Deeds	29,625
Tax Revaluation	355,000
Assigned for Human Services	910,309
<b>Remaining Fund Balance</b>	<b>1,317,200</b>

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

### **III. 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.

### **IV. 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, 2015. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$110,000 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, 2015. Complete financial statements for the Center can be obtained from the Center's offices at 44 Bonnie Lane, Sylva, NC 28779.

### **V. 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.

## **VI. 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, 2015. 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 \$ 125,000 during the fiscal year June 30, 2015. Complete financial statements for the College may be obtained from the College's administrative offices at 2300 Highway 64 E., Murphy, NC 28906.

## **VII. Related Party Transactions**

A clay county commissioner was hired by the general contractor responsible for the construction of the health department facility. When the contract was awarded he was not a commissioner. However, before the completion of the project he had taken office. Checks that were paid directly to the Corporation owned by a commissioner for the construction of retaining walls at the health department facility totaled \$5,490. There was also an accounts payable for the same job in the amount of \$18,616.17. There was another job that the same commissioner performed prior to taking office as a commissioner. He built a retaining wall at the Clay County Recreation Center and was compensated \$3,171. Therefore, he performed work for the County prior to taking office as well as after taking office. The transactions appear to be an arms-length transaction.

## **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	\$ 35,977	\$
Adoption Assistance	69,594	18,130
Medicaid	9,375,784	5,292,576
Food stamp program	2,405,597	
Energy assistance	66,600	
WIC	145,646	
Title IV-E, foster care	<u>22,659</u>	<u>6,579</u>
Total	<u>\$12,121,857</u>	<u>\$ 5,317,285</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. Subsequent Events**

Management has evaluated subsequent events through November 19, 2015, the date the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

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

The County implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the County to record beginning net pension liability and the effects on net position of contributions made by the County during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$672,532 and \$25,136, respectively.

### **Required Supplemental Financial Data**

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits
- Schedule of County's Proportionate Share of Net Pension Asset (LGERS)
- Schedule of County Contributions (LGERS)
- Schedule of County's Proportionate Share of Net Pension Asset (ROD)
- Schedule of County Contributions (ROD)

Clay County, North Carolina  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Pysl ((b-a/c)
12/31/2008	-	56,601	56,601	0.0%	548,303	10.32%
12/31/2009	-	70,759	70,759	0.0%	470,423	15.04%
12/31/2010	-	89,273	89,273	0.0%	535,330	16.68%
12/31/2011	-	103,631	103,631	0.0%	486,967	21.28%
12/31/2012	-	119,027	119,027	0.0%	509,762	23.35%
12/31/2013	-	147,466	147,466	0.0%	542,479	27.18%
12/31/2014	-	147,399	147,399	0.0%	587,297	25.10%

Clay County, North Carolina  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information

Schedule of Employer Contributions

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2012	13,272	0.00%
2013	14,814	0.00%
2014	14,817	26.68%
2015	18,604	67.51%

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 dollar closed
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25% – 7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

Clay County, North Carolina  
 Other Postemployment Benefits  
 Required Supplementary Information  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
6/30/2010	- \$	1,443,319	\$ 1,443,319	\$ -	\$ 6,015,226	23.99%
6/30/2011	- \$	1,519,288	\$ 1,519,288	\$ -	\$ 7,267,823	20.90%
6/30/2012	- \$	2,396,657	\$ 2,396,657	\$ -	\$ 5,124,165	46.77%
6/30/2014	- \$	2,564,650	\$ 2,564,650	\$ -	\$ 6,124,926	41.87%

Clay County, North Carolina  
 Other Postemployment Benefits  
 Required Supplementary Information  
 Schedule of Employer Contributions

Year Ending 30-Jun	Annual Required Contributions	Percentage Contributed
2012	\$ 289,817	58.90%
2013	\$ 340,879	33.30%
2014	\$ 298,949	9.00%
2015	\$ 272,227	33.90%

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 THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY (ASSET)  
Local Government Employees' Retirement System  
Last Two Fiscal Years**

	2015	2014
County's proportion of the net pension liability (asset)%	.098%	.0961%
County's proportionate share of the net pension liability (asset) \$	\$(577,833)	\$1,158,374
County's covered-employee payroll	\$6,187,548	\$5,971,989
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(9.34%)	19.40%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

**Schedule of County Contributions**  
**Local Government Employees' Retirement System**  
 Last 2 Fiscal Years

	2015	2014
Contractually required contribution	\$439,329	\$423,384
Contributions in relation to the contractually required contribution	<u>\$439,329</u>	<u>\$423,384</u>
Contribution deficiency (excess)	<u>          -</u> =====	<u>          -</u> =====
County's covered-employee payroll	\$6,213,989	\$5,988,458
Contribution as a percentage of covered-employee payroll	7.07%	7.07%



**SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION  
LIABILITY (ASSET)  
Registers of Deeds' Supplemental Pension Fund  
Last Two Fiscal Years**

	2015	2014
County's proportion of the net pension liability (asset)%	.174%	.168%
County's proportionate share of the net pension liability (asset) \$	\$(39,464)	\$(35,900)
County's covered-employee payroll	\$57,027	\$62,211
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(69.20%)	(57.71%)
Plan fiduciary net position as a percentage of the total pension liability	193.88%	190.50%

**Schedule of County Contributions**  
**Registers of Deeds' Supplemental Pension Fund**  
 Last 2 Fiscal Years

	2015	2014
Contractually required contribution	\$1,801	\$1,422
Contributions in relation to the contractually required contribution	<u>\$1,801</u>	<u>\$1,422</u>
Contribution deficiency (excess)	<u>-0-</u>	<u>-0-</u>
County's covered-employee payroll	\$57,027	\$62,211
Contributions as a percentage of covered-employee payroll	3.16%	2.29%

