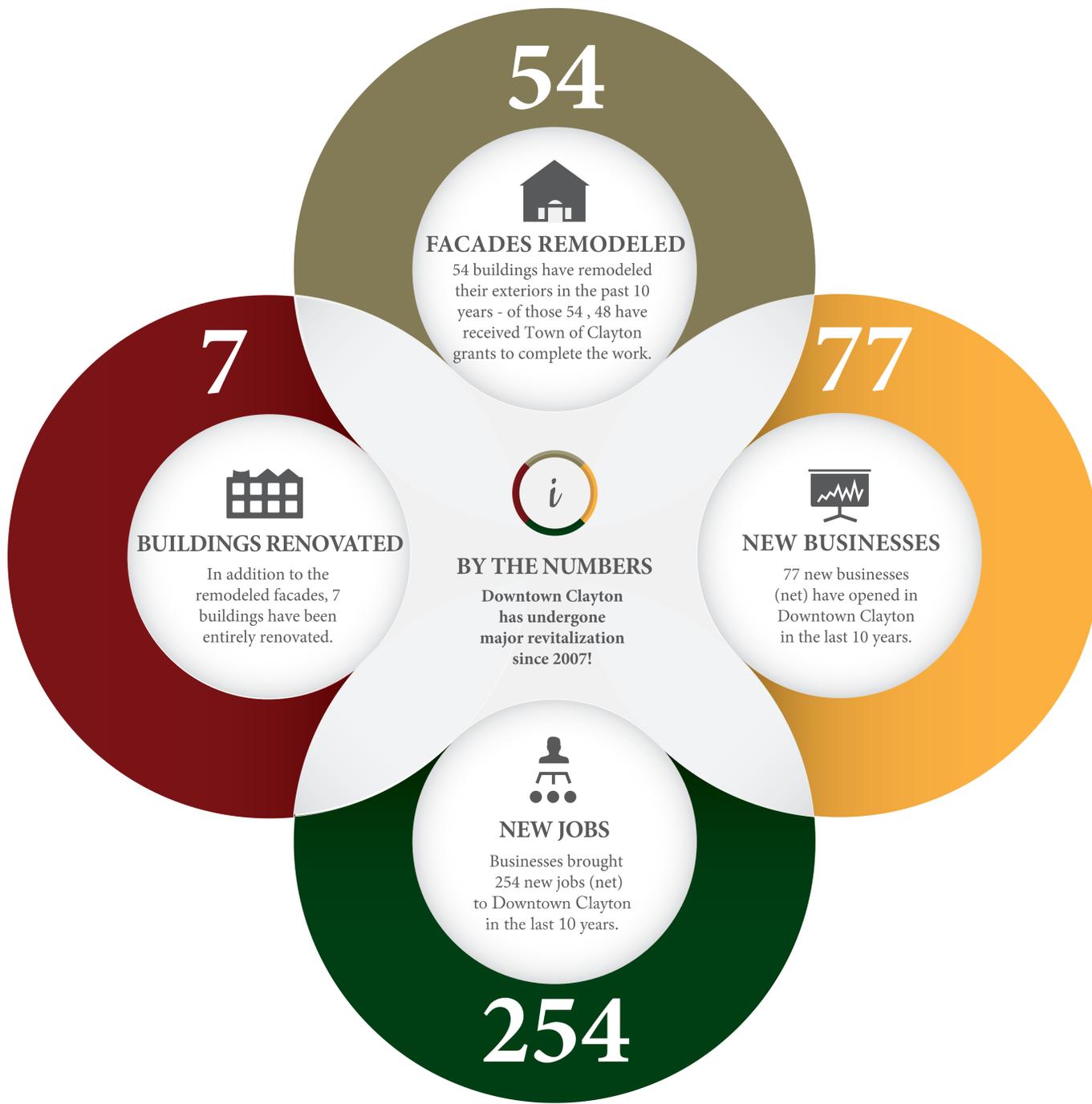




Comprehensive Annual Financial Report Town of Clayton, North Carolina Fiscal Year Ended June 30, 2017

Think CLAYTON. Think Downtown.

A DECADE OF ACHIEVEMENTS



INVESTMENTS 2007-2017









TOWN OF CLAYTON

North Carolina

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Prepared by:

Finance Department

Finance Director:

Robert W. McKie, Jr.



TOWN OF CLAYTON, NORTH CAROLINA

For the Fiscal Year Ended June 30, 2017

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INTRODUCTORY SECTION



Jody L. McLeod
MAYOR

Bruce Thompson
TOWN ATTORNEY

Adam Lindsay
TOWN MANAGER

The Premier Community



For Active Families

Bob Satterfield
Art Holder
Jason Thompson
R.S. "Butch" Lawter, Jr.
COUNCIL MEMBERS

Michael Grannis
MAYOR PRO TEM

November 2, 2017

To the Honorable Mayor, Members of the Town Council, and the Citizens of the Town of Clayton, North Carolina:

North Carolina General Statutes require that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. To fulfill the requirement for the fiscal year ended June 30, 2017, the Town published this Comprehensive Annual Financial Report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements, whether due to fraud or error.

Anderson Smith & Wike PLLC has issued an unqualified ("clean") opinion on the Town of Clayton's financial statements for the year ended June 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and read in conjunction with it.

Profile of the Town

The Town of Clayton incorporated on April 12, 1869 and is located in the northwest portion of Johnston County, which is located in the western portion of the Coastal Plains. The Town, which is bisected by U.S. Highway 70 and located approximately 15 miles southeast of the capital city Raleigh, covers a 14.89 square mile area and has a population estimate of approximately 20,868. Clayton is the fastest growing municipality in Johnston County with a ten-year average annual growth rate of approximately 5%. The Town has the statutory authority to extend its corporate limits through voluntary annexation under the direction of Town Council. The Town annexed approximately 123 acres by petition during the current fiscal year.

The Town of Clayton has a council/manager form of government. Elections for the Mayor and the five members of the Council are on a nonpartisan, at-large basis. The Mayor currently serves a four-year term and Council members serve four-year staggered terms. Council holds the policy-making and legislative authority for the Town. The Mayor can only cast the

tiebreaking vote. Town Council selects the Town Manager to manage and oversee daily operations.

The Council is required to adopt a fiscal year operating budget by no later than June 30th each year. The annual budget serves as the foundation for the Town of Clayton's financial planning and control. The budget is organized by fund, function (e.g., public safety), and department (e.g., police). The Town Manager can authorize a transfer of resources between departments up to \$1,000. Transfers exceeding \$1,000 require Town Council approval.

The Town of Clayton provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; solid waste handling; code enforcement; recreational and cultural activities; a library; water and sanitary sewer services; and electrical services to businesses, industries, and residential customers.

Local Economy

The Town continues to experience strong economic growth. The primary underlying factors are expansions in the biopharmaceutical industry at Grifols and Novo Nordisk and expansions in the medical services industry located on Highway 42 west, in close proximity to the Johnston Health facilities. These expansions have helped make Clayton one of the fastest growing areas in the region, as the housing sector resurgence continues.

A continued growth trend is supporting tax base growth, which has provided financial flexibility for capital spending and staff additions; a strong financial position highlighted by the maintenance of a favorable unassigned fund balance; and a manageable debt burden with rapid amortization.

The housing sector continues to grow as the supply of upscale multi-family housing continues to meet the demand for apartments and townhomes in conjunction with continued demand for large tracts of land to support new single-family housing.

All of the above factors play a significant role in the evaluation and decision-making processes utilized by bond rating agencies to determine the Town's bond rating. The Town maintained its Aa2 bond rating from Moody's Investor Service and AA bond rating from Standard and Poor's.

The Town continues to benefit from its proximity to Research Triangle Park, which is the largest research park in the country, and to regional employers in and around the City of Raleigh, which include private sector opportunities with Fortune 500 companies, Federal and State government positions, and expanding medical service careers. The Town also benefits from its proximity to numerous institutions of higher education, which include North Carolina State University, the University of North Carolina, Duke University, North Carolina Central University, and East Carolina University. Many of the graduates of the above universities received training to staff technically demanding positions requiring engineers, research and development personnel, and other professional disciplines.

The local economy includes manufacturing and non-manufacturing industries with two large international pharmaceutical companies as well as a special purpose Research and Training Zone ("RTZ"), which is an economic development and training district created through special legislation that supports the special needs of the local pharmaceutical industries. These Town ETJ employers comprise approximately 10 percent of all biopharmaceutical jobs in the State.

The RTZ includes a 30,000 square-foot Workforce Development Center (“WDC”), which operates a partnership between Johnston Community College and North Carolina State University. The WDC is an educational and technical skills training center that concentrates on life sciences programming, business training, and workforce development in biotechnology and other sciences. The WDC offers Associate curriculum programs for Bioprocess Technology and Biology & Biology Education, in addition to a BioWork curriculum and continuing education courses that include several customized training programs.

The largest manufacturing employer is Grifols, S.A. (“Grifols”), formerly Talecris Biotherapeutics, Inc. (“Talecris”), an international manufacturer of blood plasma related products for a variety of applications. The blood plasma facility has been in operation since 1981 and is the primary Grifols manufacturing facility with over 1,500 employees. The Clayton Plant places Grifols in a position to maximize its operational efficiencies by utilizing expanded fractionation and purification capacity. The Town has a 30-year development agreement with Grifols. In November 2017, Grifols received recognition as one of the 500 best companies to work for by Forbes Magazine.

Current operations include the following completed expansions: North Fractionation Facility (“NFF”), a 155,000 square-foot, \$370 million plant that created an additional 200 jobs and is largest in the world and one of the most technologically advanced plasma fractionation facilities along with a 59,000 square-foot warehouse. Construction was completed in 2017 for a new three-story 100,000 square-foot office building at the Clayton complex. In addition, Grifols recently announced a \$210 million expansion to construct a new 82,000 square-foot fractionation plant adjacent to the NFF along with a 120,000 square-foot purification facility for the production of intravenous immunoglobulin that will create 250 new jobs and additional land purchases for future expansion in the area are being considered.

In July 2016, Grifols implemented its PediGri system for the products manufactured in Clayton, which will provide healthcare professionals total traceability of the plasma-derivative products from donation to final product. Grifols developed its Discover the Plasma program in partnership with Johnston County Public Schools as an educational resource for all middle schools in the county. Go to <https://www.discovertheplasma.com/en/web/virtual-lab/about-the-program#> for additional information about this innovative teaching program.

Novo Nordisk Pharmaceutical Industries (“Novo Nordisk”), the world’s largest supplier of insulin products, opened its Clayton facility in the RTZ in 1996 and has expanded several times since. The Clayton plant manufactures diabetes care products marketed in North America, Europe, New Zealand and Australia.

In August of 2015, Novo Nordisk announced a \$2 billion expansion plan to build a 200,000 square-foot facility that broke ground in March of 2016 with up to 2,500 workers employed during construction and will be operational in 2020. The expansion will create close to 700 new jobs with an average annual salary of \$68,420. The new positions will span manufacturing, administrative, technical services and support personnel. Total employment will soon reach 1,500 at the Clayton facility. The manufacturing facilities in Clayton will be Novo Nordisk’s first insulin producing facility in the USA, which will help meet the growing demand for its diabetes treatment. The company expects to double production of its diabetes drugs over the next decade and once current plans are realized, approximately 25% of the world’s insulin manufacturing will happen in our backyard.

Caterpillar, Inc., a Fortune 100 company that currently ranks 47 on the World's Most Admired Companies list for 2017, is another large manufacturing employer. The Building and Construction Products Division of Caterpillar ("CAT") operates an assembly facility located near the Town that assembles and distributes all CAT rubber tire front-end loaders for North America and the export market. The assembly plant has approximately 450 employees.

The following expansions have been undertaken at the Clayton facility: \$18.5 million expansion to the assembly facility that is expected to add 199 jobs over a five year period and the CAT Clayton Machine Development Center ("Center"), a \$30 million, 57,000 square foot free-standing fully LEED certified two-story office building with testing laboratories. The Center designs and tests prototype machines while giving customers an opportunity for hands-on operation and critique at a state-of-the-art heavy equipment test track that is co-located on a 252-acre site with the Center. The prototype machines meet new market demands and stringent EPA emission standards for air quality. 240 designers, engineers, and managers were added or relocated from CAT's offices in Cary, NC.

Northeast Foods Inc., a national contract baker for the commercial and fast food industries and the largest supplier of baked goods to McDonalds in the United States, operates a bakery operation in a \$25.4 million, 90,000 square feet facility that created 84 new jobs. The bakery specializes in producing soft sandwich rolls for multi-chain, quick service, casual dining food establishments.

The Town is a hub for the medical services industry and related employment. The Town is currently home to facilities operated by WakeMed, Johnston UNC Health Care, and Duke University Medical Center. Johnston Health Clayton, which opened in 2009, includes a full service emergency room plus outpatient services and medical offices. The 95,000 square feet three-story 50-bed inpatient facility opened in January of 2015 and provides expanded services such a labor and delivery. Total investment in the facilities is valued at \$89.5 million and employment has increased to 260. Recognitions include being named one of the Top 100 Rural & Community Hospitals by iVantage in 2016, earning a back-to-back A safety grade rating on Leapfrog Group's Hospital Safety Score, which is measured twice per year, and the 2016 Women's Choice Award for Patient Safety.

The Town continues to attract significant new retail, office, and high-density residential development on its south side, primarily due to the completion of the Highway 70 Bypass and related interchange on Highway 42 west. Proximity to Johnston Health Clayton enhances the opportunities created by this major interchange.

The Town of Clayton's downtown area experienced a net gain of 20 businesses and 67 jobs. Approximately \$2.1 million and \$0.2 million of private investment and public improvements, respectively, were completed. During the course of the past ten years, approximately \$9.2 million of private investment has occurred, including a net gain of 77 new businesses, 54 façade improvements, including 48 assisted by the Town's grant program, 11 building expansions, 7 renovations, and a net gain of 254 jobs.

The Town is an accredited member of the Main Street program and continues to meet the performance standards for commercial district revitalization established by the Main Street America program. The N.C. Main Street program focuses on assisting selected communities across the State in restoring economic vitality to their historic downtowns in compliance with

the established revitalization process. The Town will host the 2018 N.C Main Street Conference.

Please refer to the following summary table of new development activity:

New Development Activity July 2016 – June 2017

Approved Project Name	Project Type	Intensity/Density	Status for Completion
Abbington Forest Apartments	Residential	72 apartments	Approved Spring 2017
Amelia Station Medical Office	Office	10,400 SF	Construction Complete 2017
AS & PC Medical Office	Medical Office	12,000 SF	Construction Complete 2016
Ashcroft Ph 1 and 3	Residential	45 lots	Under Construction 2017
Boling Townes Ph 3	Residential	9 units (townhomes)	Under Construction 2017
Boling Townes Ph 4	Residential	21 units (townhomes)	Under Construction 2017
Bristol at Cobblestone Ph 2	Residential	46 Single Family	Under Construction 2017
Bristol at Cobblestone Ph. 11	Residential	46 Single Family	Under Construction 2017
Brookside Subdivision	Residential	38 Single Family	Under Construction 2017
Chandler's Ridge Ph 3	Residential	79 single family	Under Construction 2017
Clayton Northside Substation	Industrial	-	Under Construction 2017
Creekside Commons Ph 5	Residential	24 lots	Under Construction 2017
Dairy Road Church	Public Facility	7,650 SF	Approved January 2017
East Village Walk Ph 1A, 1B, 1C	Residential	57 lots	Under Construction 2017
Economy Self Storage	Commercial	6,000 SF	Approved 2017
Gatehouse Self Storage	Commercial	31,500 SF	Under Construction 2017
Gateway Conference Center	Conference Center	4,950 SF	Construction Complete 2017
Glen Laurel Self Storage	Commercial	120,900 SF	Under Construction 2017
Gordon Park Ph 1	Residential	28 single family residential dwellings	Under Construction 2017
Grifols D230 Building	Industrial	82,551 SF	Under Construction 2017
Grifols Office Building	Industrial / Pharma	100,000 SF	Construction Complete 2017
Grifols Parking	Industrial	53,763 SF	Complete 2016
Groves at Summerlyn Ph 2A	Residential	23 lots	Under Construction 2017
High Gate Subdivision Phase 1	Residential	181 Single Family	Under Construction 2017
Highgate Subdivision Phase 1	Residential	69 lots	Under Construction 2017
Johnston Charter School	Public Facility	40,546 SF	Approved 2017
La Cocina	Commercial	7,004 SF	Under Construction 2017
LionsGate 7A	Residential	16 townhomes	Construction Complete 2016
LionsGate 7B-7D	Residential	66 townhomes	On Hold 2017
LionsGate Ph 1A & 1B	Residential	32 lots	Under Construction 2017
Lionsgate Phase 6A & 6B	Residential	37 Single Family	Approved Spring 2016
ModSpace	Commercial	3,000 SF office, 3,600 SF storage building	Under Construction 2017
Novo Nordisk 1A Central Utility Building	Industrial	42,236 SF	Under Construction 2017
Novo Nordisk 1B Fermentation Building	Industrial	26,113 SF	Under Construction 2017
Novo Nordisk 1E Recovery Building	Industrial	73,601 SF	Under Construction 2017
Novo Nordisk ECIA Pump Station	Industrial	3.0 million gallons per day	Approved 2017
Parkview Ph 15 Townhomes	Residential	24 units (townhomes)	Construction Complete 2016
Parkview Ph 2A	Residential	22 lots	Construction Complete 2017
Parkview Ph 2B, 3, 5 & 7	Residential	62 lots	Under Construction 2017
Pines at Winston Point Ph 2C	Residential	32 lots	Under Construction 2017
Reserve at White Oak Ph 1	Residential	20 lots	Under Construction 2017
Reserve at White Oak Ph 3B	Residential	24 lots	Under Construction 2017
Rhodes Estates Subdivision	Residential	26 Single Family	Under Construction 2017
Riverwood Phase 8C1 & 8C2	Residential	33 Single Family	Under Construction 2017
Riverwood Ranch Townhomes	Residential	68 lots	Under Construction 2017
Riverwood Ranch Townhomes	Residential	62 Single Family	Under Construction 2017
Riverwood Villas II	Office/Residential	64,500 SF & 73 Dwellings	Under Construction 2017
RWAC 6A-3 Alpine Valley	Residential	22 lots	Under Construction 2017
RWAC Eaglecrest 2B-3	Residential	28 lots	Under Construction 2017
RWAC Raven Ridge 8C1 & 8C2	Residential	26 lots	Under Construction 2017
RWAC Ravens Ridge 8D	Residential	16 Single Family	Under Construction 2017
RWAC Ravens Ridge 8E	Residential	44 Single Family	Under Construction 2017
Sam's Branch Greenway Ph 2	Public	1.2 miles	On Hold 2017
Spring Branch Lot 12	Office/Medical	26,130 SF	Approved 2017
St. John's Wood, Ph. 3	Residential	15 Single Family	Under Construction 2017
Stallings Mills Apartments	Residential	288 apartments	Under Construction 2017
Stephenson Mixed Use Building	Commercial/Residential	4 units, 2,100 SF office space	Approved 2016
Stone Ridge Ph III	Residential	28 lots	Construction Complete 2017
The Arbors at East Village Ph 2	Residential	72 additional apartments	On Hold 2017
The Groves at Summerlyn	Residential	41 lots	Under Construction 2017
The Orchards at Summerlyn Ph 2	Residential	12 lots	Under Construction 2017
The Pines at Glen Laurel	Residential	240 Apartments	Project On Hold 2017
Umstead Subdivision	Residential	41 lots	Under Construction 2017
Umstead Subdivision	Residential	41 single family residential lots	Under Construction 2017
Warrick Park	Residential	24 lots	Under Construction 2017
Winston Point South	Residential	200 Single Family	Under Construction 2017

Financial Planning

The Town places a high value on fiscal responsibility and continues to take prudent action to safeguard its financial position. The improved local economy is driving revenues at an accelerated growth, which in turn is facilitating the expansion of programs and services to meet the community’s needs in conjunction with attracting new business investment. The Town continues to improve its financial position and realize benefits generated by efficient operations. Detailed information is contained in the MD&A.

The Mayor and Town Council of Clayton are committed to making Clayton the best town in North Carolina in which to live, visit, and work. The Mayor and Council adopted the following long-range goals for the Town:

- Grow the local economy
- Financially responsible town government providing quality service
- Managing growth producing quality developments
- Expanding leisure opportunities and arts community
- Beautify the Town of Clayton and create an arts community
- Think Downtown

In an effort to achieve many of these long-range goals, the Town utilized its general obligation bond program for streets and recreation improvements. During the first and second phase of this undertaking, the Town contracted with Davenport & Company LLC (“Davenport”) to provide financial advisory services and bond planning. Davenport is a national financial advising firm that has a sterling reputation in North Carolina and nation-wide.

The Town engaged Davenport to perform additional financial advisory services to identify potential refinancing opportunities along with a debt capacity analysis in preparation for a future general obligation bond program. The Town continues to utilize a cash funding strategy for rolling stock purchases in conjunction with a financial plan to achieve a debt service to expenditure ratio of 13% for the General Fund by FY 2019 with achievement occurring in FY 2017, FY 2016, and FY 2015 with a ratio of 10.69%, 12.45%, and 12.66%, respectively. The Town has a comprehensive financial policy that contains performance expectations and standards, including separate benchmarks for the two enterprise funds.