**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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
<b>Ad valorem taxes:</b>			
Taxes		\$ 7,593,331	
Interest		92,743	
Total	<u>\$ 8,068,595</u>	<u>7,686,074</u>	<u>\$ (382,521)</u>
<b>Local option sales taxes:</b>			
Article 39 and 44		828,837	
Article 40 one - half of one percent		661,796	
Article 42 one - half of one percent		431,107	
Total	<u>2,095,549</u>	<u>1,921,740</u>	<u>(173,809)</u>
<b>Other taxes and licenses:</b>			
Deed stamp excise tax		58,082	
Scrap tire disposal tax		22,055	
White goods disposal tax		3,460	
Franchise fees		23,364	
Privilege licenses		1,925	
Total	<u>128,000</u>	<u>108,886</u>	<u>(19,114)</u>
<b>Unrestricted intergovernmental:</b>			
Payments in lieu of taxes-outside sources		313,969	
Beer and wine tax		49,969	
Total	<u>436,633</u>	<u>363,938</u>	<u>(72,695)</u>
<b>Restricted intergovernmental:</b>			
State grants		674,016	
Federal grants		3,368,537	
Court facility fees		13,872	
Enforcement fund		2,802	
ABC profits for law enforcement		9,000	
ABC bottle taxes		18,176	
Total	<u>8,351,456</u>	<u>4,086,403</u>	<u>(4,265,053)</u>
<b>Permits and fees:</b>			
Building and well permits		100,769	
Inspection fees		80,307	
Landfill permits and user fees		297,491	
Recreation fees		9,945	
Gun Permits		8,580	
Register of deeds		58,914	
Total	<u>565,609</u>	<u>556,006</u>	<u>(9,603)</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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
<b>Sales and services:</b>			
Rents, concessions, and fees		26,704	
Jail fees		118,668	
Ambulance and rescue squad fees		556,453	
Police fees		85,849	
Recreation fees		157,002	
Health Department fees		251,309	
Tax office sales		1,158	
Senior Center Meal fees		700	
Transportation fees		102,264	
Total	<u>1,269,962</u>	<u>1,300,107</u>	<u>30,145</u>
<b>Investment earnings</b>	<u>10,000</u>	<u>2,622</u>	<u>(7,378)</u>
<b>Miscellaneous:</b>			
Donations		15,864	
Other		31,558	
Total	<u>97,912</u>	<u>47,422</u>	<u>(50,490)</u>
<b>Total revenues</b>	<b><u>21,023,716</u></b>	<b><u>16,073,198</u></b>	<b><u>(4,950,518)</u></b>
<b>Expenditures:</b>			
<b>General government:</b>			
Governing body:			
Salaries and employee benefits		158,899	
Other operating expenditures		190,339	
Insurance other property		219,630	
Capital Outlay		16,583	
Total	<u>623,682</u>	<u>585,451</u>	<u>38,231</u>
County Appropriations		147,216	
Total	<u>154,583</u>	<u>147,216</u>	<u>7,367</u>
Elections:			
Salaries and employee benefits		128,187	
Other operating expenditures		44,307	
Capital outlay		-	
Total	<u>180,865</u>	<u>172,494</u>	<u>8,371</u>
Finance:			
Salaries and employee benefits		228,595	
Other operating expenditures		23,038	
Total	<u>275,869</u>	<u>251,633</u>	<u>24,236</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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
Taxes supervisor:			
Salaries and employee benefits		136,476	
Other operating expenditures		30,687	
Total	<u>186,923</u>	<u>167,163</u>	<u>19,760</u>
Taxes collector:			
Salaries and employee benefits		187,984	
Other operating expenditures		25,988	
Capital outlay		101,129	
Total	<u>340,883</u>	<u>315,101</u>	<u>25,782</u>
Legal:			
Contracted services	<u>36,000</u>	<u>31,611</u>	<u>4,389</u>
Register of deeds:			
Salaries and employee benefits		163,623	
Other operating expenditures		51,401	
Total	<u>244,053</u>	<u>215,024</u>	<u>29,029</u>
Public buildings:			
Salaries and employee benefits		269,498	
Other operating expenditures		571,534	
Capital Outlay		-	
Total	<u>921,084</u>	<u>841,032</u>	<u>80,052</u>
Senior Center			
Salaries and employee benefits		108,880	
Other operating expenditures		101,881	
Capital Outlay		10,616	
Total	<u>228,021</u>	<u>221,377</u>	<u>6,644</u>
<b>Total general government</b>	<b><u>3,191,963</u></b>	<b><u>2,948,102</u></b>	<b><u>243,861</u></b>
<b>Public safety:</b>			
Sheriff and communications:			
Salaries and employee benefits		1,258,601	
Other operating expenditures		172,504	
Capital outlay		99,256	
Total	<u>1,722,194</u>	<u>1,530,361</u>	<u>191,833</u>
Jail:			
Salaries and employee benefits		652,954	
Other operating expenditures		272,277	
Capital Outlay		-	
Total	<u>990,869</u>	<u>925,231</u>	<u>65,638</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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
School Resource Officer:			
Salaries and employee benefits		86,346	
Other operating expenditures		225	
Total	<u>89,392</u>	<u>86,571</u>	<u>2,821</u>
Emergency management:			
Salaries and employee benefits		23,282	
Other operating expenditures		14,892	
Capital outlay		32,152	
Total	<u>105,183</u>	<u>70,326</u>	<u>34,857</u>
Fire:			
Other operating expenditures		22,021	
Total	<u>39,000</u>	<u>22,021</u>	<u>16,979</u>
Inspections:			
Salaries and employee benefits		107,713	
Other operating expenditures		6,096	
Total	<u>120,352</u>	<u>113,809</u>	<u>6,543</u>
Emergency medical services			
Salaries and employee benefits		933,688	
Other operating expenditures		143,129	
Capital outlay		16,499	
Total	<u>1,093,599</u>	<u>1,093,316</u>	<u>283</u>
Telecommunications			
Salaries and employee benefits		62,006	
Other operating expenditures		12,407	
Capital outlay		15,865	
Total	<u>98,501</u>	<u>90,278</u>	<u>8,223</u>
Animal Control Officer			
Salaries and employee benefits		23,592	
Other operating expenditures		7,675	
Total	<u>37,870</u>	<u>31,267</u>	<u>6,603</u>
Courthouse Security			
Salaries and employee benefits		17,772	
Other operating expenditures		255	
Total	<u>22,159</u>	<u>18,027</u>	<u>4,132</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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
Clerk of Court			
Other operating expenditures		3,713	
Total	7,200	3,713	3,487
<b>Total public safety</b>	<b>4,326,319</b>	<b>3,984,920</b>	<b>341,399</b>
<b>Transportation:</b>			
Transportation -Operations			
Salaries and employee benefits		329,827	
Other operating expenditures		64,822	
Capital outlay		5,470	
Total transportation operations	444,144	400,119	44,025
Transportation -Senior Center			
Salaries and employee benefits		179,794	
Other operating expenditures		29,530	
Capital Outlay		-	
Total transportation senior center	341,611	209,324	132,287
	<b>785,755</b>	<b>609,443</b>	<b>176,312</b>
<b>Economic and physical development:</b>			
Planning and zoning:			
Salaries and employee benefits		46,380	
Other operating expenditures		11,570	
Total	68,084	57,950	10,134
Sanitary Landfill			
Salaries and employee benefits		195,968	
Other operating expenditures		291,663	
Total	492,919	487,631	5,288
Soil and Water Conservation			
Salaries and employee benefits		83,026	
Other operating expenditures		29,840	
Capital outlay		-	
Total	168,699	112,866	55,833
Agricultural extension:			
Salaries and employee benefits		62,447	
Other operating expenditures		14,039	
Total	107,257	76,486	30,771
Special Appropriations	10,360	10,207	153
<b>Total economic and physical     development</b>	<b>847,319</b>	<b>745,140</b>	<b>102,179</b>