In October 2016, Town Council prioritized the following list of projects with the expectation that staff will focus on them over the next two years:

PROJECTS FOR NEXT TWO YEARS (2017-2019)			
	Rank	Project	Comments
HIGH PRIORITY	5	Housing Quality – ALTA, north side, etc.	<ul style="list-style-type: none"> • Public health and safety concern • Involves inspections department
	5	Complete Automated Meter	<ul style="list-style-type: none"> • At this pace, it will take 8 years to complete.

		Reading (AMR) Project	<ul style="list-style-type: none"> • Project offers accuracy, efficiency, flexibility to customers • About \$775,000
	5	Street Maintenance Prioritization & Funding	<ul style="list-style-type: none"> • Study which streets to upgrade • Then priority efforts will be based on assessment of condition and priority, not specific areas
MEDIUM PRIORITY	4	Add Parking Around Clayton	<ul style="list-style-type: none"> • Improve what we already have • Inquire about availability, where appropriate • Share map of town-owned property with council
	4	Solid Waste/Yard Debris/Recycling Contract Services	<ul style="list-style-type: none"> • Interest in getting much better customer service than provided with current vendor • Expand pickup limits • Get new contract before June 2017 • Manager to explore vendors, pricing, and capabilities
	4	Add south connector	<ul style="list-style-type: none"> • Consider other options, including phasing the project, to move this project up on DOT's list
	3	Main Street Streetscape	<ul style="list-style-type: none"> • Narrow and agree on scope of project. <ul style="list-style-type: none"> ○ Define streetscapes. ○ Could include crosswalks, benches, trees, trash receptacles • Put into CIP • Break into phases
LOW PRIORITY	2	Study current town boundaries and opportunities to annex/extend ETJ (at the request of developers)	<ul style="list-style-type: none"> • Identify how and when can we grow • Include west of Clayton and 540 area • Conversations with Wilson's Mills then Garner are first priorities
	2	UDC Updates: Subdivision Regulations	<ul style="list-style-type: none"> • Undertake the work in-house • Present to council as a complete body of work
	2	LED Street Lights	<ul style="list-style-type: none"> • About \$1 million to complete
	2	Wastewater Capacity Analysis & Tool	<ul style="list-style-type: none"> • Ongoing updates from manager, especially as development projects are approved

	2	Operations Center Master Plan	<ul style="list-style-type: none"> Phase I is underway and includes the warehouse, loading dock, driveway, staff parking, storm water retention Continue with the next phases
CONTINUE	1	Library Expansion/Satellite Branch	<ul style="list-style-type: none"> Use River Wood space as a way to create value for that area and incentive for people to move there
	1	EOC Training and Preparation	<ul style="list-style-type: none"> Moving forward to build capacity of staff and work with the county
		Historical Preservation	<ul style="list-style-type: none"> explore ways to preserve historic identity and character of sites without passing an ordinance
NO ACTION		Library Historical Records/Museum	<ul style="list-style-type: none"> Find a new home; phase out and free up space Open to public-private partnership opportunities, if approached
		Neighborhood Improvement Plans	<ul style="list-style-type: none"> Will not pursue

Major Initiatives

The Town and Novo Nordisk executed an agreement that enables Novo Nordisk to finance and construct a regional wastewater pretreatment facility (the “Facility”) with the capability of expansion for utilization by existing and future bio-manufacturing operations in the RTZ. Construction will occur on land owned by the Town. The Town will participate in the design-build phase to ensure the Facility meets both State and local municipal wastewater treatment parameters. The agreement includes an option that will allow Novo Nordisk to transfer ownership and operation of the Facility to the Town upon completion of construction, which is conditional upon the Town’s acceptance. If the Town elects to accept the Facility, then it will contribute eligible grant funds from the NC Department of Commerce and Golden Leaf Foundation to Novo Nordisk after acceptance.

The implementation of a town-wide performance management program is underway. Performance management is the intentional application of strategies and techniques to achieve desired results. The program will expand financial and operational accountability while promoting planning at both the organizational-wide level and programmatic level, facilitate the utilization of performance based budgeting in conjunction with building strategies for continuous improvement while providing accurate, meaningful, and timely information.

The Town adopted its long-term growth plan (“Comprehensive Plan 2040”) in October 2015. The community played an important role during development by responding to a survey and participating in open houses. Comprehensive Plan 2040 envisions a community with successful businesses, shops, and restaurants; a place rich with recreation, arts, and culture; walkable, safe, vibrant, and active; along with a unique downtown experience. These are all qualities valued by the Town’s citizens. Go to <http://www.townofclaytonnc.org/uploads/files/Planning/CompPlanReport.pdf> for additional information.

The Town continues to expand its greenway and trail system. The 1.25-mile Sam’s Branch Greenway (“Greenway”) along the Neuse River is a 10-foot wide multiuse paved trail that connects to Clayton River Walk on the Neuse, a recently completed section of the Mountains-to-Sea Trail (“MTS”). The design phase to extend the Greenway an additional 1.2 miles, which includes a tunnel underneath North O’Neil Street for pedestrian safety, is under final review by NCDOT and completion of construction is expected in 2019.

Clayton River Walk on the Neuse is a 4-mile, 10-foot wide multiuse paved trail that also connects at the common boundary with the Wake County section of the MTS. Future plans include a 2.9-mile extension of the Clayton River Walk on the Neuse at the Johnston County boundary.

The Town purchased approximately 120 acres of land adjacent to the Neuse River for future park development. The site adjoins the MTS and is currently the subject of a master plan project (refer to Concept Plan Drawing on page xii). Construction is nearing completion on a 1.1-mile pedestrian walkway connecting several area schools and residential neighborhoods to the Clayton Community Center.

The Greenway and Clayton River Walk on the Neuse are now part of the East Coast Greenway, which is a developing trail system beginning at the Canadian border in Calais, ME that will link 15 states and numerous municipalities with Key West, FL at the southernmost point. The MTS, Greenway, and pedestrian connector provide a great benefit to Town residents by linking communities together while serving as the backbone of the Town’s expanding system of trails. Clayton is truly the “Premier Community for Active Families”.

The medical responder program, which was rolled out by the Clayton Fire Department on October 1, 2014, enables firefighters to respond to 911 calls classified as D, E, and possibly C. Generally, type E incidents are the most life threatening. Seconds are critical when it comes to saving lives and firefighters can often get to an incident scene quicker than an EMS unit and apply life saving measures at the scene before the ambulance and paramedics arrive, which in turn positively impacts lives. There have been 3,024 incidents since inception of the program. Currently, 37 Town firefighters have their EMT certification, which is a requirement for full-time employment. The Town manages staffing schedules to ensure a minimum of one EMT for every medical call.

Other noteworthy items include: 1) GIS is being leveraged to analyze data and provide information to increase effectiveness and efficiency; 2) construction is nearing completion on the \$5.1 million wastewater pipeline that will link with nearby Raleigh facilities and provide up to a million gallons per day of additional capacity; 3) a new

\$5.4 million electric substation is expected to startup in February 2018, which will improve service reliability and provide redundancy while meeting future growth demands in the Town's north area.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Clayton for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the sixteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Clayton Police Department continues to comply with the requirements of the CALEA Gold Standard Assessment ("GSA") program. GSA focuses primarily on processes and outcomes associated with standards specific to agency policies. It works to measure the impact of accreditation as opposed to simply confirming compliance through a file-by-file review.

The Town earned a Gold RP₃ (Reliable Public Power Provider) designation from the American Public Power Association that is valid until April 30, 2018. The program recognizes utilities that demonstrate high proficiency in reliability, safety, work force development and system improvement.

Preparation of this report would not have been possible without the dedicated service and cooperation of the entire staff of the Finance Department and Anderson Smith & Wike PLLC. The Mayor and Town Council receive credit for their ongoing support to maintain the highest standards of professionalism in the management of the Town of Clayton's finances.

Respectfully submitted,



Adam Lindsay
Town Manager



Nancy T. Medlin
Deputy Town Manager



Robert W. McKie, Jr.
Finance Director

Concept Plan Drawing

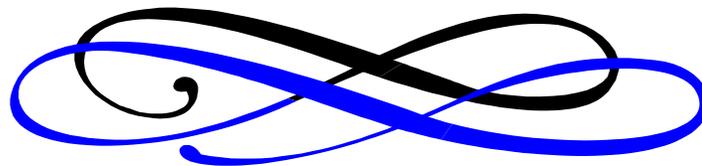




Town of Clayton

MISSION STATEMENT:

Premier Community for Active Families



2012 – 2017 Goals:

Grow the Local Economy

*Financially Responsible Town Government Providing
Quality Service*

Manage Growth Producing Quality Developments

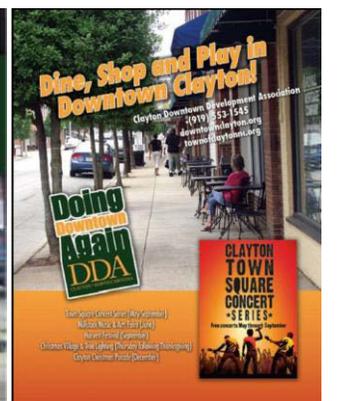
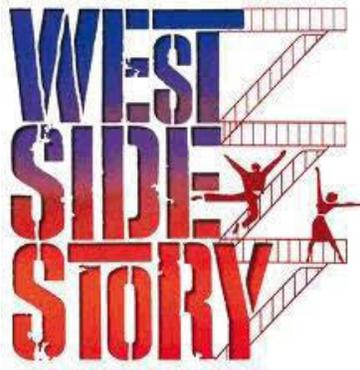
Expand Leisure Opportunities and Arts Community

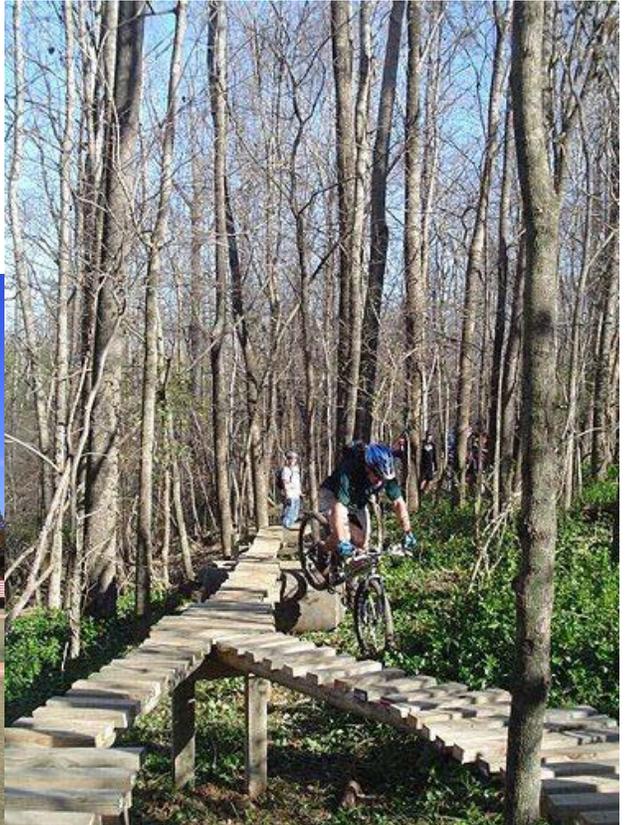
*Beautify the Town of Clayton and Create an Arts
Community*

Think Downtown

Think CLAYTON. Think Art.

UNPLUGGED:
Clayton Music & Art







Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Clayton
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Area Map and History of the Town of Clayton

The Town of Clayton, named for Senator John Middleton Clayton (1796-1856) from Delaware, was built on the road cut by Governor Tryon's troops as they moved from New Bern to Hillsborough against the Regulators during the War of the Regulation around 1770. The community, first known as Stallings' Station, was a depot for the North Carolina Railroad in the home of Mrs. Sarah Stallings. Such names as Hinton's Quarter, Roxborough, Stallings Station and Gulley's Store were established centers of activity and helped advance the countryside during the years before Clayton was given its name. The name for the Gulley's Store Post Office, which was established on December 3, 1845, was officially changed to Clayton on January 30, 1856 and incorporated by the General Assembly on April 12, 1869.

After the Civil War, along with the extension of the railroad, businesses began to be established. Businesses that flourished during that time were a turpentine distillery, lumber plants, a brick kiln, a cotton gin, gristmill, sawmill, tobacco warehouses and two cotton mills. Farm products made markets a necessity and the convenience of the railroad made watermelon growing especially successful. The first tobacco sales were held in 1909.



Public education began in Clayton around 1853 when Mr. H.L. Hinton of New Jersey came south and opened Clayton Academy which operated until the construction of the Clayton Graded School. The Clayton Graded School, built in 1915 and the Clayton Grammar School and Municipal Auditorium, built in 1926 is located at 111 East Second Street. Built on 23 acres of land in the Classical Revival architectural style the school was in operation as a public school until closing in the spring of 1997. The building then sat empty until the former grade school building was renovated and converted into the Clayton Government Services complex and the former Municipal Auditorium and grammar school building was renovated and converted into the Clayton Cultural Arts Center. Both buildings were reopened to the public in January 2003, establishing a focal point for Clayton. While creating a sense of the new Clayton, the buildings still preserve the best of the old and a sense of the past in their design. The buildings are listed in the National Register of Historic Places.

Clayton is the fastest growing town in Johnston County and is located near two interstate highways: I-40 and I-95, on the western edge of the County. Today it is a thriving community with a population of 16,116 per the 2010 Census. Clayton is convenient to several major cities: Raleigh (15 minutes to the west), Research Triangle Park (30 minutes west) and Durham (35 minutes west). Flourishing retail and medical services sectors make Clayton a destination for residents of surrounding areas.

Industry, in the form of bio-pharmaceutical companies like Grifols and Novo Nordisk employs many of the Clayton area residents. Other major employers include Caterpillar, Johnston Health Clayton, and Northeast Foods. With expansion in manufacturing and medical services and ongoing residential growth, Clayton continues to be a prosperous town to live and work in while evolving into a small, prosperous city.

Fiscal Year	Total Population	Growth
2008	12,908	
2009	13,700	6.1%
2010	16,116	17.6%
2011	16,708	3.7%
2012	17,102	2.4%
2013	17,689	3.4%
2014	18,434	4.2%
2015	19,268	4.5%
2016	20,260	5.1%
2017	20,868	3.0%
Total Growth		61.7%
Avg. Annual Growth		4.9%

Town of Clayton

Members of Town Council And Related Support Personnel

June 30, 2017

MAYOR

JODY McLEOD

TOWN COUNCIL

MICHAEL GRANNIS - MAYOR PRO-TEM

JASON THOMPSON

ROBERT LAWTER

BOB SATTERFIELD

ART HOLDER

OTHER OFFICIALS

ADAM LINDSAY

TOWN MANAGER

NANCY MEDLIN

DEPUTY TOWN MANAGER

ROBERT McKIE

FINANCE DIRECTOR

PARKER POE ADAMS & BERNSTEIN

TOWN ATTORNEY

Town of Clayton

Administrative Staff

Adam Lindsay
Town Manager

Nancy T. Medlin
Deputy Town Manager

Kimberly Moffett
Town Clerk

**Parker Poe Adams &
Bernstein LLP**
Town Attorney

Stacy Beard
**Public Information
Officer**

Catherine Whitley
**Human Resources
Director**

Robert W. McKie, Jr.
Finance Director

Ann Game
**Customer Service
Director**

David DeYoung
Planning Director

Rich Cappola
**Engineering &
Inspections Director**

Scotty Henley
Cultural Arts Director

Joy Garretson
Library Director

Larry Bailey
Recreation Director

Lee Barbee
Fire Chief

Blair Myhand
Police Chief

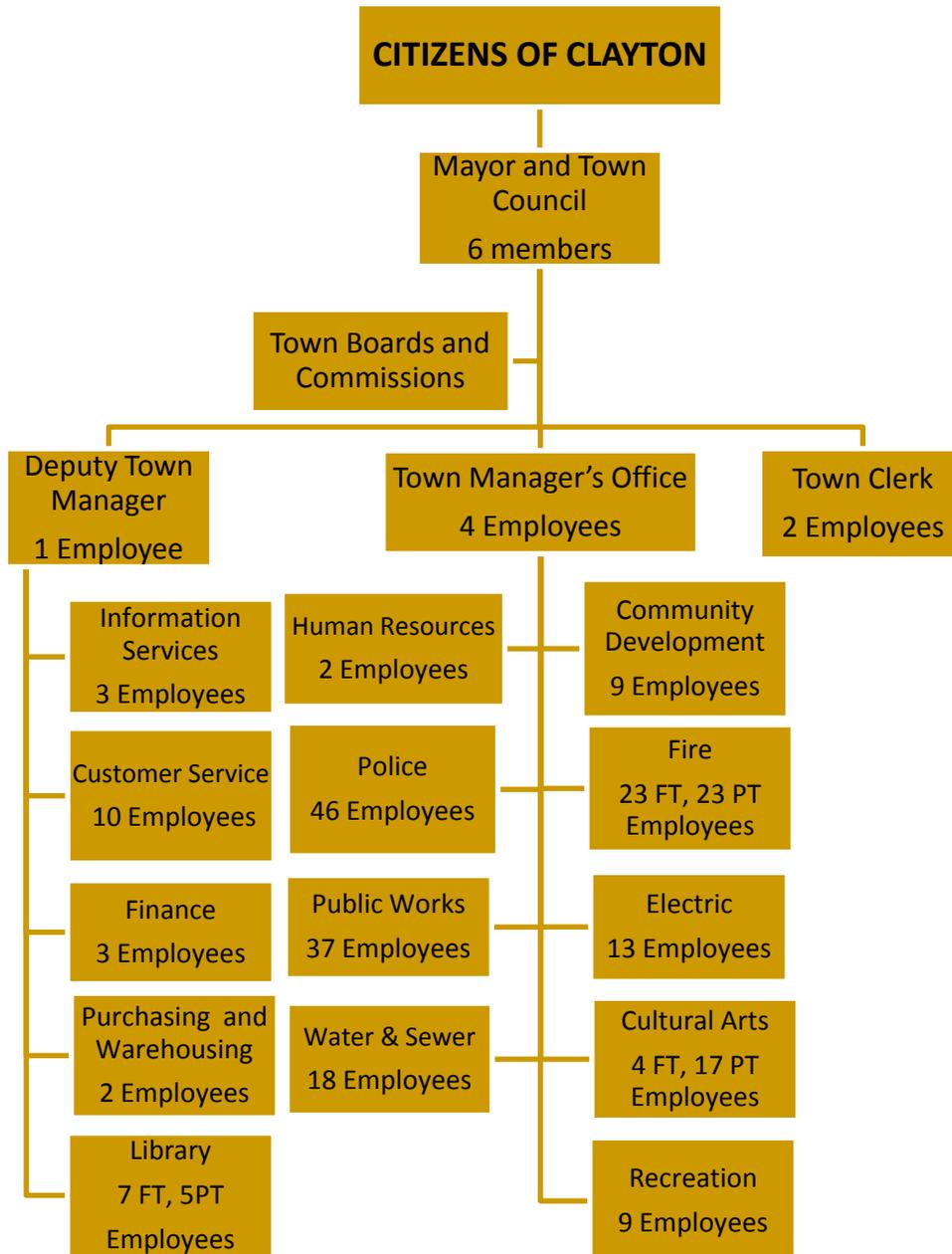
Tim Simpson
Public Works Director

Dale Medlin
Electric System Director

Town of Clayton Boards and Committees



Town of Clayton Organizational Chart



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FINANCIAL SECTION



220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 895-2899

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of the Town Council
Clayton, North Carolina

Report on the Financial Statements

We 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 the Town of Clayton, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Clayton, North Carolina as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 14, the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on pages 57 and 58, respectively, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages 59 and 60, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 61, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 62 and 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Clayton, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for 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. In our opinion, based on our audit and the procedures performed as described above, 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*, we have also issued our report dated October 30, 2017 on our consideration of the Town of Clayton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Clayton's internal control over financial reporting and compliance.