(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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
<b>Human services:</b>			
Health:			
Administration & health programs:			
Salaries and employee benefits		969,200	
Other operating expenditures		401,379	
Capital Outlay		1,597,301	
<b>Total</b>	<b>3,189,412</b>	<b>2,967,880</b>	<b>221,532</b>
Far West dental			
Salaries and employee benefits		498,675	
Other operating expenditures		87,897	
Capital Outlay		30,371	
<b>Total</b>	<b>1,420,009</b>	<b>616,943</b>	<b>803,066</b>
Women, infants, and children:			
Salaries and employee benefits		99,195	
Other operating expenditures		5,267	
<b>Total</b>	<b>115,507</b>	<b>104,462</b>	<b>11,045</b>
Care Coordination for children			
Salaries and employee benefits		15,904	
Other operating expenditures		-	
<b>Total</b>	<b>29,763</b>	<b>15,904</b>	<b>13,859</b>
Pregnancy Care Management			
Salaries and employee benefits		23,976	
Other operating expenditures		126	
<b>Total</b>	<b>25,074</b>	<b>24,102</b>	<b>972</b>
Smart Start:			
Salaries and employee benefits		15,904	
Other operating expenditures		6,683	
<b>Total</b>	<b>29,685</b>	<b>22,587</b>	<b>7,098</b>
<b>Total health</b>	<b>4,809,450</b>	<b>3,751,878</b>	<b>1,057,572</b>
Social services:			
Administration:			
Salaries and employee benefits		1,222,848	
Other operating expenditures		617,532	
Capital outlay		45,800	
<b>Total</b>	<b>2,297,196</b>	<b>1,886,180</b>	<b>411,016</b>
AFDC:			
Assistance payments	177,726	27,335	150,391
			(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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
Medical assistance program:			
Assistance payments	15,000	522	14,478
. Bioterrorism			
Salaries and employee benefits		26,156	
Other operating expenditures		-	
	36,259	26,156	10,103
Other assistance:			
Assistance payments	600,005	387,585	212,420
<b>Total social services</b>	<b>3,126,186</b>	<b>2,327,778</b>	<b>798,408</b>
Veterans service officer:			
Salaries and employee benefits		3,876	
Other operating expenditures		528	
Total veterans service officer	4,725	4,404	321
<b>Total human services</b>	<b>7,940,361</b>	<b>6,084,060</b>	<b>1,856,301</b>
<b>Cultural and recreational:</b>			
Recreation:			
Salaries and employee benefits		180,550	
Other operating expenditures		109,496	
Capital outlay		127,701	
Total	437,905	417,747	20,158
Recreation sports			
Other operating expenditures		21,786	
Total	22,192	21,786	406
Campground			
Operating expenditures		55,113	
Capital Outlay		3,400	
	62,577	58,513	4,064
Libraries:			
Contribution to regional library	110,000	110,000	-
<b>Total culture and recreation</b>	<b>632,674</b>	<b>608,046</b>	<b>24,628</b>
<b>Education:</b>			
Public schools - current		1,150,000	
Public schools - capital outlay		280,000	
Public schools - other		112,701	
Community colleges - current		125,000	
<b>Total education</b>	<b>1,698,925</b>	<b>1,667,701</b>	<b>31,224</b>

(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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
<b>Debt service:</b>			
Principal retirement		1,565,185	-
Interest and other charges		293,796	-
<b>Total debt service</b>	<b>1,875,224</b>	<b>1,858,981</b>	<b>16,243</b>
<b>Total expenditures</b>	<b>21,298,540</b>	<b>18,506,393</b>	<b>2,792,147</b>
<b>Revenues over (under) expenditures</b>	<b>(274,824)</b>	<b>(2,433,195)</b>	<b>(2,158,371)</b>
<b>Other financing sources (uses):</b>			
Installment obligation issued:		1,079,814	
Transfers (to) from other funds:			
Capital Projects Funds		-	
Water and Sewer Fund		(1,225,324)	
<b>Total other financing sources (uses)</b>	<b>(291,607)</b>	<b>(145,510)</b>	<b>(146,097)</b>
<b>Revenues and other financing sources over expenditures and other financing uses</b>	<b>(566,431)</b>	<b>(2,578,705)</b>	<b>(2,304,468)</b>
<b>Appropriated fund balance</b>	<b>566,431</b>	<b>-</b>	<b>566,431</b>
<b>Revenues, other sources, and appropriated fund balance over (under) expenditures</b>	<b>\$ -</b>	<b>(2,578,705)</b>	<b>\$ (1,738,037)</b>
<b>Fund balance, beginning</b>		<b>6,963,378</b>	
<b>Fund balance, ending</b>		<b>\$ 4,384,673</b>	

**Clay County, North Carolina  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2015**

	<b>Special Revenue Funds</b>					<b>Capital Projects Funds</b>		
	<b>CDBG Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Fire District Fund</b>	<b>Industrial Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>	<b>School Capital Project Fund</b>	<b>Total Nonmajor Capital Project Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>								
Cash and cash equivalents	\$ -	\$ 8,773	\$ 21,405	\$ -	\$ 30,178	\$ -	\$ -	\$ 30,178
Restricted cash	-	283,240	-	88,078	371,318	-	-	371,318
Accounts receivable, net	-	23,022	-	-	23,022	-	-	23,022
Taxes receivable, net	-	-	50,604	-	50,604	-	-	50,604
Due from other funds	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 315,035</b>	<b>\$ 72,009</b>	<b>\$ 88,078</b>	<b>\$ 475,122</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 475,122</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable and accrued liabilities	\$ -	\$ 3,338	\$ 21,405	\$ -	\$ 24,743	\$ -	\$ -	\$ 24,743
Due to other funds	-	5,435	-	-	5,435	-	-	5,435
<b>Total liabilities</b>	<b>-</b>	<b>8,773</b>	<b>21,405</b>	<b>-</b>	<b>30,178</b>	<b>-</b>	<b>-</b>	<b>\$ 30,178</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		<b>-</b>	<b>50,604</b>	<b>-</b>	<b>50,604</b>			<b>50,604</b>
Fund balances:								
Restricted:								
Other		283,240		88,078	371,318	-	-	371,318
Stabilization by State Statute	-	23,022	-	-	23,022	-	-	23,022
Unassigned	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>306,262</b>	<b>-</b>	<b>88,078</b>	<b>394,340</b>	<b>-</b>	<b>-</b>	<b>394,340</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ -</b>	<b>\$ 315,035</b>	<b>\$ 72,009</b>	<b>\$ 88,078</b>	<b>\$ 475,122</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 475,122</b>

**Clay County, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2015**

	<b>Special Revenue Funds</b>				<b>Capital Projects Funds</b>			
	<b>CDBG Fund</b>	<b>Emergency Telephone System Fund</b>	<b>Fire District Fund</b>	<b>Industrial Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>	<b>School Capital Project Fund</b>	<b>Total Nonmajor Capital Project Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>								
Ad valorem taxes	\$ -	\$ -	\$ 481,167	\$ -	\$ 481,167	\$ -	\$ -	\$ 481,167
Local option sales taxes	-	-	-	-	-	-	-	-
Other taxes and licenses	-	-	-	-	-	-	-	-
Restricted intergovernmental	837,119	265,015	-	-	1,102,134	-	-	1,102,134
Investment earnings	-	242	-	-	242	-	-	242
Miscellaneous	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>837,119</b>	<b>265,257</b>	<b>481,167</b>	<b>-</b>	<b>1,583,543</b>	<b>-</b>	<b>-</b>	<b>1,583,543</b>
<b>EXPENDITURES</b>								
Current:								
Economic and physical development	837,119	-	-	-	837,119	-	-	837,119
Public safety	-	147,497	481,167	-	628,664	-	-	628,664
Capital outlay	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>837,119</b>	<b>147,497</b>	<b>481,167</b>	<b>-</b>	<b>1,465,783</b>	<b>-</b>	<b>-</b>	<b>1,465,783</b>
Excess (deficiency) of revenues over expenditures	-	117,760	-	-	117,760	-	-	117,760
Net change in fund balances	-	117,760	-	-	117,760	-	-	117,760
Fund balances, beginning	-	188,502	-	88,078	276,580	-	-	276,580
<b>Fund balances, ending</b>	<b>\$ -</b>	<b>\$ 306,262</b>	<b>\$ -</b>	<b>\$ 88,078</b>	<b>\$ 394,340</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 394,340</b>

**Clay County, North Carolina**  
**CDBG Fund Grant #11-C-2368**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2015**