Rockingham, NC
October 30, 2017

Management's Discussion and Analysis

As management of the Town of Clayton, we offer readers of the Town of Clayton's financial statements this narrative overview and analysis of the financial activities of the Town of Clayton for the fiscal year ended June 30, 2017. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

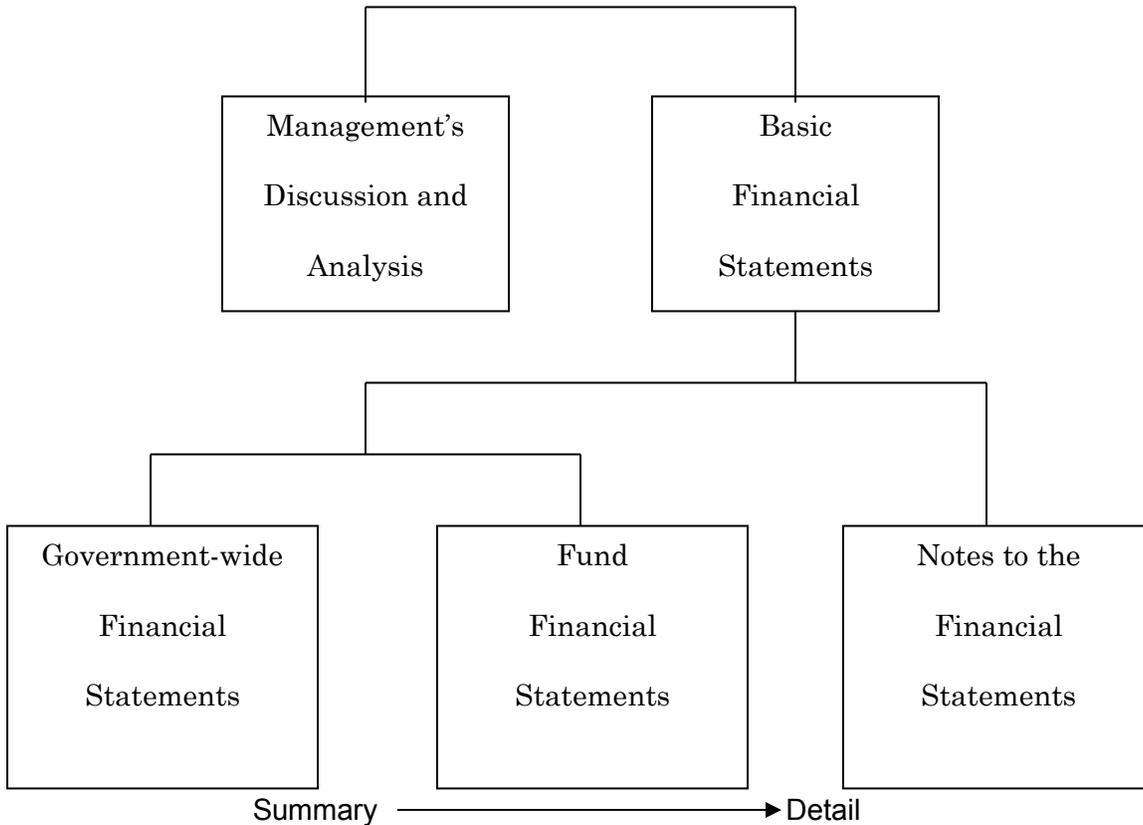
Financial Highlights

- The assets and deferred outflows of resources of the Town of Clayton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$93,938,801 (*net position*). Of this amount \$15,700,299 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$6,710,040, primarily due to lower than expected operating expenditures in conjunction with strong revenue growth in governmental activities and an increase in capital assets in both governmental and business-type activities.
- As of the close of the current fiscal year, the Town of Clayton's governmental funds reported combined ending fund balances of \$9,551,212, an increase of \$1,103,521 in comparison with the prior year. Approximately 24.20% of the ending fund balance, or \$2,311,401 is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,440,869, or 32.27% of total general fund expenditures for the fiscal year.
- The Town of Clayton's total debt increased by \$6,713,028 (20.76%) during the current fiscal year. The key factors attributable to this increase were the issuance of revenue bonds of \$5,350,000 by the Electric System to construct a new substation and an increase in the pension liability for both the LGERS and LEOSA plans.
- The Town of Clayton maintained its Aa2 and AA bond rating with Moody's Investor Service and Standard & Poor's, respectively.

Overview of the Financial Statement

This discussion and analysis are intended to serve as an introduction to the Town of Clayton's basic financial statements. The Town of Clayton's basic financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. This report also contains other supplemental information in addition to the basic financial statements, which will enhance the reader's understanding of the financial condition of the Town of Clayton.

Required Components of Annual Financial Report



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 Town's financial status.

The next statements (Exhibits 3 through 10) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government and provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental fund 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 Town's individual funds. Budgetary information required by the General Statutes also can be located in this part of the statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide the reader with a broad overview of the Town of Clayton'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 Town's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business type activities; and 3) component units. The governmental activities of the Town of Clayton include general government, public safety, public works, and culture and recreation, which are principally supported by taxes and intergovernmental revenues. The business-type activities of the Town of Clayton include a water distribution, wastewater treatment, and an electric distribution operation that the Town charges customers to provide. The final category is the component unit. The Clayton Downtown Development Association (DDA) is a legal separate entity from the Town and plays a vital role in the Town's economic development initiative. The Town of Clayton exercises control over the DDA by appointing its board members and has the ability to impose its will on the DDA.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund Financial Statements - The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Clayton, like other governmental entities in North Carolina, uses fund accounting to ensure and demonstrate compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Clayton 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 Town's basic services are accounted for in governmental funds. However, unlike the government-wide financial statements, governmental funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements provide a detailed short-term view that facilitates the reader in determining if there are more or less financial resources available to finance the Town'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 part of the fund financial statements.

The Town of Clayton maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and two capital project funds, which are all considered being major funds.

The Town of Clayton 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 Town, the management of the Town, and the decisions of the Town Council (Council) about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities.

The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town 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 in the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 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 actual resources and charges.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Proprietary Funds - The Town of Clayton maintains one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Clayton uses enterprise funds to account for its water and sewer operations and for its electric distribution operation. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and Statement of Activities.

The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town of Clayton's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibit 10 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 27-56 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Clayton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 57 of this report.

Government-Wide Financial Analysis

Town of Clayton's Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$11,307,907	\$10,330,759	\$18,608,343	\$21,703,317	\$29,916,250	\$32,034,076
Capital assets	52,305,227	50,637,863	53,242,450	42,999,036	105,547,677	93,636,899
Total assets	<u>63,613,134</u>	<u>60,968,622</u>	<u>71,850,793</u>	<u>64,702,353</u>	<u>135,463,927</u>	<u>125,670,975</u>
Deferred outflows of resources	2,454,159	595,108	487,896	65,228	2,942,055	660,336
Long-term liabilities	20,157,906	20,030,721	15,768,864	11,185,938	35,926,770	31,216,659
Other liabilities	2,879,940	3,164,093	4,664,591	3,652,246	7,544,531	6,816,339
Total liabilities	<u>23,037,846</u>	<u>23,194,814</u>	<u>20,433,455</u>	<u>14,838,184</u>	<u>43,471,301</u>	<u>38,032,998</u>
Deferred inflows of resources	819,027	856,606	176,853	212,946	995,880	1,069,552
Net position:						
Net investment in capital assets	36,048,100	32,865,035	39,859,166	36,054,238	75,907,266	68,919,273
Restricted	2,302,440	2,290,128	28,796	21,284	2,331,236	2,311,412
Unrestricted	3,859,880	2,357,147	11,840,419	13,640,929	15,700,299	15,998,076
Total net position	<u>\$42,210,420</u>	<u>\$37,512,310</u>	<u>\$51,728,381</u>	<u>\$49,716,451</u>	<u>\$93,938,801</u>	<u>\$87,228,761</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town of Clayton exceeded liabilities and deferred inflows by \$93,938,801 as of June 30, 2017. The Town's net position increased by \$6,710,040 for the fiscal year ended June 30, 2017, primarily due to increases in both governmental and business-type activities.

By far the largest portion of the Town of Clayton's net position (80.8%) reflects its net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Clayton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Clayton's net investment in capital assets is reported net of 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 the Town of Clayton's net position, \$2,331,236, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15,700,299 is unrestricted, which can be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Clayton is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Restricted net position increased by \$12,312 for the Town's governmental activities, primarily due to decreased utilization of Powell Bill monies partially offset by an increase for public improvements associated with the CAMPO LAPP capital project fund. There was a slight increase of \$7,512 in restricted net position reported for business-type activities due to an increase in the USDA debt service reserve.

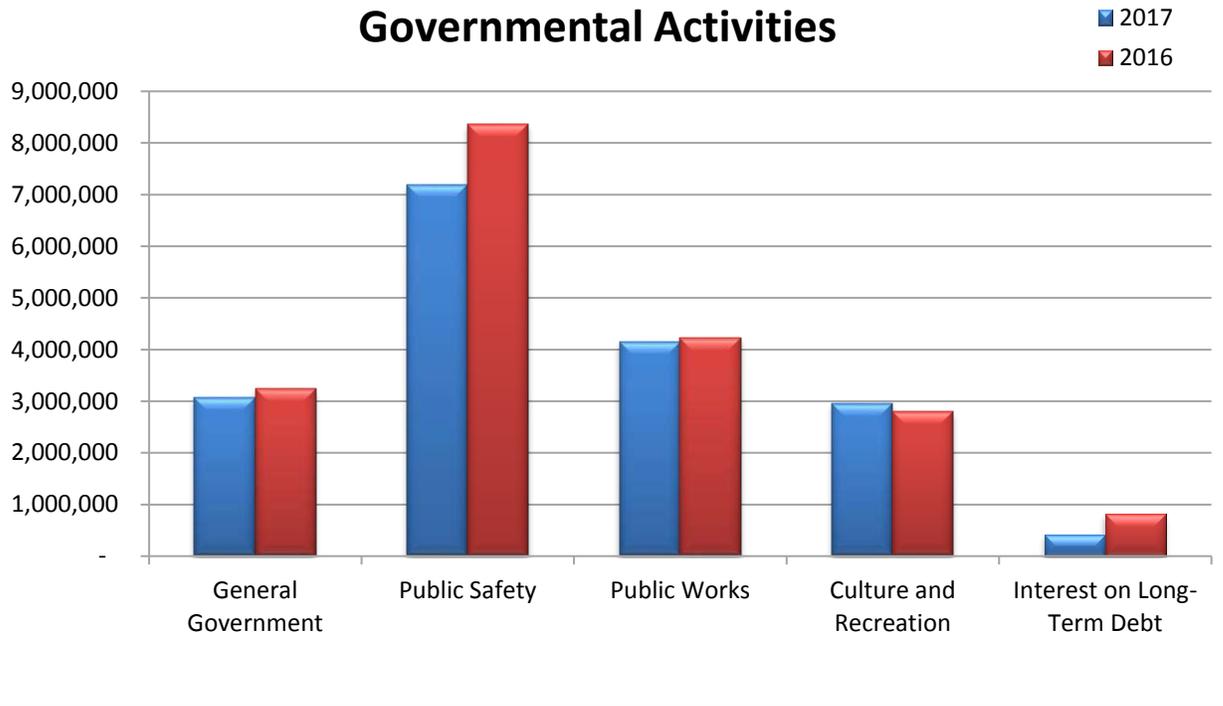
Town of Clayton Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
	Revenues:					
Program revenues						
Charges for services	\$ 3,826,995	\$ 3,366,016	\$22,363,460	\$21,173,554	\$26,190,455	\$24,539,570
Operating grants and contributions	1,796,504	1,782,270	794,406	707,079	2,590,910	2,489,349
Capital grants and contributions	1,166,222	595,913	-	941,142	1,166,222	1,537,055
General revenues:						
Property taxes	10,160,122	9,722,227	-	-	10,160,122	9,722,227
Other taxes	388,786	397,071	-	-	388,786	397,071
Grants and contributions not restricted to specific programs	4,904,578	4,281,555	-	-	4,904,578	4,281,555
Unrestricted investment earnings	67,863	32,758	26,916	14,362	94,779	47,120
Miscellaneous	168,172	312,878	1,856,607	2,419,542	2,024,779	2,732,420
Total revenue	<u>22,479,242</u>	<u>20,490,688</u>	<u>25,041,389</u>	<u>25,255,679</u>	<u>47,520,631</u>	<u>45,746,367</u>
Expenses:						
General government	3,073,268	3,237,533	-	-	3,073,268	3,237,533
Public safety	7,182,282	8,360,913	-	-	7,182,282	8,360,913
Public works	4,147,262	4,230,893	-	-	4,147,262	4,230,893
Culture and recreation	2,957,396	2,793,931	-	-	2,957,396	2,793,931
Interest on long-term debt	420,924	810,830	-	-	420,924	810,830
Water and Sewer	-	-	10,498,489	9,356,037	10,498,489	9,356,037
Electric	-	-	12,530,970	11,497,617	12,530,970	11,497,617
Total expenses	<u>17,781,132</u>	<u>19,434,100</u>	<u>23,029,459</u>	<u>20,853,654</u>	<u>40,810,591</u>	<u>40,287,754</u>
Increase in net position before transfers	4,698,110	1,056,588	2,011,930	4,402,025	6,710,040	5,458,613
Transfers	-	-	-	-	-	-
Increase in net position	<u>4,698,110</u>	<u>1,056,588</u>	<u>2,011,930</u>	<u>4,402,025</u>	<u>6,710,040</u>	<u>5,458,613</u>
Net position, beginning, restated	<u>37,512,310</u>	<u>36,455,722</u>	<u>49,716,451</u>	<u>45,314,426</u>	<u>87,228,761</u>	<u>81,770,148</u>
Net position, June 30	<u>\$42,210,420</u>	<u>\$37,512,310</u>	<u>\$51,728,381</u>	<u>\$49,716,451</u>	<u>\$93,938,801</u>	<u>\$87,228,761</u>

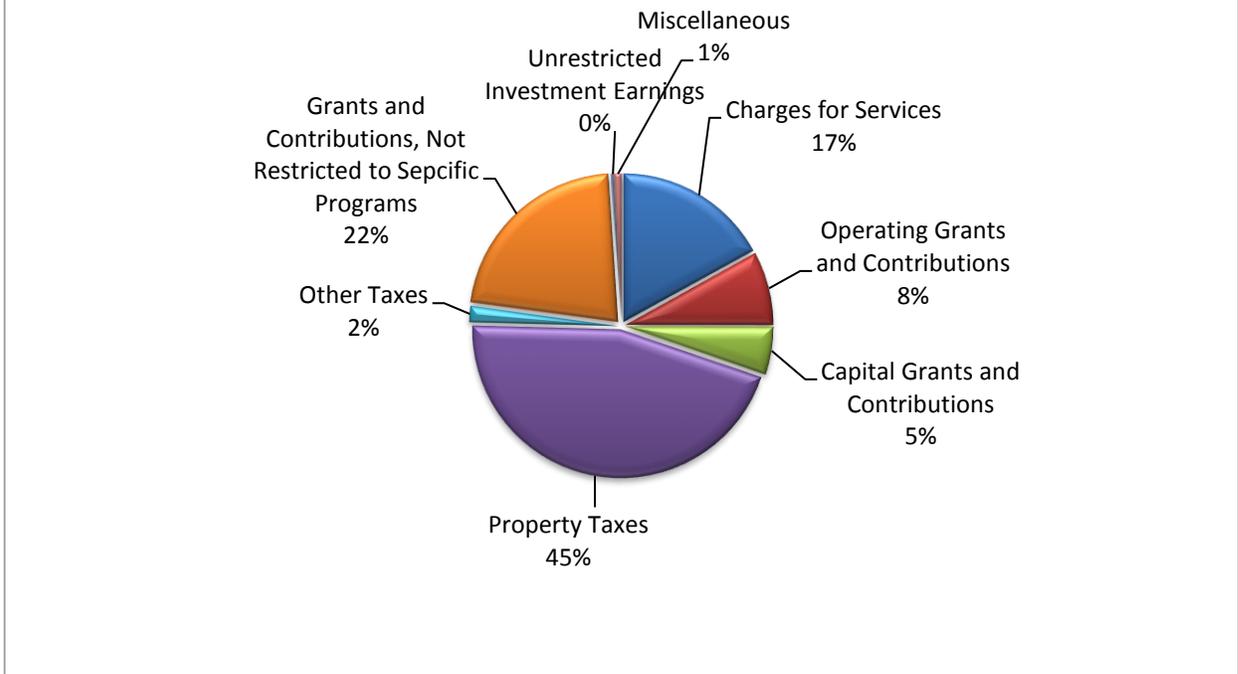
Governmental activities. Governmental activities increased the Town's net position by \$4,698,110, thereby accounting for 70% of the total growth in the net position of the Town of Clayton. Key elements of this increase are as follows:

- Property taxes increased 4.5%, or \$437,895, primarily due to a higher tax base in conjunction with maintaining a 100% tax collection percentage for registered motor vehicles, which is attributable to a change in State law.
- Sales tax revenues increased 14.6%, or \$623,023, due to strong economic growth.
- Expenses net of program revenues decreased by \$2,698,490, or 19.7%, which is attributable to the following factors:
 - Charges for services increased by \$460,979, or 13.7%, primarily due to increased revenues for building permits and inspection fees related to ongoing development activity.
 - Capital grants and contributions increased by \$570,309, or 95.7%, primarily due to State funding received for the Pedestrian Connector project reported in the CAMPO LAPP capital project fund.
 - Interest on long-term debt decreased \$389,906, or 48.1%, which is attributable to a non-recurring interest payment resulting from prior year refinancing activity.

Expenses and Program Revenues - Governmental Activities



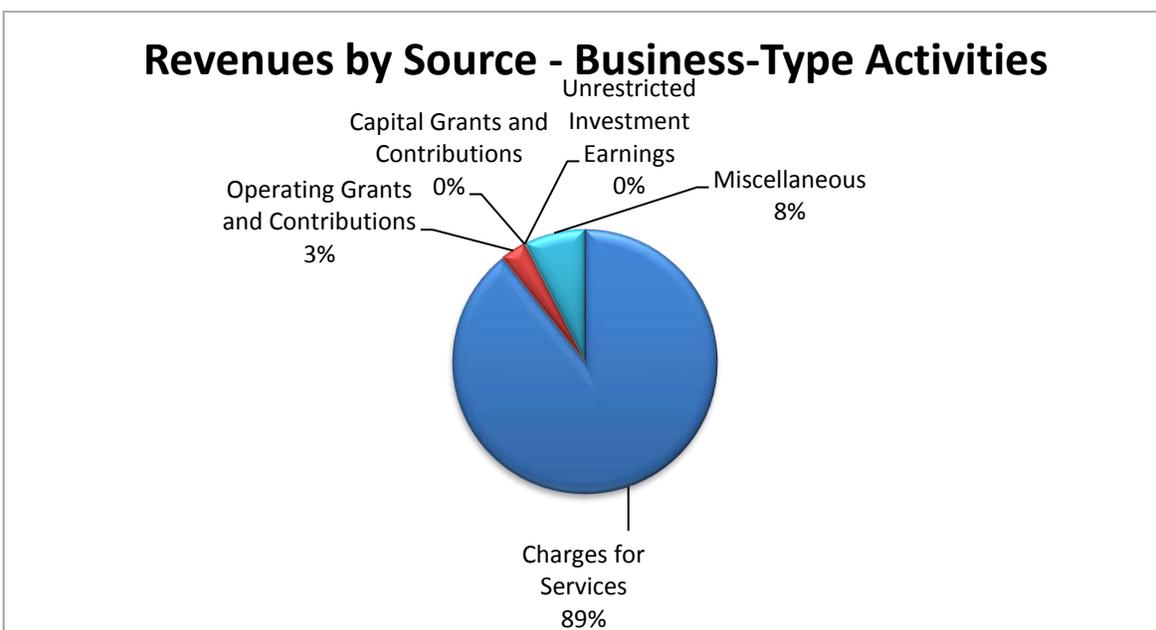
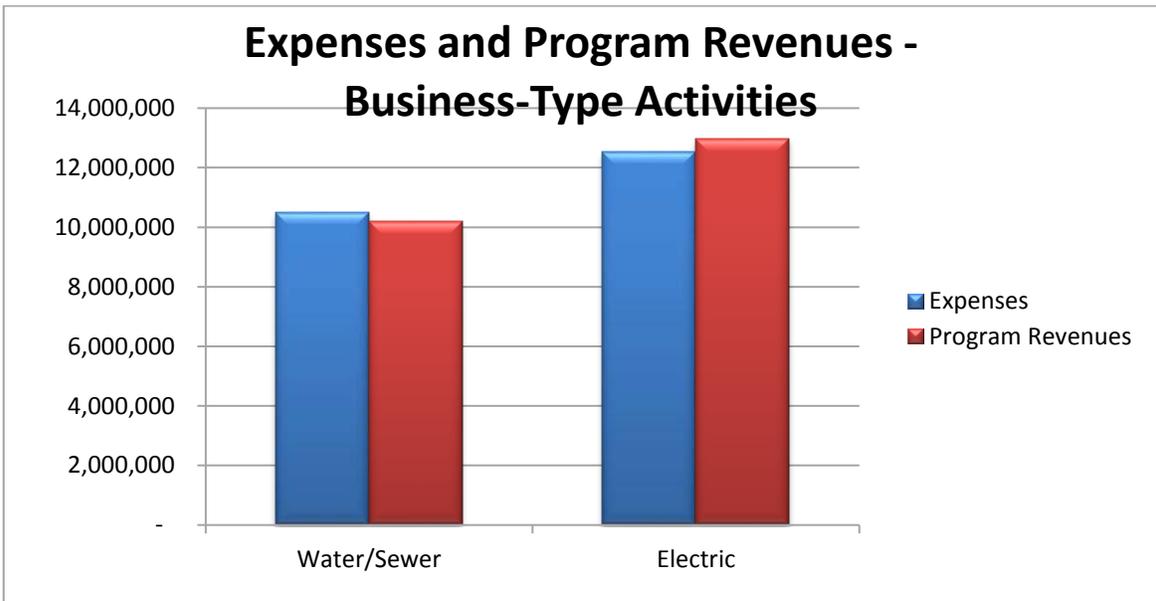
Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the Town of Clayton's net position by \$2,011,930, accounting for a 30% increase in the government's net position. Key elements of this increase are as follows:

Expenses net of program revenues increased by \$1,839,714, which is attributable to the following factors:

- Charges for services for business-type activities increased 5.6%, or \$1,189,906, primarily due to higher revenues generated by the water distribution, wastewater treatment operations, and electric distribution operations.
- Capacity fees from ongoing new development activity declined \$524,250 to \$1,378,977.
- Grants and contributions decreased by \$853,815, primarily due to a non-recurring developer contribution in the prior year for the Sam's Branch Phase II capital project.
- Expenses increased 10.4%, or \$2,175,805, compared to prior year due to a water capacity allocation purchase, increased power purchases, and higher support services costs.



Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Clayton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Clayton's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Clayton's governmental funds reported combined ending fund balances of \$9,551,212 with a net increase in fund balance of \$1,103,521. The decrease in the fund balance of the CAMPO LAPP capital project fund due to ongoing construction related to the pedestrian connector project is included in this change.

The General Fund is the chief operating fund of the Town of Clayton. At the end of the current fiscal year, unassigned fund balance was \$6,440,869, while total fund balance reached \$9,082,696. The Town of Clayton's governing body has determined the Town should maintain an unassigned fund balance of 20% of actual net expenditures and an operating standard of 30%. The Town currently has unassigned fund balance of 31.5% of actual net expenditures. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 45.5% of total general fund expenditures. Fund balance of the Town of Clayton's General Fund increased by \$1,376,328 during the current fiscal year. Key components of this change are as follows:

- Revenues from ad valorem taxes increased \$450,791, primarily due to a higher tax base.
- Intergovernmental revenues increased \$681,093, primarily due to higher sales tax revenues of \$623,023 attributable to improvement in the local economy.
- Permits and fees revenues increased \$408,429, primarily due to increased residential and commercial activity.
- Miscellaneous revenues decreased \$144,706, primarily due to non-recurring cost sharing reimbursements.
- Investment income increased by \$35,104, primarily due to higher investment earnings from the North Carolina Capital Management Trust portfolios.
- Total expenditures were slightly lower than the prior year.

General Fund Budgetary Highlights

During the year, the Town revised the budget on several occasions. Generally, budget amendments are made to adjust estimates that were utilized to prepare the original budget ordinance when more accurate data is available; amendments made to recognize new funding amounts from external sources, such as grants or other unexpected contributions; and increases in appropriations that become necessary to maintain services. Several factors contributed to the Town revising its budget throughout the year. The most common was realignment of the expenditure budget for budgetary compliance, amendments to budget unexpected non-recurring revenues to cover higher legal fees, and a \$520,507 increase in fund balance appropriations between the original and final amended budget, primarily due to a transfer to the CAMPO LAPP capital project fund to fully fund the expected local contribution to complete the projects currently approved.

Proprietary Funds. The Town of Clayton's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$7,081,712, and for the Electric Fund, \$4,758,707. The total change in net position for the Water and Sewer and the Electric Funds was \$1,405,336 and \$606,594, respectively. Other factors concerning the finances of these two funds was covered in the discussion of the Town of Clayton's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Clayton's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounts to \$105,547,677 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the Town of Clayton's investment in capital assets for the current fiscal year was 12.7% (a 14% increase for governmental activities and an 86% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- In governmental activities, construction in progress of \$1,349,325 for the pedestrian connector project; infrastructure additions of \$544,318 for street projects; \$1,068,993 for acquisition of rolling stock and equipment, and \$295,698 for improvements.
- In business-type activities, construction in progress for various capital project funds increased \$7,337,583, or \$3,239,997 and \$4,097,586 in the Water and Sewer Fund and Electric Fund, respectively, in conjunction with a strategic land acquisition of \$990,543 and infrastructure improvements of \$2,087,829 in the Water and Sewer Fund.
- No major demolitions were recorded this year.

Town of Clayton's Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Land	\$ 7,694,921	\$ 7,694,921	\$ 1,129,143	\$ 138,600	\$ 8,824,064	\$ 7,833,521
Nitrogen credits	-	-	2,633,113	2,633,113	2,633,113	2,633,113
Construction in progress	1,788,551	439,226	10,203,334	2,865,751	11,991,885	3,304,977
Total non-depreciable assets	9,483,472	8,134,147	13,965,590	5,637,464	23,449,062	13,771,611
Water capacity allocation rights	-	-	3,600,000	3,600,000	3,600,000	3,600,000
Building and improvements	30,843,633	30,547,935	3,862,804	3,189,288	34,706,437	33,737,223
Plant, machinery, and equipment	3,842,102	3,634,976	51,178,224	48,449,941	55,020,326	52,084,917
Vehicles	7,478,288	6,616,421	2,734,065	2,594,210	10,212,353	9,210,631
Infrastructure	18,114,802	17,570,484	-	-	18,114,802	17,570,484
Total depreciable assets	60,278,825	58,369,816	61,375,093	57,833,439	121,653,918	116,203,255
Accumulated depreciation	(17,457,070)	(15,866,100)	(22,098,233)	(20,471,867)	(39,555,303)	(36,337,967)
Total depreciable assets, net	42,821,755	42,503,716	39,276,860	37,361,572	82,098,615	79,865,288
Total	\$ 52,305,227	\$ 50,637,863	\$ 53,242,450	\$ 42,999,036	\$ 105,547,677	\$ 93,636,899

Additional information on the Town's capital assets can be found in Note 2.A of the Basic Financial Statements.

Long-term Debt. At the end of the current fiscal year, the Town of Clayton had total bonded debt outstanding of \$17,045,746. Of this amount, \$4,550,000 comprises debt backed by the full faith and credit of the Town of Clayton. The revenues of the associated enterprise fund back \$12,495,746. The installment debt is backed by security interest in the property for which it was issued.

Town of Clayton's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 4,550,000	\$ 4,940,000	\$ -	\$ -	\$ 4,550,000	\$ 4,940,000
Revenue bonds	-	-	7,398,746	2,329,746	7,398,746	2,329,746
BANs	-	-	5,097,000	5,097,000	5,097,000	5,097,000
Capital leases	-	-	260,102	295,108	260,102	295,108
Installment debt	11,707,127	12,832,828	3,543,394	4,130,075	15,250,521	16,962,903
Compensated Absences	592,097	612,497	122,538	114,879	714,635	727,376
OPEB	655,325	610,900	76,689	73,019	732,014	683,919
Pension related debt (LGERS)	2,729,871	554,074	549,349	106,237	3,279,220	660,311
Pension related debt (LEO)	1,762,104	634,951	-	-	1,762,104	634,951
Total	<u>\$ 21,996,524</u>	<u>\$ 20,185,250</u>	<u>\$ 17,047,818</u>	<u>\$ 12,146,064</u>	<u>\$ 39,044,342</u>	<u>\$ 32,331,314</u>

The Town's total debt increased \$6,713,028, or 20.8%, during the current fiscal year primarily due the issuance of revenue bonds for \$5,350,000 by the Electric Fund to construct a new substation and higher pension related debt, which was partially offset by the rapid amortization of financed debt.

The Town of Clayton maintained its bond ratings from Moody's Investor Service (Aa2) and Standard and Poor's Corporation (AA).

North Carolina general statutes limit the amount of general obligation debt that a unit of government may issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The current debt limitation for the Town of Clayton is \$132,416,536, which is significantly in excess of the Town of Clayton's outstanding general obligation debt.

Additional information regarding the Town of Clayton's long-term debt can be found in Note 2.B.6 of this report.

Budget Highlights for the Fiscal Year Ending June 30, 2018

The following key economic indicators reflect the growth and prosperity of the Town.

- The unemployment rate for Johnston County is approximately 3.9%, which reflects continued improvement from a rate of 4.7% a year ago. The State average is 4.2% compared to 5.2% a year ago. The unemployment rate information is not seasonally adjusted.
- Higher median household income. The median household income estimate for the Town was \$58,837 compared to \$50,512 for Johnston County and \$46,868 for the State.
- Ad valorem property tax revenues are projected to increase 5.8%, primarily due to a continued growth in residential housing. The property tax rate remains unchanged. Sales tax revenues are forecasted to grow 12.6%. Actual sales tax growth was 19.1 % compared to prior year and 15.9% higher than budget. The Town does not expect sales tax growth to remain this robust.
- Budget expenditures in the General Fund are forecasted to be \$21,418,870, a decrease of 1.3% compared to prior year budget and includes the addition of two full-time staff, one in finance and one in public works. The budget includes a 2.5% cost-of-living adjustment (COLA) in conjunction with a merit pool of 1%.
- The Town has chosen to appropriate \$347,497 for spending in the 2018 fiscal year budget, primarily to make critical building repairs along with the drawdown of existing Powell Bill funds to complete high priority street repairs.
- Rate changes in the Water and Sewer Fund include a minimum base charge of \$15 per month from \$10.10 and a 6% pass-through resulting from a wholesale rate increase. The increases are needed to achieve parity with Johnston County. No rate changes are proposed for the Electric Fund. Comprehensive rate studies are underway in both enterprise funds, which will assess the overall condition, determine an appropriate rate structure, and facilitate capital improvement planning.

All of these factors were considered in preparing the Town of Clayton's budget for the 2018 fiscal year. The budget incorporates the goals and policies adopted by Council.

Requests for Information

This financial report is designed to provide a general overview of the Town of Clayton's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance Director, Town of Clayton, PO Box 879, Clayton, North Carolina 27528.

BASIC FINANCIAL STATEMENTS

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2017

Exhibit 1
Page 1 of 2

	Primary Government			Clayton Downtown Development Association
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 8,210,023	\$ 11,400,523	19,610,546	\$ 6,550
Taxes receivables (net)	30,181	-	30,181	-
Accounts receivable (net)	738,323	3,268,717	4,007,040	-
Due from/to other governments	1,456,026	-	1,456,026	-
Inventories	8,961	994,349	1,003,310	-
Restricted cash and cash equivalents	<u>864,393</u>	<u>2,944,754</u>	<u>3,809,147</u>	<u>-</u>
Total current assets	<u>11,307,907</u>	<u>18,608,343</u>	<u>29,916,250</u>	<u>6,550</u>
Non-current assets				
Capital assets (Note 3)				
Land, non-depreciable improvements and construction in progress	9,483,472	13,965,590	23,449,062	-
Other capital assets, net of depreciation	<u>42,821,755</u>	<u>39,276,860</u>	<u>82,098,615</u>	<u>1,955</u>
Total capital assets	<u>52,305,227</u>	<u>53,242,450</u>	<u>105,547,677</u>	<u>1,955</u>
Total assets	<u>\$ 63,613,134</u>	<u>\$ 71,850,793</u>	<u>\$ 135,463,927</u>	<u>\$ 8,505</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	<u>2,454,159</u>	<u>487,896</u>	<u>2,942,055</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 66,067,293</u>	<u>\$ 72,338,689</u>	<u>\$ 138,405,982</u>	<u>\$ 8,505</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2017

Exhibit 1
Page 2 of 2

	Primary Government			Clayton Downtown Development Association
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,041,322	\$ 2,769,920	\$ 3,811,242	\$ 374
Customer deposits	-	615,717	615,717	-
Current portion of long-term liabilities	<u>1,838,618</u>	<u>1,341,954</u>	<u>3,180,572</u>	-
Total current liabilities	<u>2,879,940</u>	<u>4,727,591</u>	<u>7,607,531</u>	<u>374</u>
Long-term liabilities				
Net pension liability	2,729,871	549,349	3,279,220	-
Total pension liability	1,762,104	-	1,762,104	-
Due in more than one year	<u>15,665,931</u>	<u>15,156,515</u>	<u>30,822,446</u>	-
Total liabilities	<u>23,037,846</u>	<u>20,433,455</u>	<u>43,471,301</u>	<u>374</u>
DEFERRED INFLOWS OF RESOURCES				
Assessments	684,997	157,318	842,315	-
Prepaid taxes	195	-	195	-
Pension deferrals	<u>133,835</u>	<u>19,535</u>	<u>153,370</u>	-
Total deferred inflows of resources	<u>819,027</u>	<u>176,853</u>	<u>995,880</u>	-
NET POSITION				
Net investment of capital assets	36,048,100	39,859,166	75,907,266	1,955
Restricted - Expendable:				
Other functions-Powell Bill	310,176	-	310,176	-
Public Improvements	465,271	-	465,271	-
USDA debt service reserve	-	28,796	28,796	-
Public Safety	14,396	-	14,396	-
Stabilization by State Statute	1,509,352	-	1,509,352	-
Restricted - Nonexpendable	3,245	-	3,245	-
Unrestricted	<u>3,859,880</u>	<u>11,840,419</u>	<u>15,700,299</u>	<u>6,176</u>
Total net position	<u>42,210,420</u>	<u>51,728,381</u>	<u>93,938,801</u>	<u>8,131</u>
Total liabilities, deferred inflows of resources and net position	<u>\$66,067,293</u>	<u>\$72,338,689</u>	<u>\$138,405,982</u>	<u>\$ 8,505</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Clayton Downtown Development
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government operations	\$ 3,073,268	\$ 1,266,885	\$ 114,028	\$ -	\$ (1,692,355)	\$ -	\$ (1,692,355)	\$ -
Public safety	7,182,282	17,580	1,682,476	-	(5,482,226)	-	(5,482,226)	-
Public works	4,147,262	1,617,747	-	502,591	(2,026,924)	-	(2,026,924)	-
Cultural and recreational	2,957,396	924,783	-	663,631	(1,368,982)	-	(1,368,982)	-
Interest on long-term debt	420,924	-	-	-	(420,924)	-	(420,924)	-
Total governmental activities	<u>17,781,132</u>	<u>3,826,995</u>	<u>1,796,504</u>	<u>1,166,222</u>	<u>(10,991,411)</u>	<u>-</u>	<u>(10,991,411)</u>	<u>-</u>
Business-type activities								
Water and sewer	10,498,489	9,555,071	626,607	-	-	(316,811)	(316,811)	-
Electric	12,530,970	12,808,389	167,799	-	-	445,218	445,218	-
Total business-type activities	<u>23,029,459</u>	<u>22,363,460</u>	<u>794,406</u>	<u>-</u>	<u>-</u>	<u>128,407</u>	<u>128,407</u>	<u>-</u>
Total primary government	<u>\$ 40,810,591</u>	<u>\$ 26,190,455</u>	<u>\$ 2,590,910</u>	<u>\$ 1,166,222</u>	<u>\$ (10,991,411)</u>	<u>\$ 128,407</u>	<u>\$ (10,863,004)</u>	<u>\$ -</u>
Component unit								
Clayton Downtown Development Association, Inc	<u>\$ 76,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(76,295)</u>
General revenues								
Property taxes, levied for general purposes					10,160,122	-	10,160,122	-
Sales taxes					4,904,578	-	4,904,578	-
Franchise taxes					274,938	-	274,938	-
Alcoholic beverage taxes					84,946	-	84,946	-
Other taxes					28,902	-	28,902	-
Grants and contributions, not restricted to specific programs					-	-	-	-
Unrestricted investment earnings					67,863	26,916	94,779	-
Miscellaneous					168,172	1,856,607	2,024,779	62,706
Total general revenues					<u>15,689,521</u>	<u>1,883,523</u>	<u>17,573,044</u>	<u>62,706</u>
Change in net position					4,698,110	2,011,930	6,710,040	(13,589)
Net position, beginning, previously reported					38,977,528	49,716,451	88,693,979	21,720
Restatement (Note 7)					(1,672,483)	-	(1,672,483)	-
Prior period adjustment (Note 8)					207,265	-	207,265	-
Net position, beginning, restated					<u>37,512,310</u>	<u>49,716,451</u>	<u>87,228,761</u>	<u>21,720</u>
Net position, ending					<u>\$ 42,210,420</u>	<u>\$ 51,728,381</u>	<u>\$ 93,938,801</u>	<u>\$ 8,131</u>

TOWN OF CLAYTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

Exhibit 3

	Major Funds				Total Governmental Funds
	General	Parks & Rec. Capital Project	CAMPO LAPP Capital Project	Total Non-Major Fund	
ASSETS					
Cash and cash equivalents	\$ 8,206,778	\$ -	\$ -	\$ 3,245	\$ 8,210,023
Restricted cash	324,572	238,472	301,349	-	864,393
Receivables, net					
Taxes	30,181	-	-	-	30,181
Accounts	738,323	-	-	-	738,323
Due from other governments	1,456,026	-	-	-	1,456,026
Due from other funds	-	-	-	-	-
Inventories	8,961	-	-	-	8,961
Total assets	\$ 10,764,841	\$ 238,472	\$ 301,349	\$ 3,245	\$ 11,307,907
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 966,772	\$ -	\$ 74,550	\$ -	\$ 1,041,322
Total liabilities	966,772	-	74,550	-	\$ 1,041,322
Deferred Inflows of Resources					
Assessments	684,997	-	-	-	684,997
Property tax receivable	30,181	-	-	-	30,181
Prepaid taxes	195	-	-	-	195
Total Deferred Inflows of Resources	715,373	-	-	-	715,373
Fund balances					
Non Spendable					
Inventories	8,961	-	-	-	8,961
Perpetual maintenance	-	-	-	3,245	3,245
Restricted					
Stabilization by State Statute	1,509,352	-	-	-	1,509,352
Streets - Powell Bill	310,176	-	-	-	310,176
Public Improvements	-	238,472	226,799	-	465,271
USDA debt service reserve	-	-	-	-	-
Public Safety-Police	14,396	-	-	-	14,396
Library	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Committed					
Public Improvements	449,090	-	-	-	449,090
Public Safety-Fire	-	-	-	-	-
Assigned					
Public Safety-Fire	2,355	-	-	-	2,355
Subsequent year's expenditures	347,497	-	-	-	347,497
Unassigned	6,440,869	-	-	-	6,440,869
Total fund balances	9,082,696	238,472	226,799	3,245	9,551,212
Total liabilities, deferred inflows of of resources and fund balances	\$ 10,764,841	\$ 238,472	\$ 301,349	\$ 3,245	\$ 11,307,907
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:					
Fund balance as reported in the balance sheet - governmental funds					\$ 9,551,212
Amounts reported for governmental activities in the statement of net position are different because					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					52,305,227
Deferred outflows of resources related to pensions are not reported in the funds					2,454,159
Liabilities for earned revenues considered deferred inflows of resources in fund statements					30,181
Compensated absences not expected to be materially liquidated with expendable available resources					(592,097)
Net law enforcement officers' pension obligation					-
Other postemployment benefits					(655,325)
Long-term liabilities, principally installment purchases and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds					(16,257,127)
Net pension liability					(2,729,871)
Total pension liability					(1,762,104)
Deferred inflows of resources related to pensions are not reported in the funds					(133,835)
Net position of governmental activities					\$ 42,210,420

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

Exhibit 4

	Major Funds				Total Governmental Funds
	General Fund	Parks & Rec. Capital Project	CAMPO LAPP Capital Project	Total Non-Major Fund	
REVENUES					
Ad valorem taxes	\$ 10,084,003	\$ -	\$ -	\$ -	\$ 10,084,003
Other taxes and licenses	89,779	-	-	-	89,779
Unrestricted intergovernmental	6,967,001	-	-	-	6,967,001
Restricted intergovernmental	622,154	-	651,995	-	1,274,149
Permits and fees	1,588,935	-	-	-	1,588,935
Sales and services	2,241,345	-	-	-	2,241,345
Investment earnings	67,862	-	-	1	67,863
Miscellaneous	168,172	-	-	-	168,172
Total revenues	21,829,251	-	651,995	1	22,481,247
EXPENDITURES					
Current					
General government operations	3,409,367	-	-	-	3,409,367
Public safety	7,620,191	-	-	-	7,620,191
Public works	4,377,279	-	-	-	4,377,279
Cultural and recreational	2,615,847	-	-	-	2,615,847
Debt service					
Principal retirement	1,515,701	-	-	-	1,515,701
Interest and other charges	420,924	-	-	-	420,924
Capital outlay	-	-	1,418,417	-	1,418,417
Total expenditures	19,959,309	-	1,418,417	-	21,377,726
Excess (deficiency) of revenues over expenditures	1,869,942	-	(766,422)	1	1,103,521
OTHER FINANCING SOURCES (USES)					
Transfers from (to) other funds	(493,614)	-	493,614	-	-
Total other financing sources (uses)	(493,614)	-	493,614	-	-
Net change in fund balances	1,376,328	-	(272,808)	1	1,103,521
Fund balance, beginning	7,706,368	238,472	499,607	3,244	8,447,691
Fund balances, ending	\$ 9,082,696	\$ 238,472	\$ 226,799	\$ 3,245	\$ 9,551,212

TOWN OF CLAYTON, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Exhibit 5

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net changes in fund balances - total governmental funds		\$ 1,103,521
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.		
	Capital outlay	3,258,335
	Depreciation	(1,590,970)
Contributions to the LGERS pension plan in the current fiscal year are not included on the Statement of Activities		1,105,291
Benefit payments paid and administrative expense for LEOSA are not included on the Statement of Activities		29,668
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
	Taxes including interest and penalties	(2,005)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		
	Compensated absences	20,400
	Pension expense	(697,406)
	Other postemployment benefits	(44,425)
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
	Debt proceeds	-
	Debt principle paid	<u>1,515,701</u>
		<u>1,515,701</u>
Total changes in net position of governmental activities		<u>\$ 4,698,110</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017