	Project Author- ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
<b>Revenues</b>					
Restricted intergovernmental:					
GRANT # 11-C-2368:	\$ 500,000	\$ 357,912	\$ 142,088	\$ 500,000	\$ -
	-	-	-	-	-
Total Revenues	500,000	357,912	142,088	500,000	-
<b>Expenditures</b>					
Economic and physical development					
GRANT #11-C-2368:					
Parks, playgrounds and recreation facilities	450,000	308,493	141,507	450,000	-
Administration	50,000	49,419	581	50,000	-
Total expenditures	500,000	357,912	142,088	500,000	-
Revenues under expenditures	-	-	-	-	-
<b>Other financing sources (uses):</b>					
Transfers in:					
General Fund	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues and other financing sources over uses	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balance, beginning			\$ -		
Fund balance, ending			\$ -		

**Clay County, North Carolina**  
**CDBG Fund Grant #12-C-2491**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2015**

	Project Author- ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
<b>Revenues</b>					
Restricted intergovernmental:					
GRANT # 12-C-2491:	\$ 750,000	\$ 54,969	\$ 695,031	\$ 750,000	\$ -
	-	-	-	-	-
Total Revenues	750,000	54,969	695,031	750,000	-
<b>Expenditures</b>					
Economic and physical development					
GRANT #12-C-2491:					
Public Sewer					
Improvements	660,000	-	660,000	660,000	-
Administration	90,000	54,969	35,031	90,000	-
Total expenditures	750,000	54,969	695,031	750,000	-
Revenues under expenditures	-	-	-	-	-
Other financing sources (uses):					
Transfers in:					
General Fund	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues and other financing sources over uses	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balance, beginning			\$ -		
Fund balance, ending			\$ -		

**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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
E911 Funding	\$ -	\$ 265,015	\$ -
Interest earned		242	
Total revenue	<u>260,252</u>	<u>265,257</u>	<u>5,005</u>
Expenditures			
Implementation functions		69,651	
Phone and furniture		24,852	
Software maintenance		32,691	
Hardware maintenance		13,179	
Training		7,124	-
Total expenditures	<u>260,252</u>	<u>147,497</u>	<u>112,755</u>
Revenues under expenditures	-	117,760	117,760
Other financing sources:			
Operating transfer in:			
General Fund	<u>-</u>	<u>-</u>	<u>-</u>
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues, other sources, and appropriated fund balance over (under) expenditures	<u>\$ -</u>	117,760	<u>\$ (117,760)</u>
Fund balance, beginning		<u>188,502</u>	
Fund balance, ending		<u>\$ 306,262</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, 2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Current year		\$ 460,688	
Prior year		20,479	
Total	<u>\$ 513,393</u>	<u>481,167</u>	<u>\$ (32,226)</u>
 Expenditures:			
Current:			
Public safety:			
Fire District No. 1		81,595	-
Fire District No. 2		43,658	-
Fire District No. 3		43,187	
Fire District No. 4		312,727	
Total expenditures	<u>513,393</u>	<u>481,167</u>	<u>32,226</u>
 Revenues over expenditures	<u><u>\$ -</u></u>	-	-
 Fund balance, beginning		-	
Fund balance, ending		<u><u>\$ -</u></u>	

**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, 2015**

	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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Charges for services:			
Water sales:			
Residential/commercial		\$ 290,841	
Total	\$ 300,000	290,841	\$ (9,159)
Sewer charges:			
Residential/commercial		208,583	
Total	212,000	208,583	(3,417)
Water and sewer taps	-	1,050	1,050
Other operating revenues	36,000	50,373	14,373
Total operating revenues	548,000	550,847	2,847
Nonoperating revenues:			
Interest earnings	2,000	92	(1,908)
Total revenues	550,000	550,939	939
Other financing sources:			
Transfers from other funds:			
General Fund	1,225,324	1,225,324	-
Total revenues and other financing sources	1,775,324	1,776,263	939
			(continued)
<b>Expenditures:</b>			
Administration:			
Salaries and employee benefits		284,299	
Travel		3,534	
Insurance		4,922	
Repairs		80,513	
Other operating expenditures		152,106	
Total	528,000	525,374	2,626
Debt service:			
Interest and other charges		2,900	
Debt principal		11,000	
Total	14,000	13,900	100

**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, 2015**

	Final Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Vehicles		2,700	
Machinery and equipment		5,496	
Water & Sewer Line Expansion		1,221,424	
Total	<u>1,233,324</u>	<u>1,229,620</u>	<u>3,704</u>
 Total expenditures	<u>1,775,324</u>	<u>1,768,894</u>	<u>6,430</u>
 Revenues and other financing sources over expenditures	<u>-</u>	7,369	<u>7,369</u>
 <b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenue and other financing sources over expenditures		<u>\$ 7,369</u>	
Reconciling items:			
Debt principal		11,000	
Capital contributions in Capital Projects		1,513,800	
Capital outlay		1,229,620	
Transfer to General In Capital Projects		-	
Contributions to the pension plan in the current year		15,025	
Pension expense		(1,645)	
Increase in accrued vacation pay		(3,863)	
Increase in other postemployment benefits		(8,822)	
Depreciation		(540,007)	
Total reconciling items		<u>2,215,108</u>	
 Change in net position		<u>\$ 2,222,477</u>	

**Clay County, North Carolina**  
**Capital Project- Hwy 69 Sewerline Project**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2015**

	Project Author- ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Grant Proceeds	\$ 1,000,000	\$ 77,500	\$ 922,500	\$ 1,000,000	\$ -
Total Revenues	1,000,000	77,500	922,500	1,000,000	-
<b>Expenditures</b>					
Engineering, Bidding, Contract Administration, Permitting	146,200	77,500	68,700	146,200	-
Construction	853,800	-	853,800	853,800	-
Total expenditures	1,000,000	77,500	922,500	1,000,000	-
Revenues under expenditures	-	-	-	-	-
<b>Other financing sources (uses):</b>					
Transfer from General	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Revenues and other financing sources over uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			\$ -		
Fund balance, ending			<u>\$ -</u>		