Exhibit 6

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 9,856,288	\$ 9,856,288	\$ 10,084,003	\$ 227,715
Other taxes and licenses	85,200	85,200	89,779	4,579
Unrestricted intergovernmental	6,919,692	7,059,218	6,967,001	(92,217)
Restricted intergovernmental	583,814	583,814	622,154	38,340
Permits and fees	1,277,284	1,277,284	1,588,935	311,651
Sales and services	2,100,833	2,100,833	2,241,345	140,512
Investment earnings	46,750	46,750	67,862	21,112
Miscellaneous	41,810	121,284	168,172	46,888
Total revenues	20,911,671	21,130,671	21,829,251	698,580
EXPENDITURES				
Current				
General government operations	3,581,027	3,727,398	3,409,367	318,031
Public safety	7,869,433	7,942,657	7,620,191	322,466
Public works	5,287,114	5,300,840	4,377,279	923,561
Cultural and recreational	2,765,066	2,777,638	2,615,847	161,791
Debt service				
Principal retirement	1,343,764	1,524,194	1,515,701	8,493
Interest and other charges	601,355	420,925	420,924	1
Total expenditures	21,447,759	21,693,652	19,959,309	1,734,343
Revenues over (under) expenditures	(536,088)	(562,981)	1,869,942	2,432,923
OTHER FINANCING SOURCES (USES)				
Transfer from (to) other funds	-	(493,614)	(493,614)	-
Total other financing sources (uses)	-	(493,614)	(493,614)	-
Fund balance appropriated	536,088	1,056,595	-	(1,056,595)
Net change in fund balance	\$ -	\$ -	1,376,328	\$ 1,376,328
Fund balances, beginning			7,706,368	
Fund balances, ending			<u>\$ 9,082,696</u>	

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

Exhibit 7

	Enterprise Funds		Total
	Water and Sewer Fund	Electric Fund	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 7,032,627	\$ 4,367,896	\$ 11,400,523
Accounts receivable (net) - billed	1,123,791	651,674	1,775,465
Accounts receivable (net) - unbilled	632,723	860,529	1,493,252
Inventories	242,405	751,944	994,349
Restricted cash and cash equivalents	1,528,377	1,416,377	2,944,754
Total current assets	<u>10,559,923</u>	<u>8,048,420</u>	<u>18,608,343</u>
Non-current assets			
Capital assets			
Land, improvements and construction in progress	9,637,970	4,327,620	13,965,590
Other capital assets, net of depreciation	31,934,753	7,342,107	39,276,860
Capital assets, net	<u>41,572,723</u>	<u>11,669,727</u>	<u>53,242,450</u>
Total non-current assets	<u>41,572,723</u>	<u>11,669,727</u>	<u>53,242,450</u>
Total assets	<u>\$ 52,132,646</u>	<u>\$ 19,718,147</u>	<u>\$ 71,850,793</u>
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current fiscal year	<u>275,673</u>	<u>212,223</u>	<u>487,896</u>
Total assets and deferred outflows of resources	<u>\$ 52,408,319</u>	<u>\$ 19,930,370</u>	<u>\$ 72,338,689</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 1,583,054	\$ 1,186,866	\$ 2,769,920
Customer deposits	56,925	558,792	615,717
Compensated absences - current	31,159	30,111	61,270
Revenue bond note payable - current	85,000	616,667	701,667
Installment purchases payable - current	525,243	53,774	579,017
Total current liabilities	<u>2,281,381</u>	<u>2,446,210</u>	<u>4,727,591</u>
Noncurrent liabilities			
Other noncurrent liabilities			
Other postemployment benefits	44,460	32,229	76,689
Compensated absences	31,158	30,110	61,268
Net pension liability	310,395	238,954	549,349
Revenue bond note payable - noncurrent	6,410,746	5,383,333	11,794,079
Installment purchases payable - noncurrent	3,224,479	-	3,224,479
Total noncurrent liabilities	<u>10,021,238</u>	<u>5,684,626</u>	<u>15,705,864</u>
Total liabilities	<u>12,302,619</u>	<u>8,130,836</u>	<u>20,433,455</u>
Deferred Inflows of Resources			
Assessments	157,318	-	157,318
Pension deferrals	11,038	8,497	19,535
Total deferred inflows of resources	<u>168,356</u>	<u>8,497</u>	<u>176,853</u>
NET POSITION			
Net investments in capital assets	32,826,836	7,032,330	39,859,166
Restricted for USDA debt service reserve	28,796	-	28,796
Unrestricted	7,081,712	4,758,707	11,840,419
Total net position	<u>39,937,344</u>	<u>11,791,037</u>	<u>51,728,381</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 52,408,319</u>	<u>\$ 19,930,370</u>	<u>\$ 72,338,689</u>

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TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

Exhibit 8

	Enterprise Funds		Total
	Water and Sewer Fund	Electric Fund	
OPERATING REVENUES			
Charges for services	\$ 9,498,504	\$ 12,808,389	\$ 22,306,893
Water and sewer taps	56,567	-	56,567
Other operating revenues	626,607	167,799	794,406
Total operating revenues	<u>10,181,678</u>	<u>12,976,188</u>	<u>23,157,866</u>
OPERATING EXPENSES			
Electric operations	-	11,035,811	11,035,811
Water distribution	4,279,274	-	4,279,274
Water preventive maintenance	738,719	-	738,719
Waste collection and treatment	2,427,688	-	2,427,688
Tax reimbursements - General Fund	-	35,250	35,250
Support services - General Fund	1,646,835	1,031,778	2,678,613
Depreciation and amortization	1,262,455	363,911	1,626,366
Total operating expenses	<u>10,354,971</u>	<u>12,466,750</u>	<u>22,821,721</u>
Operating income (loss)	<u>(173,293)</u>	<u>509,438</u>	<u>336,145</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	7,752	19,164	26,916
Interest and other charges	(143,518)	(64,220)	(207,738)
Capacity fees	1,378,977	-	1,378,977
Nutrient offset fees	138,896	-	138,896
Miscellaneous	196,522	142,212	338,734
Total nonoperating revenue (expenses)	<u>1,578,629</u>	<u>97,156</u>	<u>1,675,785</u>
Change in net position	<u>1,405,336</u>	<u>606,594</u>	<u>2,011,930</u>
Total net position, beginning	<u>38,532,008</u>	<u>11,184,443</u>	<u>49,716,451</u>
Total net position, ending	<u>\$ 39,937,344</u>	<u>\$ 11,791,037</u>	<u>51,728,381</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2017

Exhibit 9
Page 1 of 2

	Enterprise Funds		Total
	Water and Sewer Fund	Electric Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 9,246,422	\$ 12,663,951	\$ 21,910,373
Cash paid for goods and services	(7,461,856)	(10,912,750)	(18,374,606)
Cash paid to or on behalf of employees for services	(1,274,361)	(928,736)	(2,203,097)
Other operating revenues	626,607	167,799	794,406
Miscellaneous revenue	196,522	142,212	338,734
Net cash provided by operating activities	<u>1,333,334</u>	<u>1,132,476</u>	<u>2,465,810</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Capacity fees	1,378,977	-	1,378,977
Nutrient offset fees	138,896	-	138,896
Total cash flows from noncapital financing activities	<u>1,517,873</u>	<u>-</u>	<u>1,517,873</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(6,949,209)	(4,920,573)	(11,869,782)
Principal paid on bond maturities and equipment contracts	(562,840)	(339,846)	(902,686)
Proceeds from debt issuance	-	5,350,000	5,350,000
Interest paid on bond maturities and equipment contracts	(143,518)	(64,220)	(207,738)
Net cash provided (used) by capital and related financing activities	<u>(7,655,567)</u>	<u>25,361</u>	<u>(7,630,206)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>7,752</u>	<u>19,164</u>	<u>26,916</u>
Net increase (decrease) in cash and cash equivalents	(4,796,608)	1,177,001	(3,619,607)
Balances, beginning	<u>13,357,612</u>	<u>4,607,272</u>	<u>17,964,884</u>
Balances, ending	<u>\$ 8,561,004</u>	<u>\$ 5,784,273</u>	<u>\$ 14,345,277</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2017

Exhibit 9
Page 2 of 2

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (173,293)	\$ 509,438	\$ 336,145
Adjustments to reconcile operating income to net cash provided by operating activities			
Miscellaneous revenue	196,522	142,212	338,734
Depreciation & amortization	1,262,455	363,911	1,626,366
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(308,649)	(144,438)	(453,087)
(Increase) decrease in inventory	(103,048)	31,502	(71,546)
Increase (decrease) in accounts payable and accrued liabilities	468,488	259,101	727,589
Increase (decrease) in customer deposits	(3,218)	(30,853)	(34,071)
Decrease in postemployment benefits	1,014	2,656	3,670
Decrease in accrued vacation pay	2,739	4,920	7,659
Increase in deferred outflows of resources-pensions	(237,900)	(184,768)	(422,668)
Increase in net pension liability	249,219	193,893	443,112
Decrease in deferred inflows of resources-pensions	(20,995)	(15,098)	(36,093)
Total adjustments	<u>1,506,627</u>	<u>623,038</u>	<u>2,129,665</u>
Net cash provided by operating activities	<u>\$ 1,333,334</u>	<u>\$ 1,132,476</u>	<u>\$ 2,465,810</u>

**TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2017**

Exhibit 10

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 1,794,139
Taxes receivable	<u>13,676</u>
Total assets	<u>\$ 1,807,815</u>
Liabilities	
Liabilities:	
Intergovernmental payable	<u>1,807,815</u>
Total liabilities	<u>\$ 1,807,815</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

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



**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Clayton, North Carolina 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 Town of Clayton, North Carolina, is a municipal corporation that is governed by an elected mayor and a five-member council. The accompanying financial statements present the government and its lone discretely presented component unit, an entity for which the government is considered to be financially accountable and is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize it is legally separate from the government.

Clayton Downtown Development Association, Inc.

Clayton Downtown Development Association, Inc. is a private nonprofit organization exempted from income taxes under Internal Revenue Code Section 501(c) (3) and is dedicated to the revitalization of the downtown area of the Town of Clayton, North Carolina. The Association was organized on March 9, 2009 in the state of North Carolina and is managed by an eleven-member board appointed by the government's council. The government is financially accountable because it has the ability to impose its will on the Association. The complete financial statements may be obtained by writing to the Clayton Downtown Development Association, Inc., C/O: PO Box 879, Clayton, NC 27528-0879.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government except for fiduciary activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the Town. 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 Town and for each function of the Town'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 Town's funds. 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 displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The Town reports the following major governmental funds:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

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

Clayton Parks & Recreation Capital Project – This fund is used to account for the public improvement to the parks and recreation area.

CAMPO LAPP Project Fund – This fund is used to account for Town projects included in the Capital Area Metropolitan Planning Organization’s Locally Administered Projects Program, which utilizes federal funding for local highway, transit, bicycle and pedestrian projects.

The Town reports the following non-major governmental funds:

Horne Cemetery Fund. This fund is used to account for permanent funds where the principal may not be expended and the income is used to maintain the Horne Cemetery.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town’s water and sewer operations.

Electric Fund. This fund is used to account for the Town’s electric fund operations.

The Town reports the following fund types:

Agency Fund. Agency Funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains one agency fund: Claytex Fire District, which accounts for taxes assessed from taxpayers in a special area for fire services for that area.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Town enterprise funds are charges to customers for sales and services. The Town 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 nonoperating 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 Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Clayton because the tax is levied by Johnston County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general fund, special revenue fund, Horne cemetery permanent fund, and enterprise funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Capital Projects Fund and certain Enterprise Fund capital project funds, which 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 department level for all annually budgeted funds and at the object level for the multi-year funds. The Town manager is authorized to effect interdepartmental transfers, in the same fund, provided that no departmental budget shall be reduced by more than ten percent without the prior approval of the governing board. Any such transfers must be reported to the governing board at its next regular meeting and be entered into the minutes of the meeting. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money 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

Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per state law (G.S. 136-41.1 through G.S. 136-41.4). Monies in the Parks and Recreation Capital Project Fund and CAMPO LAPP Capital Project Fund

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

are classified as restricted cash because the use is restricted to each fund per state law (G.S. 159-13.2). Money for public safety is classified as restricted cash which can only be expended for purposes to enhance the Town's law enforcement activities per state and federal law (G.S. 105-113.113; Controlled Substances Act, Title 21-Section 881(e)(3)). The unexpended bond proceeds of both the Electric Fund and Water and Sewer Fund are classified as restricted assets for the enterprise funds because their use is completely restricted to the purpose for which the bonds were originally issued. Cash in the Water and Sewer Fund is also restricted to comply with a \$28,796 sinking fund requirement by the USDA.

Restricted Assets (Continued)

General Fund			
	Streets	\$	310,176
	Public Safety		14,396
	Parks and Recreation		238,472
	Public Transportation		301,349
Total governmental activities		\$	<u>864,393</u>
Business-type Activities			
Electric Fund	Unspent revenue bond proceeds	\$	1,416,377
Water and Sewer Fund	Unspent revenue bond proceeds		1,499,581
Water and Sewer Fund	USDA future debt service		28,796
Total Business-type Activities		\$	<u>2,944,754</u>
Total Restricted Cash		\$	<u>3,809,147</u>

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town 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, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016.

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.

Due To/From Other Funds

Amounts reported at June 30, 2017 as internal balances generally represent short-term advances between funds. The amounts reported at year-end are not available for appropriation and are not an expendable available financial resource.

Inventories

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's Enterprise Funds consist of materials and supplies held for subsequent use or sale. The cost of these inventories is expensed when consumed or sold rather than when purchased.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: Buildings, improvements, substations, lines, and other plant and distribution systems, \$50,000; infrastructure, \$25,000; and furniture and equipment, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2002, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980. The road network is reported at historical costs as reported to the North Carolina Department of Transportation under the Powell Bill program and the water and sewer system assets are reported at their historical costs. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	70
Other Improvements	20
Equipment	6
Vehicles and motorized equipment	6
Infrastructure	50

Wastewater capacity allocation rights are recorded at historical cost and amortized over 20 years using the straight-line method. For information, describing capital assets, see Note 2.A.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – assessments, prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid issuance costs, are expensed in the reporting period in which they are incurred. Prepaid issuance costs are expensed over the life of the debt.

**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Long-Term Obligations (Continued)

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town'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 Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for 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. The Town has no obligation for the accumulated sick leave until it is actually taken. No accrual for sick leave has been made.

Net Position

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the Town of Clayton Cemetery.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or by laws and regulations.

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

**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Improvements – portion of fund balance that is restricted by revenue source for recreational facilities and street improvements.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Clayton's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Public Improvements – portion of fund balance that is limited to capital expenditures for recreation and public works.

Assigned fund balance – portion of fund balance that the Town of Clayton intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. Only the General Fund can report a positive amount of unassigned fund balance.

The Town of Clayton has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, Town 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 Director has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Clayton has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that unassigned fund balance is at least equal to or greater than 20% of actual net expenditures. Any portion in excess of 20% is available for appropriation as deemed necessary and approved by Council. The Town's operating standard for unassigned fund balance is a minimum of 30% of net expenditures. Net expenditures are defined as actual expenditures plus transfers out minus capital lease proceeds.

Pensions

For 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 position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Clayton's employer contributions are recognized when due and the Town of Clayton has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

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

**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Other

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits

All the deposits of the Town and the Clayton Downtown Development Association, Inc (Association) are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's and Association's agents in these unit's 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 Town and the Association, these deposits are considered to be held by the Town's and the Association's agents in their names. The amount of the pledged collateral is based on an approved averaging method for noninterest 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 Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the Association 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 Town and the Association have no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town and the Association complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$11,057,687 and a bank balance of \$11,388,168. Of the bank balance, \$1,250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of the deposits for the Association was \$6,550 and the bank balance was \$6,550. At June 30, 2017, the Town's petty cash fund totaled \$2,400.

Investments

At June 30, 2017, the Town of Clayton had \$3,093,388 and \$11,060,357 invested with the North Carolina Capital Management Trust's Government and Term Portfolio, respectively. The Government Portfolio carried a credit rating of AAAM by Standard and Poor's. The Town's investment in the Term Portfolio is unrated with a duration of 0.09 years. The Term Portfolio is authorized to invest in obligations of the U.S government and agencies, and in high-grade money market instruments as permitted under G.S 159-30 as amended. The Town has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

General fund:		
Taxes receivable	\$	8,600
Accounts receivable		<u>4,302</u>
		12,902

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Receivables - Allowances for Doubtful Accounts (Continued)

Enterprise funds	67,393
Total	<u>\$ 80,295</u>

Due from Other Governmental Agencies

At June 30, 2017, funds due from other governmental agencies consisted of the following:

	<u>Governmental Activities</u>			<u>Business- type Activities</u>
	<u>General</u>	<u>Non-Major Governmental</u>	<u>Total</u>	
Local Option Sales Tax	\$ 657,555	\$ -	\$ 657,555	\$ -
Franchise Sales Tax	215,754	-	215,754	-
Telecommunication Sales Tax	14,259	-	14,259	-
Video Programming Fees	46,542	-	46,542	-
Solid Waste Disposal Fees	3,012	-	3,012	-
Vehicle & Property taxes	212,232	-	212,232	-
PEG Channel	13,793	-	13,793	-
Claytex Fire District	292,879	-	292,879	-
	<u>\$ 1,456,026</u>	<u>\$ -</u>	<u>\$ 1,456,026</u>	<u>\$ -</u>

Capital Assets

Primary Government

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 7,694,921	\$ -	\$ -	\$ 7,694,921
Construction in progress	439,226	1,418,416	69,091	1,788,551
Total capital assets not being depreciated	<u>8,134,147</u>	<u>1,418,416</u>	<u>69,091</u>	<u>9,483,472</u>
Capital assets being depreciated				
Buildings and improvements	30,547,935	295,698	-	30,843,633
Equipment	3,634,976	207,126	-	3,842,102
Vehicles and motorized equipment	6,616,421	861,867	-	7,478,288
Infrastructure	17,570,484	544,318	-	18,114,802
Total capital assets being depreciated	<u>58,369,816</u>	<u>1,909,009</u>	<u>-</u>	<u>60,278,825</u>
Less accumulated depreciation				
Buildings	4,789,591	610,158	-	5,399,749
Equipment	2,977,504	187,032	-	3,164,536
Vehicles and motorized equipment	5,171,596	442,375	-	5,613,971
Infrastructure	2,927,409	351,405	-	3,287,814
Total accumulated depreciation	<u>15,866,100</u>	<u>1,590,970</u>	<u>-</u>	<u>17,457,070</u>
Total capital assets being depreciated, net	<u>42,503,716</u>	<u>318,039</u>	<u>-</u>	<u>42,821,755</u>
Governmental activity capital assets, net	<u>\$ 50,637,863</u>	<u>\$ 1,736,455</u>	<u>\$ 69,091</u>	<u>\$ 52,305,227</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Capital Assets (Continued)

At June 30, 2017, construction in progress was comprised primarily of the public improvement construction projects.