**Clay County, North Carolina**  
**Agency Funds**  
**Combining Statement of Changes in Assets and Liabilities**  
**For the Fiscal Year Ended June 30, 2015**

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Social Services</b>				
Assets:				
Cash and cash equivalents	\$ 31,082	\$ 79,009	\$ 89,637	\$ 20,454
Liabilities:				
Miscellaneous liabilities	\$ 31,082	\$ 79,009	\$ 89,637	\$ 20,454
<b>Fines and Forfeitures</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 45,481	\$ 45,481	\$ -
Liabilities:				
Intergovernmental payable	\$ -	\$ 45,481	\$ 45,481	\$ -
<b>Municipal Tax</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 136,172	\$ 136,172	\$ -
Liabilities:				
Miscellaneous liabilities	\$ -	\$ 136,172	\$ 136,172	\$ -
<b>Deed of Trust Fund</b>				
Assets:				
Cash and cash equivalents	\$ -	\$72,214	\$72,214	\$ -
Liabilities:				
Intergovernmental payable-NC	\$ -	\$72,214	\$72,214	\$ -
<b>Totals - All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 31,082	\$ 332,876	\$ 343,504	\$ 20,454
Liabilities:				
Miscellaneous liabilities	\$ 31,082	\$ 215,181	\$ 225,809	\$ 20,454
Intergovernmental payable- Clay County Board of Education	-	45,481	45,481	-
Intergovernmental payable- State of North Carolina	-	72,214	72,214	-
Total liabilities	\$ 31,082	\$ 215,181	\$ 225,809	\$ 20,454

Clay County, North Carolina  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 7,577,193	7,299,604	\$ 277,589
2013-2014	317,597	-	169,985	147,612
2012-2013	173,989	-	75,607	98,382
2011-2012	106,262	-	37,215	69,047
2010-2011	58,830	-	13,418	45,412
2009-2010	50,508	-	10,850	39,658
2008-2009	39,442	-	6,109	33,333
2007-2008	29,489	-	2,727	26,762
2006-2007	16,046	-	882	15,164
2005-2006	13,197	-	746	12,451
2004-2005	13,284	-	13,284	0
	<u>818,644</u>	<u>7,577,193</u>	<u>7,630,427</u>	<u>765,410</u>

Less: allowance for uncollectible accounts:  
General Fund (154,552)

Ad valorem taxes receivable - net:  
General Fund \$ 610,858

Reconciliation with revenues:

Ad valorem taxes - General Fund	\$ 7,686,074
Penalties collected on ad valorem taxes- Agency fund	\$ 23,812
Reconciling items:	
Interest collected	(92,743)
Discounts allowed	0
Taxes written off	13,284
Total reconciling items	<u>(79,459)</u>
Total collections and credits	<u>\$ 7,630,427</u>

**Clay County, North Carolina  
Analysis of Current Tax Levy  
County - wide Levy  
For the Fiscal Year Ended June 30, 2015**

	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	1,976,746,481	0.360%	\$ 7,116,287	\$ 7,116,287	\$ 340,581
Penalties			4,001	4,001	-
<b>Total</b>	<b>1,976,746,481</b>		<b>7,460,869</b>	<b>7,120,288</b>	<b>340,581</b>
Discoveries:					
Current year taxes	32,482,500	0.360%	116,937	116,536	401
Prior year taxes			7,257	7,257	
Penalties			1,276	1,276	
<b>Total</b>	<b>32,482,500</b>		<b>125,470</b>	<b>125,069</b>	<b>401</b>
Abatements	(2,540,556)	0.360%	(9,146)	(7,812)	(1,334)
<b>Total property valuation</b>	<b>2,006,688,425</b>				
Net levy			7,577,193	7,237,545	339,648
Uncollected taxes at June 30, 2015			277,589	277,453	136
Current year's taxes collected			7,299,604	6,960,092	339,512
Current levy collection percentage			96.34%	96.17%	99.96%



**Clay County, North Carolina  
 Analysis of Current Tax Levy  
 County - wide Levy  
 For the Fiscal Year Ended June 30, 2015**

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**Secondary Market Disclosures:**

Assessed Valuation:

Assessment Ratio	100 %
Real Property	\$ 1,930,057,536
Personal Property	46,652,299
Public Service Companies	29,978,590
Total Assessed Valuation	\$ 2,006,688,425
Tax Rate per \$100	0.360%
Levy (includes discoveries, releases and abatements)	\$ 7,224,078

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	\$ 461,306
---------------------------	------------

**Clay County, North Carolina  
Ten Largest Taxpayers  
For the Fiscal Year Ended June 30, 2015**

<b>Taxpayer</b>	<b>Type of Business</b>	<b>2014 Assessed Valuation</b>	<b>Percentage of Total Assessed Valuation</b>
Blue Ridge Mtn EMC	Utility	23,363,749	0.0116
Ingles	Commercial Real Estate	10,118,103	0.0050
Ridges at Mountain Harbour	Commercial Real Estate	8,852,700	0.0044
Southwest Realty & Development	Commercial Real Estate	5,535,587	0.0028
Coleman Cable	Utility	5,328,143	0.0027
Wynterwood Farms LLC	Commercial Real Estate	5,042,751	0.0025
Nantahala Bank	Commercial Real Estate	4,631,332	0.0023
NC4 Hayesville LLC	Commercial Real Estate	4,085,854	0.0020
Glasgow Harris Loyd Trustee	Commercial Real Estate	3,810,795	0.0019
JWJ Of Clay County LLC	Commercial Real Estate	3,587,400	0.0018
		<hr/>	<hr/>
Total		<u>74,356,414</u>	<u>0.0371</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 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, 2015, 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 19, 2015. 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. **2015-1**

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I did not find any significant deficiencies.

### 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 19, 2015



**SHAWN P. LONG, CPA**

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**Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In Accordance With OMB Circular A-133; and the State Single Audit Implementation Act**

**Independent Auditor’s Report**

To 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 Circular A-133 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, 2015. 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County’s compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

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

#### Opinion on Each Major Federal Program

In my opinion, Clay County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

#### 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 Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing

based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Shawn Long, CPA*

Shawn Powell Long, CPA  
Hayesville, North Carolina

November 19, 2015





**SHAWN P. LONG, CPA**

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**Report On Compliance For Each Major State Program; Report on Internal Control  
Over Compliance; In accordance with OMB Circular A-133; and the State Single  
Audit Implementation Act**

**Independent Auditor’s Report**

To 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 its major State programs for the year ended June 30, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, 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, 2015.

#### 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing on internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Shawn Long, CPA*

Shawn Powell Long, CPA  
Hayesville, North Carolina

November 19, 2015

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2015

**Section 1- Summary of Auditor's Results**

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Financial Statements

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

\* Material weakness(es) identified?  Yes  None reported

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

Noncompliance material to financial  
statements noted  Yes  No

Federal Awards

Internal control over major federal programs:

\* Material weakness(es) identified?  Yes  None reported

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

Noncompliance material to federal  
awards  Yes  No

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

Any audit findings disclosed that  
are required to be reported in  
accordance with Section  
510(a) of Circular A-133  Yes  No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.778	Title XIX- Medicaid
14.228	Community Development Block Grant

Dollar threshold used to distinguish  
between Type A and Type B Programs      \$ 378,976

Auditee qualify as low-risk auditee?      \_\_\_ Yes **X** No

State Awards

Internal control over major State programs:

\* Material weakness(es) identified?      \_\_\_ Yes **X** None reported

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

Type of auditor's report issued on compliance for major State programs: Unqualified.

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

Identification of major State programs:

Program Name  
Title XIX- Medicaid

**Section II. Financial Statement Findings**

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Finding: **2015-1** 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 109.

### **III. Federal Award Findings and Questioned Costs**

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None Reported

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

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None Reported

**CLAY COUNTY, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2015**

**Section II - Financial Statement Findings**

**Finding: 2015-1 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**

None reported.

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

None reported.

**CLAY COUNTY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
For the Year Ended June 30, 2015

**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.

**Finding:** 10-1  
**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:** 09-1  
**Status:** Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of segregation. However, in small



**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2015**

<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>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	136,949	28	136,949
Total Food Stamp Cluster			136,949	28	136,949
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	60,925	-	-
WIC Grants to States (WGS)	10.578	XXXX	862	-	-
Direct Benefit Payments:					
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	XXXX	145,646	-	-
Total Women, Infants & Children			207,433	-	-
Total U.S. Department of Agriculture			344,382	28	136,949
<u>U.S. Dept. of Transportation</u>					
Passed-through the N.C. Department of Transportation:					
14-CT-020, Admin	20.509	DOT-11	30,058	1,879	-
14-CT-020, Capital	20.509	DOT-14	71,036	8,880	-
13-ED-020, Operating	20.513	XXXX	4,335	-	-
14-ED-020, Mobility	20.513	DOT-14	8,409	1,051	-
15-CT-020, Admin	20.509	DOT-11	115,300	7,206	-
ROAP EDTAP		DOT-16CL	-	44,531	-
ROAP Employment		DOT-16CL	-	4,638	-
ROAP RGP		DOT -16CL	-	41,846	-
Total U.S. Department of Transportation			229,138	110,031	-
<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	41,892	-	-
Total U. S. Department of Homeland Security			41,892	-	-
<u>U.S. Department of Housing and Urban Development</u>					
Passed-through the N.C. Department of Commerce					
Community Development Block Grant - State's Program	14.228	XXXX	837,119	-	-
Total Passed through NC Dept of Commerce			837,119	-	-
<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	55,643	3,552	-
Social Service Block Grant (SSBG)- In home service	93.667	XXXX	101,533	3,140	-
Total Aging Cluster			157,176	6,692	-