General government	\$ 202,500
Public safety	496,794
Public works	518,907
Cultural and recreational	<u>372,769</u>
Total depreciation expense	<u>\$ 1,590,970</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities				
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 118,600	\$ 990,543	\$ -	\$ 1,109,143
Nitrogen credits	2,633,113	-	-	2,633,113
Construction in progress	<u>2,655,717</u>	<u>4,709,641</u>	<u>1,469,644</u>	<u>5,895,714</u>
Total capital assets not being depreciated	<u>5,407,430</u>	<u>5,700,184</u>	<u>1,469,644</u>	<u>9,637,970</u>
Capital assets being depreciated				
Wastewater capacity allocation rights	3,600,000	-	-	3,600,000
Buildings	1,953,615	525,130	-	2,478,745
Plant and distribution system	36,590,335	2,087,829	-	38,678,164
Furniture and maintenance equipment	1,494,299	-	-	1,494,299
Vehicles	<u>1,368,714</u>	<u>105,709</u>	-	<u>1,474,423</u>
Total capital assets being depreciated	<u>45,006,963</u>	<u>2,718,668</u>	-	<u>47,725,631</u>
Less accumulated depreciation for				
Wastewater capacity allocation rights	1,935,000	180,000	-	2,115,000
Buildings	485,215	34,059	-	519,274
Plant and distribution system	10,545,868	743,627	-	11,289,495
Furniture and maintenance equipment	911,279	152,881	-	1,064,160
Vehicles	<u>651,061</u>	<u>151,888</u>	-	<u>802,949</u>
Total accumulated depreciation	<u>14,528,423</u>	<u>1,262,455</u>	-	<u>15,790,878</u>
Total Capital assets being depreciated, net	<u>30,478,540</u>	<u>1,456,213</u>	-	<u>31,934,753</u>
Water and Sewer Fund				
Capital Assets – net	<u>\$ 35,885,970</u>	<u>\$ 7,156,397</u>	<u>\$ 1,469,644</u>	<u>\$ 41,572,723</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Capital Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Electric Fund				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	210,034	4,107,389	9,803	4,307,620
Total capital assets not being depreciated	<u>230,034</u>	<u>4,107,389</u>	<u>9,803</u>	<u>4,327,620</u>
Capital assets being depreciated				
Buildings	1,235,673	148,386	-	1,384,059
Plant and distribution system	10,124,071	640,454	-	10,764,525
Furniture and maintenance	241,236	-	-	241,236
Vehicles	1,225,496	34,146	-	1,259,642
Total capital assets being depreciated	<u>12,826,476</u>	<u>822,986</u>	<u>-</u>	<u>13,649,462</u>
Less accumulated depreciation for				
Buildings	288,632	23,683	-	312,315
Plant and distribution system	4,463,728	249,247	-	4,712,975
Furniture and maintenance equipment	221,526	4,437	-	225,963
Vehicles	969,558	86,544	-	1,056,102
Total accumulated depreciation	<u>5,943,444</u>	<u>363,911</u>	<u>-</u>	<u>6,307,355</u>
Total capital assets being depreciation, net	<u>6,883,032</u>	<u>459,075</u>	<u>-</u>	<u>7,342,107</u>
Electric Fund				
Capital Assets – net	<u>\$ 7,113,066</u>	<u>\$ 4,566,464</u>	<u>\$ 9,803</u>	<u>\$ 11,669,727</u>
Business-type activities capital assets, net	<u>\$ 42,999,036</u>			<u>\$ 53,242,450</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Clayton 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, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 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. The Town of Clayton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Clayton's contractually required contribution rate for the year ended June 30, 2017 was 7.32% of compensation for general employees and firefighters and 8% for law enforcement officers, 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 Town of Clayton were \$759,610 for the year ended June 30, 2017.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan Obligations (Continued)

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

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

At June 30, 2017, the Town reported a liability of \$3,279,220 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town of Clayton's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.15451%, which was an increase of 0.00738% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$685,651. At June 30, 2017, the Town of Clayton reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 61,611	\$ 114,908
Changes of assumptions	224,597	-
Net difference between projected and actual earnings on pension plan investments	1,812,996	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	53,573	1,701
Town contributions subsequent to the measurement date	759,610	-
Total	<u>\$ 2,912,387</u>	<u>\$ 116,609</u>

\$759,610 reported as deferred outflows of resources related to pensions resulting from Town of Clayton contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 317,669
2019	317,927
2020	875,692
2021	524,883
2022	-
Thereafter	-
	<u>\$ 2,036,171</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan Obligations (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan Obligations (Continued)

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 Town's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the Town of Clayton's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Town of Clayton's proportionate share of the net pension liability (asset)	\$ 7,783,118	\$3,279,220	\$ (482,771)

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

Plan Description

The Town of Clayton, NC administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>46</u>
Total	<u>49</u>

**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Summary of Significant Accounting Policies

Basis of Accounting – The Town 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 criteria which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2014 Mortality Tables and the Mortality Improvement Scale MP-2015.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid as they come due. The Town paid \$52,675 as benefits came due for the reporting period.

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

At June 30, 2017 the Town reported total pension liability of \$1,762,104. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$126,618.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

	Deferred <u>Outflows of Resources</u>	Deferred <u>Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	36,761
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>29,668</u>	-
Total	<u>\$ 29,668</u>	<u>\$ 36,761</u>

\$29,668 reported as deferred outflows of resources related to pensions resulting from benefit payments and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 6,783
2019	6,783
2020	6,783
2021	6,783
2022	6,783
Thereafter	<u>2,846</u>
	\$ 36,761

\$29,432 paid as benefits came due and \$236 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town of Clayton's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.86 percent) or one percentage point higher (4.86 percent) than the current rate:

	1% Decrease <u>(2.86%)</u>	Discount Rate <u>(3.86%)</u>	1% Increase <u>(4.86%)</u>
Total pension liability	\$ 1,916,852	\$ 1,762,104	\$ 1,620,079

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

	<u>2017</u>
Beginning balance	\$1,725,158
Service Cost	72,517
Interest on total pension liability	60,648
Changes in benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	-
Changes of assumptions and other inputs	(43,544)
Benefit payments	(52,675)
Other changes	-
Ending balance of the total pension liability	<u>\$1,762,104</u>

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actual experience study for the period January 1, 2010 through December 31, 2014

c. Supplemental Retirement Income Plan for Regular and Law Enforcement Officers

Plan Description. The Town 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 Town. 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 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers and general employees may make voluntary contributions to the plan. For the reporting year, the Town made contributions of \$125,339 and \$292,207 for law enforcement officers and general employees, respectively.

d. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Clayton, NC to the Firefighter's Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible firefighters that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighters' and Rescue Squad Workers' Pension Fund is included in the

**TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

1. Pension Plan Obligations *(Continued)*

d. Firefighter's and Rescue Squad Workers' Pension Fund *(Continued)*

Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2016, the State contributed \$13,900,000 to the plan. The Town of Clayton's proportionate share of the State's contribution is \$13,701.

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

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

At June 30, 2017, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$46,700. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the Town recognized pension expense of \$13,701 and revenue of \$13,701 for support provided by the State. At June 30, 2017, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

**TOWN OF CLAYTON, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities *(Continued)*

1. Pension Plan Obligations *(Continued)*

d. Firefighter's and Rescue Squad Workers' Pension Fund *(Continued)*

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

Discount rate. The discount rate used to measure the total pension liability was 7.25%. 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.

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 Postemployment Benefit

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of July 1, 1998, this plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the Town, and have not reached age 65 or eligible to receive Medicare benefits. Prior to July 1, 1998, employees did not receive this benefit. The Town pays for one-half (50%) of the cost of coverage for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	2	1
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	128	41
Total	<u>130</u>	<u>42</u>

Funding Policy. The Town pays one-half (50%) of the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town's members pay the full cost (100%) for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 0.7% of annual covered payroll. For the current year, the Town contributed \$8,810 or 0.1% of annual covered payroll. Effective February 1, 2016, the Town obtained healthcare coverage through the State Health Plan and through private insurers prior to that. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.06% and 0.04% of covered payroll, respectively. The Town's contributions totaled \$8,810 in fiscal year 2017. Retirees are responsible for obtaining their own health insurance. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town Council.

**TOWN OF CLAYTON, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Postemployment Benefit (Continued)

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 Town'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 Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 55,682
Interest on net OPEB obligation	27,357
Adjustment to annual required contribution	<u>(26,134)</u>
Annual OPEB cost (expense)	56,905
Contributions made	<u>(8,810)</u>
Increase (decrease) in net OPEB obligation	48,095
Net OPEB obligation, beginning of year	<u>683,919</u>
Net OPEB obligation, end of year	<u>\$ 732,014</u>

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

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	86,200	12.47%	643,019
2016	56,832	28.61%	683,919
2017	56,905	15.48%	732,014

Funded Status and Funding Progress. As of December 31, 2015, 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 \$498,322. The covered payroll (annual payroll of active employees covered by the plan) was \$8,271,771, and the ratio of the UAAL to the covered payroll was 6.02 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.

**TOWN OF CLAYTON, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Postemployment Benefit (Continued)

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, 2015 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 expenses), 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 7.75 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 payroll on an open basis. The remaining amortization period at December 31, 2015, was 30 years.

2. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 759,610
Benefit payments made and administrative expenses for LEOSSA	29,668
Differences between expected and actual experience	61,611
Changes of assumptions	224,597
Net difference between projected and actual	1,812,996
Changes in proportion and differences between employer contributions and proportionate share of contributions	53,573

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

Prepaid taxes (General Fund)	\$ 195
Taxes Receivable, less penalties (General Fund)	30,181

**TOWN OF CLAYTON, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

3. Deferred Outflows and Inflows of Resources *(Continued)*

Community Development Assessments (General Fund)	684,997
Special Assessments (Water Fund)	157,318
Changes in assumptions	36,761
Differences between expected and actuarial experience	114,908
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,701

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage of \$73.5 million, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of reinsurance and excess policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance as none of their buildings are located in flood prone areas.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000 and \$25,000 each, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$75,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2017, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Debt

Long-term debt obligations of the Town at June 30, 2017 consist of the following:

	<u> Serviced by </u>	
	<u>Governmental</u> <u> Activities </u>	<u>Business-type</u> <u> Activities </u>
General Obligation Bonds		
\$5,000,000 General Obligation Bonds, Series 2009A dated July 21, 2009 and maturing in annual installments of \$250,000 through August 2029, interest ranging from 3.00% to 4.375	\$ 3,250,000	\$ -
\$2,000,000 General Obligation Bonds, Series 2012 dated April 13, 2012 And maturing in annual installments of \$140,000 to \$120,000 through February 2027, interest ranging from .35% to 2.7%	<u>1,300,000</u>	<u>-</u>
Total general obligation bonds	<u>\$ 4,550,000</u>	<u>\$ -</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

	<u>Serviced by</u>	
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
Revenue Bonds		
Water and Sewer System Revenue Bond, Series 2013 dated September 11, 2013 and maturing in annual installments ranging from \$18,000 to \$68,000 through June 2052; interest at 1.50%	\$ -	\$ 1,398,746
Electric System Revenue Bond, Series 2014 dated May 15, 2014 and maturing in annual installments of \$130,000 through May 2019; interest at 1.50%	-	260,000
Electric System Revenue Bond, Series 2015 dated June 16, 2015 and maturing in annual installments of \$130,000 through June 2020; interest at 1.50%	-	390,000
Water and Sewer System Revenue Bond, Series 2017A dated September 27, 2017 and maturing in annual installments ranging From \$60,000 to \$210,000 through June 2057; interest at 3.25%	-	4,826,000
Water and Sewer System Revenue Bond, Series 2017B dated September 27, 2017 and maturing in annual installments ranging From \$3,000 to \$13,000 through June 2057; interest at 3.25%	-	271,000
Electric System Revenue Bond, Series 2016 dated September 22, 2016 and maturing in 2031; interest at 2.09%	<u>-</u>	<u>5,350,000</u>
Total revenue bonds	<u>\$ -</u>	<u>\$ 12,495,746</u>
<u>Capital leases</u>		
Community Center Refunding; contract of \$5,402,000 due in Annual installment maturing in July 2029; interest at 2.1%	\$ 4,961,000	\$ -
2000 Town Hall/Cultural Arts Complex; contract of \$5,000,000; due in monthly installments of \$24,510 for principal beginning July 2001; interest at 4.47%	294,263	-
2004 Main Fire Station; contract of \$1,542,530; due in monthly installments of \$8,570 for principal beginning March 2004; interest at 3.59%	171,393	-
2016 Park Land Refunding; contract for \$852,000; due in annual installments of variable principal starting in 2016; interest at 2.15%	722,000	-
2008 Fire Truck; contract of \$ 410,000; due in monthly installments of \$3,980; interest at 3.11%	31,471	-
2016 Clayton Law Enforcement Center Refunding; contract of \$5,626,000 annual installments of variable principal starting in 2016; interest at 2.2%	5,527,000	-
2015 Vactor truck capital lease; contract of \$339,000; due in annual Installments of \$44,307 including interest of 3.15%	-	260,102

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

	<u>Serviced by</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital leases (Continued)		
2008 Sanitary Sewer Loan; contract of \$3,600,000; due in annual installments of \$180,000; interest at 2.10%	-	1,980,000
2007 Sanitary Sewer Loan; contract for \$3,921,798; due in annual installments of \$257,117 plus interest at 2.205%.	-	1,285,586
1998 Sanitary Sewer Project; contract for \$1,007,888; due in annual installments of \$50,394; interest at 2.91%	-	104,034
1996 Water and Sewer extensions; contract of \$120,000; without interest, repayment from yearly acreage fees collected by the Town for connection to water and sewer lines installed to service Colonial Carton Company	-	120,000
2012 Rolling Stock; contract of \$386,499; due in monthly installments of \$6,753; interest at 1.22%	-	<u>53,774</u>
Total Capital leases	<u>11,707,127</u>	<u>3,803,496</u>
Total outstanding	16,257,127	16,299,242
Less current portion	<u>1,542,570</u>	<u>1,280,684</u>
	<u>\$ 14,714,557</u>	<u>\$ 15,018,558</u>

At June 30, 2017, the Town of Clayton had a legal debt margin of \$132,416,536

Changes in long-term liabilities

The following is a summary of changes in the Town's long-term debt for the year ended June 30, 2017:

	<u>Balances July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2017</u>	<u>Current Portion of Balance</u>
Governmental activities:					
General obligation bonds	\$ 4,940,000	\$ -	\$ 390,000	\$ 4,550,000	\$390,000
Capital leases	12,832,828	-	1,125,701	11,707,127	1,152,570
Compensated absences	612,497	437,546	457,946	592,097	296,048
Other postemployment benefits	610,900	44,425	-	655,325	-
Net pension liability (LRS)	554,074	2,175,797	-	2,729,871	-
Total pension obligation (LEO)	<u>634,951</u>	<u>1,127,153</u>	<u>-</u>	<u>1,762,104</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 20,185,250</u>	<u>\$ 3,784,921</u>	<u>\$ 1,973,647</u>	<u>\$21,996,524</u>	<u>\$1,838,618</u>
Business-type activities:					
Revenue bonds	\$ 7,426,746	\$ 5,350,000	\$ 281,000	\$ 12,495,746	\$701,667
Capital leases	4,425,183	-	621,687	3,803,496	579,017
Other postemployment benefits	73,019	3,670	-	76,689	-
Net pension liability (LRS)	106,237	443,112	-	549,349	-
Compensated absences	<u>114,879</u>	<u>86,799</u>	<u>79,140</u>	<u>122,538</u>	<u>61,270</u>
Business-type activity long-term liabilities	<u>\$ 12,146,064</u>	<u>\$5,883,581</u>	<u>\$ 981,827</u>	<u>\$17,047,818</u>	<u>\$1,341,954</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

Maturities of long-term debt

The annual requirements to retire all debt outstanding, other than compensated absences and net pension obligation, at June 30, 2017, including interest, are as follows:

	<u>Bond obligation</u>		<u>Capital leases</u>		<u>Total debt due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Governmental activities						
2018	\$ 390,000	\$ 152,819	\$ 1,152,570	\$ 243,810	\$ 1,542,570	\$ 396,629
2019	390,000	142,475	950,557	222,581	1,340,557	365,056
2020	390,000	129,988	914,000	202,654	1,304,000	332,642
2021	390,000	117,187	914,000	182,977	1,304,000	300,164
2022	390,000	104,388	911,000	163,282	1,301,000	267,670
2023-2027	1,850,000	330,817	4,023,000	543,856	5,873,000	874,673
Thereafter	750,000	48,594	2,842,000	133,357	3,592,000	181,951
Total	<u>4,550,000</u>	<u>1,026,268</u>	<u>11,707,127</u>	<u>1,692,517</u>	<u>16,257,127</u>	<u>2,718,785</u>
Business-type activities						
2018	\$ 701,667	\$ 401,162	\$ 579,017	\$ 81,399	\$ 1,280,684	\$ 482,561
2019	704,666	318,274	526,382	69,052	1,231,048	387,326
2020	577,667	304,003	475,538	56,915	1,053,205	360,918
2021	451,666	291,583	585,442	46,254	1,037,108	337,837
2022	454,667	280,982	437,117	32,129	891,784	313,111
2023-2027	2,323,333	1,242,283	900,000	75,600	3,223,333	1,317,883
Thereafter	7,282,080	3,191,975	300,000	3,780	7,582,080	3,195,755
Total	<u>\$17,045,746</u>	<u>\$ 7,056,530</u>	<u>\$15,510,623</u>	<u>\$ 2,057,646</u>	<u>\$32,556,369</u>	<u>\$ 9,114,176</u>

Revenue Bonds

The Town has been in compliance with the covenant as to rates, fees, rentals and charges in Section 5.02 of the Bond Order, authorizing the issuance of the Water and Sewer System Revenue Bonds, Series 2013, since its adoption in 2012. Section 5.02(a) of the Bond Order requires the debt service coverage ratio to be no less than 110% for the Bonds and 100% for all indebtedness. The Town has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 5.02 of the First Supplemental Bond Order, authorizing the issuance of Electric System Revenue Bonds, Series 2014, Series 2015, and Series 2016 since adoption in 2015. Section 5.02(a) requires Net Revenues plus 20% of the Unrestricted Net Position of the System as of the last day of the preceding fiscal year will not be less than 120% of the debt service requirement for the Bonds. The debt service coverage ratio calculations for the year ended June 30, 2017 are as follows:

**TOWN OF CLAYTON, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2017**

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

Revenue Bonds (Continued)

	Water & Sewer	Electric
Operating revenues	\$10,181,678	\$12,976,188
Operating expenses	<u>9,092,516</u>	<u>12,102,839</u>
Net Revenues	\$ 1,089,162 ¹	\$ 873,349 ¹
20% Unrestricted Net Position	N/A ²	<u>990,160</u> ²
Income Available for Debt Service	<u>\$ 1,089,162</u>	<u>\$ 1,863,509</u>
Debt service, principal and interest paid (Revenue bond only)	\$ 70,691	\$ 323,035
Debt service coverage ratio	15.41	5.77
Debt service, principal and interest paid (All indebtedness)	\$ 706,358	\$ 404,066
Debt service coverage ratio	1.54	4.61

¹ Per rate covenants, this does not include depreciation expense of \$1,262,455 and \$363,911, respectively.

² Per rate covenants, this does not apply to the Water and Sewer System Revenue Bond.

The Town has pledged future water and sewer customer revenues, net of specified operating expenses to repay \$6.701 million in water and sewer system revenue bonds issued in September 2013 and September 2017. Proceeds from the bonds provided financing for the construction of an elevated water storage tank and sewer force main. The bonds are payable solely from water and sewer system customer net revenues and are payable through 2057. Annual principal and interest payments on the bond are expected to require less than 2 percent of operating revenues. The total principal and interest remaining to be paid on the bonds is \$11,669,846. Principal and interest paid for the current year and total customer net revenues were \$70,691 and \$1,089,162, respectively.

The Town has pledged future electric customer revenues, net of specified operating expenses to repay \$6.65 million in electric system revenue bonds issued in May 2014, June 2015, and September 2016. Proceeds from the bonds provided financing for system improvements and the construction of a second substation. The bonds are payable solely from electric system customer net revenues and are payable through 2019, 2020, and 2031, respectively. Annual principal and interest payments on the bond are expected to require less than 2 percent of operating revenues. The total principal and interest remaining to be paid on the bonds is \$6,856,162. Principal and interest paid for the current year and total customer net revenues were \$323,035 and \$873,349, respectively.

C. Interfund Balances and Activity

Transfers to/from Other Funds at June 30, 2017, consist of the following:

From the General Fund to the CAMPO LAPP Project	\$493,614
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D. Revenues, Expenditures and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2017, the Town of Clayton has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$13,701 for the 55 employed Firefighter who perform firefighting duties for the Town's fire department. The employees elected to be members of the Firefighter and Rescue Worker's Pension Fund, a cost-sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a state appropriation.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

On-Behalf Payments for Fringe Benefits and Salaries (Continued)

Also, the Town has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$15,512 for the salary supplement and stipend benefits paid to eligible Firefighter by the local board of trustees of the Firefighter's Relief Fund during the fiscal year ended June 30, 2017. Under state law the local board of trustees for the Fund receives an amount each year which the board may use at its own discretion for eligible Firefighter or their departments.

NOTE 3 - JOINT VENTURES

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the state. The State passes these monies to the local board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for supplemental retirement benefits made to retired Firefighter and for dues paid to the Firefighter's Pension Plan on-behalf of the employee members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2017, the Town reported revenues and expenditures for the payments of \$15,512 made through the Firefighter's Relief Fund.

The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2017. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 5 - JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with thirty-two other local governments, is a member of the North Carolina Eastern Municipal Power Agency (NCEMPA). Each participating government appoints one commissioner to the NCEMPA governing board. On July 31, 2015, the NCEMPA completed the sale of most of its electricity generating assets to Duke Energy. These proceeds were used to defease the NCEMPA's outstanding revenue bonds. The NCEMPA entered into contractual arrangements with its member cities and Duke Energy. Under these arrangements, the NCEMPA will supply wholesale power to its members and will purchase this power from Duke Energy. In addition to payments for electric power, NCEMPA members will make payments for their share of debt service on the NCEMPA's new revenue bonds. The Town's purchases of power for the fiscal year ended June 30, 2017 were \$9,156,810.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 6 – FUND BALANCE

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

Total fund balance – General Fund	\$ 9,082,696
Less:	
Inventories	8,961
Stabilization by State Statute	1,509,352
Streets-Powell Bill	310,176
Public Improvements	449,090
Public Safety	14,396
Appropriate Fund Balance in 2017 Budget	347,497
Working Capital / Fund Balance Policy	4,090,585
Remaining Fund Balance	2,352,639

The Town of Clayton has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that unassigned fund balance is at least equal to or greater than 20% of actual net expenditures.

NOTE 7 – CHANGES IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ended June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$1,672,483.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended, June 30, 2017 the Town discovered Deferred Outflows of Resources reported for the fiscal year ended June 30, 2016 was understated due to an error in calculating the amount of pension contributions subsequent to the measurement date. As a result, the net position for the governmental activities increased \$207,265.