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2015**

<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>Local Expenditures</u>
<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	56,381	9,572	48,881
Adoption Assistance- Training	93.659	XXXX	4,917	-	4,256
Foster Care- Title IV-E - Direct Benefit Payments	93.658	XXXX	25,659	6,579	6,720
Adoption Assistance- Direct Benefit Payments	93.659	XXXX	69,594	18,130	13,130
Total Foster Care and Adoption Cluster			156,551	34,281	72,987
Temporary Assistance for Needy Families TANF	93.558	XXXX	330	-	0
Work First Administration and Service	93.558	XXXX	86,932	-	42,855
TANF- Special Children Adoption	93.558	XXXX	60,000		
TANF- Direct Benefits	93.558	XXXX	35,977		
Child Support Enforcement	93.563	XXXX	167,384	-	86,228
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568	XXXX	8,975	-	-
Energy Assistance Payments- Direct Benefits	93.568	XXXX	66,600	-	-
Crisis Intervention Program	93.568	XXXX	44,675	-	-
Family Preservation	93.556	XXXX	16,251	-	-
Child Welfare Services - State Grants					
- Permanency Planning - Families for Kids	93.645	XXXX	3,000	-	1,000
LINKS Independent Living Grant	93.674	XXXX	2,154	538	-
Independent Living Transitional- Direct Benefits	93.674	XXXX	70		
Division of Aging and Adult Services:					
Division of Social Services:					
Social Service Block Grant	93.667	XXXX	97,527	-	2,080
SSBG - Other Services and Training	93.667	XXXX	33,189	3,154	12,114
Division of Child Development:					
Subsidized Child Care					
<u>Child Care Development Fund- Administration</u>					
Division of Child Development:					
Child Care Development Fund- Discretionary	93.575	XXXX	104,419	-	-
Child Care Development Fund- Mandatory	93.596	XXXX	33,936	-	-
Child Care Development Fund- Match	93.596	XXXX	22,038	6,327	-
Total Child Care Fund Cluster			160,393	6,327	-
Temporary Assistance for Needy Families	93.558	XXXX	27,377	-	-
State Appropriations		XXXX	-	100,862	-
TANF- MOE		XXXX	-	33,399	-
Foster Care Title IV-E	93.658	XXXX	1,630	846	-
Total Subsidized Child Care Cluster			189,400	141,434	-
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	9,375,784	5,292,576	(5,106)
State Children's Insurance Program- N.C. Health Choice	93.767	XXXX	147,729	46,458	-
Division of Social Services:					
Administration:					
Medical Assistance Program	93.778	XXXX	368,830	(1,473)	154,855
State Children's Insurance Program - N.C. Health Choic	93.767	XXXX	9,862	690	2,405
Passed through NC Dept. of Health and Human Services					
Division of Public Health					

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2015**

<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>Local Expenditures</u>
HIV Prevention Activities- Health Dept based	93.940	XXXX	1,000	-	-
Immunization Grants	93.268	XXXX	2,579	-	-
Preparedness (PHEP) Aligned Coop. Agreements		XXXX	27,459	-	-
Health Funds	93.744	XXXX	-	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	XXXX	40	-	-
Cooperative Agreements for State-Based Compr Breast and Cervical Cancer Early Det Prgm	93.919	XXXX	6,247	-	-
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health funds (PPHF)	93.758	XXXX	18,284	-	-
Statewide Health Promotion Program	93.991	XXXX	2,262	-	-
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	27,148	20,364	-
Passed through NC Dept. of Health and Human Services Office of Population Affairs Family Planning Services	93.217	XXXX	20,820	-	-
Total U.S. Department of Health and Human Services:			\$ 11,134,235	\$ 5,544,714	\$ 369,418
Total federal awards			\$ 12,586,766	\$ 5,654,773	\$ 506,367
<b>State Awards:</b>					
<u>N.C. Department of Environment and Natural Resources</u>					
Division of Waste Management					
Scap Tire Program		XXXX	-	514	-
Total N.C. Dept. of Environmental and Natural Resources			-	514	-
<u>N.C. Dept. of Health and Human Services</u>					
Division of Social Services:					
CPS Expansion State		XXXX	-		
County Funded Programs		XXXX	19,934	-	240,695
Non Allocating County Cost		XXXX	-	-	96,603
Wrk Frt Non Reimbursable		XXXX	-	-	100,995
DMA Equipment County		XXXX	5,326		1,775
State Foster Home		XXXX	-	13,856	13,856
SFHF Maximazation		XXXX	-	14,832	14,832
St Child Welfare/CPS/CS/LD		XXXX	-	22,592	
CWS Adoption Subsidy		XXXX	-	36,285	12,095
IV-E Adoption		XXXX	520		525
Foster Care		XXXX	19,992	-	14,876
SCISA Domiciliary Care Payment		XXXX	-	75,075	75,075
Total Division of Social Service			45,772	162,640	571,327
Division of Public Health					
Other Receipts/State Supported Expenditures					
General Aid to Counties		XXXX	-	76,200	-
Food and Lodging Fees		XXXX	-	4,000	
Child Health		XXXX	-	1,090	
HMHC- Family Planning		XXXX	-	1,167	-
Maternal Health (HMHC)		XXXX	-	137	
Women's Health Service Fund		XXXX	-	4,335	-
Risk Reduction/Health Promotion		XXXX	-	6,285	-

**CLAY COUNTY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**For the Year Ended June 30, 2015**

<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>Local Expenditures</u>
Breast and Cervical Cancer Program		XXXX	-	2,295	
General Communicable Disease Control		XXXX	-	11,294	-
HIV/STD State		XXXX	-	400	
HIV/STD SSBG Aid		XXXX	-	100	
Sexually Transmitted Diseases		XXXX	-	85	
School Nurse Funding Initiative		XXXX	-	50,000	
TB Medical Service		XXXX	-	135	
Tuberculosis		XXXX	-	230	-
Total Division of Public Health			-	157,753	-
Total N. C. Department of Health and Human Services			45,772	320,393	571,327
<u>Dept. of Juvenile Justice and Delinquency Prevention</u>					
Juvenile Crime Prevention Programs		XXXX	-	56,462	-
<u>N.C. Department of Insurance</u>					
Shiip Grant		XXXX	-	5,617	
Total State awards			45,772	382,986	571,327
<b>Total federal and State awards</b>			<b>\$ 12,632,538</b>	<b>\$ 6,037,759</b>	<b>\$ 1,077,694</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 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the county's basic financial statements. However, due to the county's involvement in determining eligibility, they are considered federal awards to the county and are included on this schedule.

2. Loans Outstanding

Clay County had the following loan balances outstanding at June 30, 2015. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
ARRA - Capitalization Grants for State Revolving Funds	66.458	XXXX	\$ 429,315

3. Subrecipients

Of the federal and State expenditures presented in the schedule, Clay County provided federal and State awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
Juvenile Crime Prevention Programs		XXXX		\$ 56,462

3. 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, Foster Care and Adoption.