Required Supplemental Financial Data

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

Schedule of Funding Progress for the Other Postemployment Benefits

Schedule of Employer Contributions for the Other Postemployment Benefits

Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System

Schedule of Contributions to Local Government Employees' Retirement System

Schedule of Proportionate Share of Net Pension Liability for Firefighters' and Rescue Squad Workers' Pension Plan

Schedule of Changes in Total Pension Liability

Schedule of Total Pension Liability as a Percentage of Covered Payroll



**TOWN OF CLAYTON, 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 of % of Covered Payroll ((b - a)/c)
12/31/2015	\$ -	\$ 498,322	\$ 498,322	0%	\$ 8,271,771	6.02%
12/31/2012	-	736,319	736,319	0%	6,968,937	10.57%
12/31/2009	-	837,653	837,653	0%	7,599,455	11.02%
12/31/2008	-	1,005,859	1,005,859	0%	7,268,327	13.84%

**TOWN OF CLAYTON, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2017	55,682	15.82%
2016	55,682	28.61%
2015	85,185	12.61%
2014	82,704	11.14%
2013	103,836	8.18%
2012	96,465	5.76%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation follows:

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market vlaue
Actuarial assumptions:	
Investment rate of return*	4.0%
Medical trend assumptions	
Pre-Medicare trend rate	0.00% - 0.00%
Year of ultimate trend rate	2022
*Includes inflation at	3.00%
Cost of living adjustments	None

**TOWN OF CLAYTON, NORTH CAROLINA
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (LGERS)
REQUIRED SUPPLEMENTARY INFORMATION
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Clayton's proportion of net pension liability (asset) %	-0.15451%	-0.14713%	0.13908%	0.13910%
Clayton's proportion of net pension liability (asset) \$	\$ 3,279,220	\$ 660,311	\$ (820,219)	\$ 1,676,689
Clayton's covered-employee payroll	\$ 8,663,284	\$ 7,892,069	\$ 7,465,635	\$ 7,234,128
Clayton's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	37.85%	8.37%	-10.99%	23.18%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

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

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

**TOWN OF CLAYTON, NORTH CAROLINA
 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (LGERS)
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 394,103	\$ 352,125	\$ 331,272	\$ 300,173
Contributions in relation to the contractually required contribution	<u>\$ 394,103</u>	<u>\$ 352,125</u>	<u>\$ 331,272</u>	<u>\$ 300,173</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Clayton's covered-employee payroll	\$ 9,661,892	\$ 8,663,284	\$ 7,892,069	\$ 7,465,635
Contributions as a percentage of covered-employee payroll	4.08%	4.06%	4.20%	4.02%

**TOWN OF CLAYTON, NORTH CAROLINA
 FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION
 REQUIRED SUPPLEMENTARY INFORMATION
 PROPORTIONATE SHARE OF NET PENSION LIABILITY**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Clayton's proportionate share of the net pension liability %	0.00000%	0.00000%	0.00000%
Clayton's proportionate share of the net pension liability \$	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town of Clayton	\$ 46,700	\$ 46,361	\$ 42,834
Total	<u>\$ 46,700</u>	<u>\$ 46,361</u>	<u>\$ 42,834</u>
Clayton's covered-employee payroll	\$ 974,364	\$ 895,826	\$ 698,205
Clayton's proportionate share of the net pension liability as a percentage of its covered-employee payroll	4.79%	5.18%	6.13%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%

**TOWN OF CLAYTON, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY**

	<u>2017</u>
Beginning balance	\$ 1,725,158
Service Cost	72,517
Interest on total pension liability	60,648
Changes in benefit terms	-
Differences between expected and actuarial experience	-
Changes of assumptions and other inputs	(43,544)
Benefit payments	(52,675)
Other changes	-
Ending balance of the total pension liability	<u>\$ 1,762,104</u>

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

**TOWN OF CLAYTON, NORTH CAROLINA
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL**

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total pension liability	\$ 1,762,104	\$ 1,725,158	\$ 1,094,305	\$ 1,016,980	\$ 911,025	\$ 769,822	\$ 672,393	\$ 796,120	\$ 545,290
Covered payroll	2,475,010	2,475,010	2,131,150	2,100,941	2,075,282	2,105,132	2,020,788	2,131,334	2,044,877
Total pension liability as a percentage of covered payroll	71.20%	69.70%	51.35%	48.41%	43.90%	36.57%	33.27%	37.35%	26.67%

Notes to the Required Schedules:

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

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**



MAJOR GOVERNMENTAL FUNDS

General Fund – This fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

Clayton Parks & Recreation Capital Project Fund – This fund is used to account for major public improvements to parks and recreation.

CAMPO LAPP Capital Project Fund – This fund is used to account for Town projects included in the Capital Area Metropolitan Planning Organization's Locally Administered Projects Program, which utilizes federal funding for local highway, transit, bicycle and pedestrian projects.

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
REVENUES:			
Ad valorem taxes:			
Taxes	\$ -	\$10,049,672	\$ -
Penalties and interest	-	34,331	-
Total	<u>9,856,288</u>	<u>10,084,003</u>	<u>227,715</u>
Other taxes and licenses:			
Motor vehicle licenses	-	78,124	-
Payments in lieu of taxes	-	11,655	-
Total	<u>85,200</u>	<u>89,779</u>	<u>4,579</u>
Unrestricted intergovernmental:			
Local option sales tax	-	3,845,911	-
ABC profit distribution	-	114,028	-
Gasoline tax refunds	-	103	-
Utilities sales tax	-	959,773	-
Piped natural gas sales tax	-	37,923	-
Telecommunications sales tax	-	60,971	-
Video programming fees	-	184,516	-
Beer and wine tax	-	84,946	-
Tax Reimbursements	-	35,250	-
Reimbursement from rural fire department	-	1,643,580	-
Total	<u>7,059,218</u>	<u>6,967,001</u>	<u>(92,217)</u>
Restricted intergovernmental:			
Powell Bill allocation	-	502,591	-
State grants	-	11,636	-
Federal grants	-	-	-
Controlled substance tax	-	4,538	-
PEG channel support	-	55,172	-
On-behalf of payments - Fire	-	29,213	-
First responder subsidy	-	6,398	-
Solid waste disposal tax	-	12,606	-
Total	<u>583,814</u>	<u>622,154</u>	<u>38,340</u>
Permits and fees:			
Alarm response fees	-	6,300	-
Recreation fees in lieu	-	315,750	-
Building permits	-	976,962	-
Inspection and rezoning fees	-	289,923	-
Total	<u>1,277,284</u>	<u>1,588,935</u>	<u>311,651</u>

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

Exhibit A-1
Page 2 of 6

	2017		Variance Positive (Negative)
	Budget	Actual	
REVENUES: (Continued)			
Sales and service:			
Court costs and fees	-	11,280	-
Refuse collection fees	-	1,521,192	-
Cemetery lots and fees	-	96,555	-
Public safety contributions	-	3,285	-
Recreation fees and contributions	-	381,907	-
Clayton Center Cultural Arts	-	200,187	-
Library fees and contributions	-	26,939	-
Total	<u>2,100,833</u>	<u>2,241,345</u>	<u>140,512</u>
Investment earnings	<u>46,750</u>	<u>67,862</u>	<u>21,112</u>
Miscellaneous:			
Miscellaneous	-	10,206	-
Sale of surplus property	-	14,400	-
Lease revenue	-	15,660	-
Reimbursable projects	-	9,387	-
Damage and insurance reimbursement	-	118,519	-
Total	<u>121,284</u>	<u>168,172</u>	<u>46,888</u>
Total Revenues	<u>21,130,671</u>	<u>21,829,251</u>	<u>698,580</u>
EXPENDITURES:			
General Government:			
Legislative:			
Salaries and employee benefits	-	204,558	-
Other operating expenditures	-	135,954	-
Reimbursement - proprietary funds	-	(109,821)	-
Total	<u>-</u>	<u>230,691</u>	<u>-</u>
Administration:			
Salaries and employee benefits	-	522,714	-
Other operating expenditures	-	401,555	-
Capital outlay	-	100,651	-
Reimbursement - proprietary funds	-	(419,438)	-
Total	<u>-</u>	<u>605,482</u>	<u>-</u>
Human Resources:			
Salaries and employee benefits	-	250,942	-
Other operating expenditures	-	95,910	-
Reimbursement - proprietary funds	-	(51,611)	-
Total	<u>-</u>	<u>295,241</u>	<u>-</u>
Special Appropriations:			
Citizen Boards	-	16,705	-
Cultural arts and economic development	-	45,000	-
Total	<u>-</u>	<u>61,705</u>	<u>-</u>

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

Exhibit A-1
Page 3 of 6

	2017		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
General Government: (Continued)			
Legal:			
Other operating expenditures	-	260,112	-
Reimbursement - proprietary funds	-	(32,100)	-
Total	-	228,012	-
Total General Government	1,573,619	1,421,131	152,488
Financial Services:			
Administration:			
Salaries and employee benefits	-	390,743	-
Other operating expenditures	-	330,885	-
Reimbursement - proprietary funds	-	(264,619)	-
Total	-	457,009	-
Customer Services:			
Salaries and employee benefits	-	574,428	-
Other operating expenditures	-	124,664	-
Reimbursement - proprietary funds	-	(800,713)	-
Total	-	(101,621)	-
Information Services:			
Salaries and employee benefits	-	163,165	-
Other operating expenditures	-	125,263	-
Contract services	-	766,756	-
Reimbursement - proprietary funds	-	(273,289)	-
Total	-	781,895	-
Total Financial Services	1,247,618	1,137,283	110,335
Community Development Services:			
Planning and Zoning:			
Salaries and employee benefits	-	574,230	-
Other operating expenditures	-	66,113	-
Capital outlay	-	54,088	-
Total	-	694,431	-
Downtown and Economic Development			
Salaried and employee benefits	-	61,772	-
Other operating expenditures	-	94,750	-
Total	-	156,522	-
Total Community Development Services	906,161	850,953	55,208
Total General Government Operations	3,727,398	3,409,367	318,031

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

Exhibit A-1
Page 4 of 6

	2017		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Law Enforcement:			
Police Administration:			
Salaries and employee benefits	-	308,308	-
Vehicle maintenance and fuel	-	905	-
Other operating expenditures	-	215,567	-
Total	-	524,780	-
Police Investigation:			
Salaries and employee benefits	-	673,013	-
Vehicle maintenance and fuel	-	11,806	-
Other operating expenditures	-	90,688	-
Capital outlay	-	40,068	-
Total	-	815,575	-
Police Patrol:			
Salaries and employee benefits	-	1,786,584	-
Vehicle maintenance and fuel	-	77,855	-
Other operating expenditures	-	129,032	-
Capital outlay	-	175,907	-
Total	-	2,169,378	-
Police Special Operations			
Salaries and employee benefits	-	735,585	-
Vehicle maintenance and fuel	-	27,275	-
Other operating expenditures	-	70,153	-
Capital outlay	-	95,424	-
Total	-	928,437	-
Total Law Enforcement	4,631,206	4,438,170	193,036
Fire Protection:			
Salaries and employee benefits	-	1,976,324	-
Vehicle maintenance and fuel	-	58,408	-
Other operating expenditures	-	524,440	-
Capital outlay	-	593,636	-
On Behalf of Payments-Fire	-	29,213	-
Total	-	3,182,021	-
Total Fire Protection	3,311,451	3,182,021	129,430
Total Public Safety	7,942,657	7,620,191	322,466
Public Works:			
Administration:			
Salaries and employee benefits	-	342,477	-
Other operating expenditures	-	67,954	-
Capital outlay	-	71,867	-
Reimbursement - proprietary funds	-	(355,146)	-
Total	-	127,152	-

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

Exhibit A-1
Page 5 of 6

	2017		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Public Works: (Continued)			
Inspections:			
Salaries and employee benefits	-	320,175	-
Vehicle maintenance and fuel	-	4,006	-
Other operating expenditures	-	51,186	-
Total	-	<u>375,367</u>	-
Engineering:			
Salaries and employee benefits	-	241,377	-
Other operating expenditures	-	18,893	-
Reimbursement - proprietary funds	-	(185,362)	-
Total	-	<u>74,908</u>	-
Vehicle Maintenance Shop:			
Salaries and employee benefits	-	188,866	-
Other operating expenditures	-	53,656	-
Reimbursement - proprietary funds	-	(49,274)	-
Total	-	<u>193,248</u>	-
Streets:			
Salaries and employee benefits	-	384,291	-
Vehicle maintenance and fuel	-	18,705	-
Street lights	-	73,785	-
Other operating expenditures	-	201,191	-
Capital outlay	-	594,678	-
Reimbursement - proprietary funds	-	(36,350)	-
Total	-	<u>1,236,300</u>	-
Property Maintenance:			
Salaries and employee benefits	-	637,830	-
Vehicle maintenance and fuel	-	25,072	-
Other operating expenditures	-	299,463	-
Capital outlay	-	82,379	-
Reimbursement - proprietary funds	-	(100,889)	-
Total	-	<u>943,855</u>	-
Sanitation:			
Yard waste services	-	279,293	-
Trash hauling fee	-	543,112	-
Landfill fees	-	261,952	-
Recycling efforts	-	341,803	-
Miscellaneous activities	-	289	-
Total	-	<u>1,426,449</u>	-
Total Public Works	<u>5,300,840</u>	<u>4,377,279</u>	<u>923,561</u>

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2017

Exhibit A-1
Page 6 of 6

	2017		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Parks & Recreation:			
Salaries and employee benefits	-	846,420	-
Vehicle maintenance and fuel	-	8,874	-
Other operating expenditures	-	569,488	-
Total Parks & Recreation	<u>1,502,391</u>	<u>1,424,782</u>	<u>77,609</u>
Cultural & Performing Arts:			
Salaries and employee benefits	-	397,035	-
Other operating expenditures	-	236,077	-
Total Cultural & Performing Arts	<u>685,386</u>	<u>633,112</u>	<u>52,274</u>
Library Operations:			
Salaries and employee benefits	-	442,445	-
Other operating expenditures	-	84,288	-
Capital outlay	-	31,220	-
Total Library Operations	<u>589,861</u>	<u>557,953</u>	<u>31,908</u>
Total Cultural and Recreational	<u>2,777,638</u>	<u>2,615,847</u>	<u>161,791</u>
Debt Service:			
Principal retirement	-	1,515,701	-
Interest and fees	-	420,924	-
Total Debt Service	<u>1,945,119</u>	<u>1,936,625</u>	<u>8,494</u>
Total Expenditures	<u>21,693,652</u>	<u>19,959,309</u>	<u>1,734,343</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(562,981)</u>	<u>1,869,942</u>	<u>2,432,923</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers (to) from other funds:			
Transfer to CAMPO LAPP Project	<u>(493,614)</u>	<u>(493,614)</u>	<u>-</u>
Total other financing sources (uses)	<u>(493,614)</u>	<u>(493,614)</u>	<u>-</u>
Fund balance appropriated	<u>1,056,595</u>	<u>-</u>	<u>(1,056,595)</u>
Net change in fund balance	<u>\$ -</u>	<u>1,376,328</u>	<u>\$ 1,376,328</u>
Fund balance, beginning		<u>7,706,368</u>	
Fund balance, ending		<u>\$ 9,082,696</u>	

CAPITAL PROJECTS FUND

PARKS & RECREATION CAPITAL PROJECT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

From Inception and for the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES:					
Interest revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-	-
EXPENDITURES:					
Capital outlay:					
Professional services	62,000	61,528	-	61,528	472
Land acquisition	288,000	-	-	-	288,000
Total expenditures	350,000	61,528	-	61,528	288,472
REVENUES OVER (UNDER) EXPENDITURES	\$ (350,000)	\$ (61,528)	\$ -	\$ (61,528)	\$ 288,472
OTHER FINANCING SOURCES:					
Special revenue fund	300,000	300,000	-	300,000	-
Transfer from General Fund	50,000	-	-	-	(50,000)
Total other financing sources:	350,000	300,000	-	300,000	(50,000)
Net change in fund balance	\$ -	\$ 238,472	\$ -	\$ 238,472	\$ 238,472
Fund balance, beginning			238,472		
Fund balance, ending			\$ 238,472		

CAPITAL PROJECTS FUND

CAMPO LAPP PROJECTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

From Inception and for the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES:					
Grant revenue	\$ 2,979,154	\$ 104,823	\$ 651,995	\$ 756,818	\$(2,222,336)
Total Revenues	<u>2,979,154</u>	<u>104,823</u>	<u>651,995</u>	<u>756,818</u>	<u>(2,222,336)</u>
EXPENDITURES:					
Capital outlay:					
Construction	3,746,305	23,417	1,414,448	1,437,865	2,308,440
Design	<u>211,000</u>	<u>186,741</u>	<u>3,969</u>	<u>190,710</u>	<u>20,290</u>
Total expenditures	<u>3,957,305</u>	<u>210,158</u>	<u>1,418,417</u>	<u>1,628,575</u>	<u>2,328,730</u>
REVENUES OVER (UNDER) EXPENDITURES					
	\$ (978,151)	\$ (105,335)	\$ (766,422)	\$ (871,757)	\$ 106,394
OTHER FINANCING SOURCES:					
Transfer from General Fund	<u>978,151</u>	<u>604,942</u>	<u>493,614</u>	<u>1,098,556</u>	<u>120,405</u>
Total other financing sources:	<u>978,151</u>	<u>604,942</u>	<u>493,614</u>	<u>1,098,556</u>	<u>120,405</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 499,607</u>	<u>\$ (272,808)</u>	<u>\$ 226,799</u>	<u>\$ 226,799</u>
Fund balance, beginning			<u>499,607</u>		
Fund balance, ending			<u>\$ 226,799</u>		

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NONMAJOR GOVERNMENTAL FUND

Horne Cemetery Fund – This fund accounts for permanent funds where the principal may not be expended. The Town maintains the Horne Cemetery Fund.

TOWN OF CLAYTON, NORTH CAROLINA
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

Exhibit B-1

	<u>Permanent Fund Horne Cemetery Fund</u>	<u>Total Non-Major Governmental Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,245	\$ 3,245
Total assets	<u>\$ 3,245</u>	<u>\$ 3,245</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts payable and accrued liabilities	-	-
Fund balance		
Perpetual maintenance	<u>3,245</u>	<u>3,245</u>
Total fund balance	<u>3,245</u>	<u>3,245</u>
Total liabilities and fund balances	<u>\$ 3,245</u>	<u>\$ 3,245</u>

HORNE CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Investment Earnings	\$ -	\$ 1	\$ 1
EXPENDITURES			
Cemetery Care	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>
Fund balance, beginning		<u>3,244</u>	
Fund balance, ending		<u>\$ 3,245</u>	

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ENTERPRISE FUNDS

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

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations.

Raleigh/Clayton Sewer Project Fund – This fund is used to account for loan proceeds and other revenues used for the construction of the Raleigh/Clayton Sewer Project.

Sam's Branch Phase II Project Fund – This fund is used to account for Phase II of the Sam's Branch Interceptor project that will provide infrastructure to an unserved area and support future abandonment of one or more sanitary sewer lift stations.

East Clayton Industrial Area (ECIA) Lift Station Project Fund – This fund is used to account for grant and other revenues used for construction of a new lift station to serve both current and future expansion within the ECIA.

Rollingwood Gravity Sewer Extension Project Fund – This fund is used to account for the replacement of the existing lift stations with gravity service to Rollingwood and the surrounding area to improve operational efficiency by providing flow and treatment flexibility.

Electric Fund – This fund is used to account for the Town's electric system operations.

Electric Rate Stabilization Fund – This fund is used as reserve for the Electric fund due to Electric rate fluctuations.

Northside Substation Project Fund – This fund is used to account for loan proceeds used for the construction of a new substation to improve service reliability and provide redundancy in conjunction with meeting future growth demands in the Town's north area.

**TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2017**

	2017		Variance Positive (Negative)
	Budget	Actual	
REVENUES:			
Operating revenues:			
Water sales	\$ -	\$ 5,036,652	\$ -
Sewer charges	-	4,461,852	-
Connection and tap fees	-	56,567	-
Total	<u>9,340,889</u>	<u>9,555,071</u>	<u>214,182</u>
Other operating revenues	<u>858,033</u>	<u>626,607</u>	<u>(231,426)</u>
Total operating revenues	<u>10,198,922</u>	<u>10,181,678</u>	<u>(17,244)</u>
Nonoperating revenues:			
Investment earnings	-	7,444	-
Capacity fees	-	1,378,977	-
Nutrient offset fees	-	138,896	-
Miscellaneous	-	196,522	-
Total nonoperating revenues	<u>5,824,437</u>	<u>1,721,839</u>	<u>(4,102,598)</u>
Total revenues	<u>16,023,359</u>	<u>11,903,517</u>	<u>(4,119,842)</u>
EXPENDITURES:			
Water Distribution Operations:			
Water purchases	-	2,865,334	-
Salaries and employee benefits	-	520,081	-
Meter replacements	-	123,561	-
Bad debt expense	-	17,826	-
Other operating expenditures	-	758,395	-
Total water distribution	-	<u>4,285,197</u>	-
Preventative Maintenance:			
Salaries and employee benefits	-	261,133	-
Chemicals	-	122,082	-
Supplies	-	4,044	-
Other operating expenditures	-	351,460	-
Total preventative maintenance	-	<u>738,719</u>	-
Water Treatment:			
Salaries and employee benefits	-	386,881	-
Chemicals	-	29,170	-
Supplies	-	18,860	-
Contract Services	-	1,269,861	-
Other operating expenditures	-	722,916	-
Total water treatment	-	<u>2,427,688</u>	-
Total water distribution and treatment	<u>12,735,574</u>	<u>7,451,604</u>	<u>5,283,970</u>

TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2017

Exhibit C-1
Page 2 of 2

	2017		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Debt service:			
Principal	\$ -	\$ 562,840	\$ -
Interest	-	143,518	-
Total debt service	<u>706,358</u>	<u>706,358</u>	<u>-</u>
Capital outlay:			
Water distribution	-	1,408,018	
Water prevention	-	203,635	
Water treatment	-	586,118	-
Total capital outlay	<u>3,030,325</u>	<u>2,197,771</u>	<u>832,554</u>
Reimbursement - General Fund:			
Support services - General Fund	<u>1,646,835</u>	<u>1,646,835</u>	<u>-</u>
Total expenditures	<u>18,119,092</u>	<u>12,002,568</u>	<u>6,116,524</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,095,733)</u>	<u>(99,051)</u>	<u>1,996,682</u>
Fund balance appropriated	<u>2,095,733</u>	<u>-</u>	<u>(2,095,733)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(99,051)</u>	<u>(99,051)</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		\$ (99,051)	
Reconciling items:			
Capital outlay		2,197,771	
Principal retirement		562,840	
Other postemployment benefits		(1,014)	
Vacation accrual		(2,739)	
Increase in deferred outflows of resources - pensions		237,900	
Increase in net pension liability		(249,219)	
Decrease in deferred inflows of resources - pensions		20,995	
Depreciation & Amortization		(1,262,455)	
Interest income from Capital Projects Fund		308	
Total Reconciling items		<u>1,504,387</u>	
Change in net position		<u>\$ 1,405,336</u>	

**TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND -**

Exhibit C-2

RALEIGH/CLAYTON SEWER PROJECT

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)

From Inception and for the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual		Variance Positive (Negative)
			Current Year	Total to Date	
REVENUES					
Miscellaneous	\$ 3,850,000	\$ 255,000	\$ -	\$ 255,000	\$ (3,595,000)
Interest earnings	-	92	308	400	400
Total revenues	<u>3,850,000</u>	<u>255,092</u>	<u>308</u>	<u>255,400</u>	<u>(3,594,600)</u>
EXPENDITURES:					
Clayton capacity charges	807,400	807,366	-	807,366	34
Construction	4,930,200	536,378	3,812,520	4,348,898	581,302
Design services	492,500	307,342	184,721	492,063	437
Easements	271,500	271,075	-	271,075	425
Construction inspection	87,000	-	-	-	87,000
Geotechnical investigation	13,200	13,200	-	13,200	-
Contingency	490,000	16,022	-	16,022	473,978
Total expenditures	<u>7,091,800</u>	<u>1,951,383</u>	<u>3,997,241</u>	<u>5,948,624</u>	<u>1,143,176</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$(3,241,800)</u>	<u>\$(1,696,291)</u>	<u>\$(3,996,933)</u>	<u>\$(5,693,224)</u>	<u>\$ (2,451,424)</u>
OTHER FINANCING SOURCES:					
Proceeds from revenue bond	<u>3,241,800</u>	<u>5,097,000</u>	<u>-</u>	<u>5,097,000</u>	<u>1,855,200</u>
Total other financing sources	<u>3,241,800</u>	<u>5,097,000</u>	<u>-</u>	<u>5,097,000</u>	<u>1,855,200</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 3,400,709</u>	<u>\$(3,996,933)</u>	<u>\$ (596,224)</u>	<u>\$ (596,224)</u>
Fund balance, beginning			<u>3,400,709</u>		
Fund balance, ending			<u>\$ (596,224)</u>		

TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND -
SAM'S BRANCH PHASE II
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2017

Exhibit C-3

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Developer contributions	\$ 941,142	\$ 941,142	\$ -	\$ 941,142	\$ -
Miscellaneous	-	-	-	-	\$ -
Total revenues	<u>941,142</u>	<u>941,142</u>	<u>-</u>	<u>941,142</u>	<u>-</u>
EXPENDITURES:					
Professional services	171,425	107,944	11,690	119,634	51,791
Construction	<u>1,284,989</u>	<u>1,105,095</u>	<u>30,106</u>	<u>1,135,201</u>	<u>149,788</u>
Total expenditures	<u>1,456,414</u>	<u>1,213,039</u>	<u>41,796</u>	<u>1,254,835</u>	<u>201,579</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (515,272)</u>	<u>\$ (271,897)</u>	<u>\$ (41,796)</u>	<u>\$ (313,693)</u>	<u>\$ 201,579</u>
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	<u>515,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(515,272)</u>
Total other financing sources	<u>515,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(515,272)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (271,897)</u>	<u>\$ (41,796)</u>	<u>\$ (313,693)</u>	<u>\$ (313,693)</u>
Fund balance, beginning			<u>(271,897)</u>		
Fund balance, ending			<u>\$ (313,693)</u>		

TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND -
ECIA LIFT STATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2017

Exhibit C-4

	Project Authorization	Prior Years	Actual Current Year	Actual Total to Date	Variance Positive (Negative)
REVENUES					
Grants	\$ 2,645,500	\$ -	\$ -	\$ -	\$ (2,645,500)
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Total revenues	<u>2,645,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,645,500)</u>
EXPENDITURES:					
Professional services	800,000	-	575,912	575,912	224,088
Sewer line improvements	3,888,000	-	-	-	3,888,000
Contingency	<u>103,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,000</u>
Total expenditures	<u>4,791,000</u>	<u>-</u>	<u>575,912</u>	<u>575,912</u>	<u>4,215,088</u>
REVENUES OVER (UNDER)					
EXPENDITURES	<u>\$ (2,145,500)</u>	<u>\$ -</u>	<u>\$ (575,912)</u>	<u>\$ (575,912)</u>	<u>\$ 1,569,588</u>
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	<u>2,145,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,145,500)</u>
Total other financing sources	<u>2,145,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,145,500)</u>
REVENUES AND OTHER FINANCING					
SOURCES OVER (UNDER)					
EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (575,912)</u>	<u>\$ (575,912)</u>	<u>\$ (575,912)</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ (575,912)</u>		

TOWN OF CLAYTON, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND -
ROLLINGWOOD GRAVITY SEWER EXTENSION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2017

Exhibit C-5

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Grants	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Professional services	19,100	-	12,494	12,494	6,606
Easements	8,000	-	7,938	7,938	62
Sewer line improvements	782,750	-	116,057	116,057	666,693
Contingency	78,850	-	-	-	78,850
Total expenditures	888,700	-	136,489	136,489	752,211
REVENUES OVER (UNDER) EXPENDITURES	\$ (888,700)	\$ -	\$ (136,489)	\$ (136,489)	\$ 752,211
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	888,700	-	-	-	(888,700)
Total other financing sources	888,700	-	-	-	(888,700)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ (136,489)	\$ (136,489)	\$ (136,489)
Fund balance, beginning			-		
Fund balance, ending			\$ (136,489)		

**TOWN OF CLAYTON, NORTH CAROLINA
ELECTRIC FUND**

**Exhibit C-6
Page 1 of 2**

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2017**

	2017		Variance Positive (Negative)
	Budget	Actual	
REVENUES:			
Operating revenues:			
Electricity sales	\$ -	\$ 12,519,566	\$ -
Connection fees	-	37,949	-
Penalties	-	250,874	-
Total	<u>12,476,276</u>	<u>12,808,389</u>	<u>332,113</u>
Other operating revenues	83,000	167,799	84,799
Total operating revenues	<u>12,559,276</u>	<u>12,976,188</u>	<u>416,912</u>
Nonoperating revenues:			
Investment earnings	-	18,849	-
Damage reimbursement	-	63,541	-
Miscellaneous	-	78,671	-
Total nonoperating revenues	<u>68,340</u>	<u>161,061</u>	<u>92,721</u>
Total revenues	<u>12,627,616</u>	<u>13,137,249</u>	<u>509,633</u>
EXPENDITURES:			
Electric operations:			
Electric power purchased	-	9,156,810	-
Salaries and employee benefits	-	929,385	-
Contracted maintenance	-	377,389	-
Vehicle maintenance	-	27,283	-
Bad Debt expense	-	66,561	-
Other operating expenditures	-	476,780	-
Total electric operations	<u>11,035,977</u>	<u>11,034,208</u>	<u>1,769</u>
Debt service:			
Principal	-	339,846	-
Interest	-	64,220	-
Total debt service	<u>404,066</u>	<u>404,066</u>	<u>-</u>
Capital outlay	<u>871,313</u>	<u>813,183</u>	<u>58,130</u>
Reimbursement - General Fund:			
Taxes	35,250	35,250	-
Support services	<u>1,031,778</u>	<u>1,031,778</u>	<u>-</u>
Total reimbursement	<u>1,067,028</u>	<u>1,067,028</u>	<u>-</u>

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Total expenditures	<u>13,378,384</u>	<u>13,318,485</u>	<u>59,899</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (750,768)</u>	<u>\$ (181,236)</u>	<u>\$ 569,532</u>
Fund balance appropriated	<u>750,768</u>	<u>-</u>	<u>(750,768)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(181,236)</u>	<u>(181,236)</u>
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		\$ (181,236)	
Reconciling items:			
Capital outlay		813,183	
Principal retirement		339,846	
Other postemployment benefits		(2,656)	
Vacation accrual		(4,920)	
Increase in deferred outflows of resources - pensions		184,768	
Increase in net pension liability		(193,893)	
Decrease in deferred inflows of resources - pensions		15,098	
Depreciation		(363,911)	
Interest income from Capital Projects Fund		<u>315</u>	
Total Reconciling items		<u>787,830</u>	
Change in net position		<u>\$ 606,594</u>	

TOWN OF CLAYTON, NORTH CAROLINA
ELECTRIC CAPITAL PROJECTS FUND -
ELECTRIC RATE STABILIZATION FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2017

Exhibit C-7

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
Other financing sources (uses):					
Transfers from (to) other funds:					
Electric Fund	-	243,546	-	243,546	243,546
Total other financing sources (uses)	-	243,546	-	243,546	243,546
Revenues over other financing sources (uses)	<u>\$ -</u>	<u>\$ 243,546</u>	\$ -	<u>\$ 243,546</u>	<u>\$ 243,456</u>
Fund balance, beginning			243,546		
Fund balance, ending			<u>\$ 243,546</u>		

TOWN OF CLAYTON, NORTH CAROLINA
ELECTRIC CAPITAL PROJECTS FUND -
NORTHSIDE SUBSTATION PROJECT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2017

Exhibit C-8

	Project Authorization	Prior Years	Actual Current Year	Total to date	Variance Positive (Negative)
REVENUES					
Interest earnings	\$ -	\$ -	\$ 315	\$ 315	\$ 315
Total revenues	<u>-</u>	<u>-</u>	<u>315</u>	<u>315</u>	<u>315</u>
EXPENDITURES:					
Construction	5,106,642	-	4,103,890	4,103,890	1,002,752
Contingency	243,358	-	3,500	3,500	239,858
Total expenditures	<u>5,350,000</u>	<u>-</u>	<u>4,107,390</u>	<u>4,107,390</u>	<u>1,242,610</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (5,350,000)</u>	<u>\$ -</u>	<u>\$(4,107,075)</u>	<u>\$(4,107,075)</u>	<u>\$ 1,242,925</u>
OTHER FINANCING SOURCES:					
Proceeds from revenue bond	5,350,000	-	5,350,000	5,350,000	-
Total other financing sources	<u>5,350,000</u>	<u>-</u>	<u>5,350,000</u>	<u>5,350,000</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,242,925</u>	<u>\$ 1,242,925</u>	<u>\$ 1,242,925</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ 1,242,925</u>		

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Agency Fund

Agency Funds are used to account for assets held by the Town as an agent for individual and/or other governments.

Agency Fund

Claytex Fire District – This fund accounts for taxes assessed from taxpayers in a special area for fire services for that area.

TOWN OF CLAYTON, NORTH CAROLINA
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Fiscal Year Ended June 30, 2017

Exhibit D-1

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash and cash equivalents	\$ 1,903,586	\$ 1,837,591	\$ 1,947,038	\$ 1,794,139
Taxes receivable	<u>13,851</u>	<u>13,676</u>	<u>13,851</u>	<u>13,676</u>
Total assets	<u>\$ 1,917,437</u>	<u>\$ 1,851,267</u>	<u>\$ 1,960,889</u>	<u>\$ 1,807,815</u>
LIABILITIES				
Intergovernmental payable	<u>1,917,437</u>	<u>1,851,267</u>	<u>1,960,889</u>	<u>1,807,815</u>
Total liabilities	<u>\$ 1,917,437</u>	<u>\$ 1,851,267</u>	<u>\$ 1,960,889</u>	<u>\$ 1,807,815</u>

Other Schedules

This section contains additional information on property taxes.

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

TOWN OF CLAYTON, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2017

Exhibit E-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 10,240,537	\$ 10,235,809	4,729
2015-2016	2,109	-	1,122	987
2014-2015	574	-	136	439
2013-2014	5,418	-	712	4,706
2012-2013	7,852	-	760	7,092
2011-2012	6,414	-	203	6,211
2010-2011	4,615	-	93	4,522
2009-2010	8,030	-	3,818	4,213
2008-2009	5,643	-	113	5,530
2007-2008	355	-	-	355
2006-2007	65	-	65	-
	<u>\$ 41,074</u>	<u>\$ 10,240,537</u>	<u>\$ 10,242,830</u>	<u>\$ 38,781</u>
Plus: Uncollected 2016-2017 ad valorem taxes receivable on annually registered vehicles				-
Less: Allowance for uncollectible accounts General Fund				<u>8,600</u>
Ad valorem taxes receivable - net				<u>\$ 30,181</u>
Reconciliation with revenues Ad valorem taxes - General Fund				<u>\$ 10,084,003</u>
Reconciling items:				
Interest collected				(34,331)
EDIG Rebate				170,591
Releases/adjustments				<u>22,567</u>
Subtotal				<u>158,827</u>
Total collections and credits				<u>\$ 10,242,830</u>

TOWN OF CLAYTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Fiscal Year Ended June 30, 2017

Exhibit E-2

	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxes at current year's rate	\$ 1,837,639,142	\$0.550	\$ 10,107,035	\$ 9,097,312	\$ 1,009,723
Penalties	-		-	-	-
Total	<u>1,837,639,142</u>		<u>10,107,035</u>	<u>9,097,312</u>	<u>1,009,723</u>
Discoveries:					
Current years taxes	19,235,256	0.550	105,794	105,683	111
Prior year taxes	5,172,464	0.536	27,709	27,709	-
Total	<u>24,407,720</u>		<u>133,503</u>	<u>133,392</u>	<u>111</u>
Abatements:					
Current years taxes	(3,626,084)		(19,943)	(14,786)	(5,158)
Total	<u>(3,626,084)</u>		<u>(19,943)</u>	<u>(14,786)</u>	<u>(5,158)</u>
Total property valuation	<u>\$ 1,858,420,778</u>				
Net levy			10,220,594	9,215,918	1,004,676
Uncollected taxes at June 30, 2017			<u>4,729</u>	<u>4,729</u>	-
Current year's taxes collected			<u>\$ 10,215,865</u>	<u>\$ 9,211,189</u>	<u>\$ 1,004,676</u>
Current levy collection percentage			<u>99.95%</u>	<u>99.95%</u>	<u>100.00%</u>

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STATISTICAL SECTION

This part of the Town's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

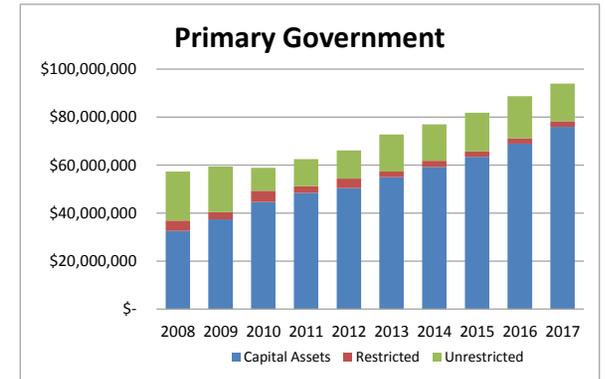
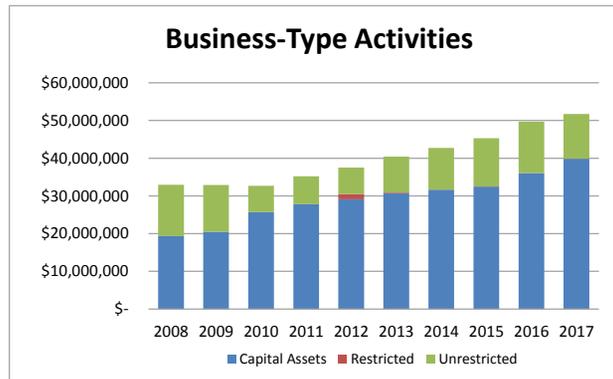
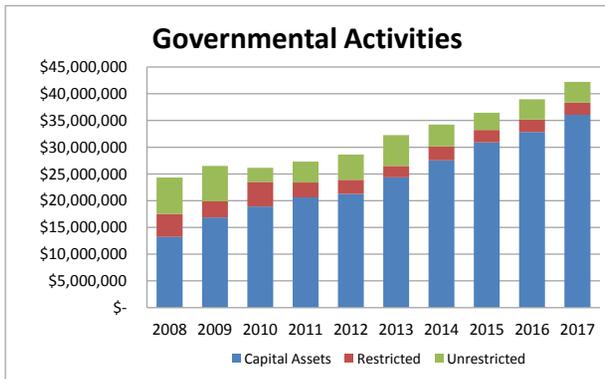
Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	87
Revenue Capacity <i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	96
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	100
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	105
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	107

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



**Town of Clayton
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)**

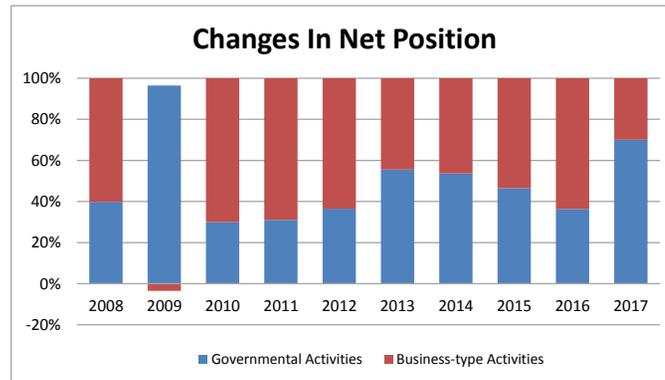
	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in capital assets	\$ 36,048,100	\$ 32,865,035	\$ 30,927,939	\$ 27,537,113	\$ 24,372,799	\$ 21,281,487	\$ 20,619,008	\$ 18,906,564	\$ 16,847,632	\$ 13,240,544
Restricted	2,302,440	2,290,128	2,303,842	2,634,979	2,118,449	2,628,727	2,786,883	4,622,841	3,015,859	4,279,143
Unrestricted	3,859,880	3,822,365	3,223,941	4,054,858	5,790,979	4,727,996	3,889,662	2,634,837	6,644,625	6,825,392
Total governmental activities net position	\$ 42,210,420	\$ 38,977,528	\$ 36,455,722	\$ 34,226,950	\$ 32,282,227	\$ 28,638,210	\$ 27,295,553	\$ 26,164,242	\$ 26,508,116	\$ 24,345,079
Business-type activities										
Net investment in capital assets	\$ 39,859,166	\$ 36,054,238	\$ 32,475,825	\$ 31,662,302	\$ 30,650,069	\$ 29,101,137	\$ 27,772,311	\$ 25,730,425	\$ 20,498,064	\$ 19,349,968
Restricted	28,796	21,284	13,772	6,260	208,893	1,365,128	-	-	-	-
Unrestricted	11,840,419	13,640,929	12,824,829	11,074,945	9,569,310	7,047,946	7,404,641	6,941,780	12,378,126	13,604,433
Total business-type activities net position	\$ 51,728,381	\$ 49,716,451	\$ 45,314,426	\$ 42,743,507	\$ 40,428,272	\$ 37,514,211	\$ 35,176,952	\$ 32,672,205	\$ 32,876,190	\$ 32,954,401
Primary government										
Net investment in capital assets	\$ 75,907,266	\$ 68,919,273	\$ 63,403,764	\$ 59,199,415	\$ 55,022,868	\$ 50,382,624	\$ 48,391,319	\$ 44,636,989	\$ 37,345,696	\$ 32,590,512
Restricted	2,331,236	2,311,412	2,317,614	2,641,239	2,327,342	3,993,855	2,786,883	4,622,841	3,015,859	4,279,143
Unrestricted	15,700,299	17,463,294	16,048,770	15,129,803	15,360,289	11,775,942	11,294,303	9,576,617	19,022,751	20,429,825
Total primary government net position	\$ 93,938,801	\$ 88,693,979	\$ 81,770,148	\$ 76,970,457	\$ 72,710,499	\$ 66,152,421	\$ 62,472,505	\$ 58,836,447	\$ 59,384,306	\$ 57,299,480



Town of Clayton
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

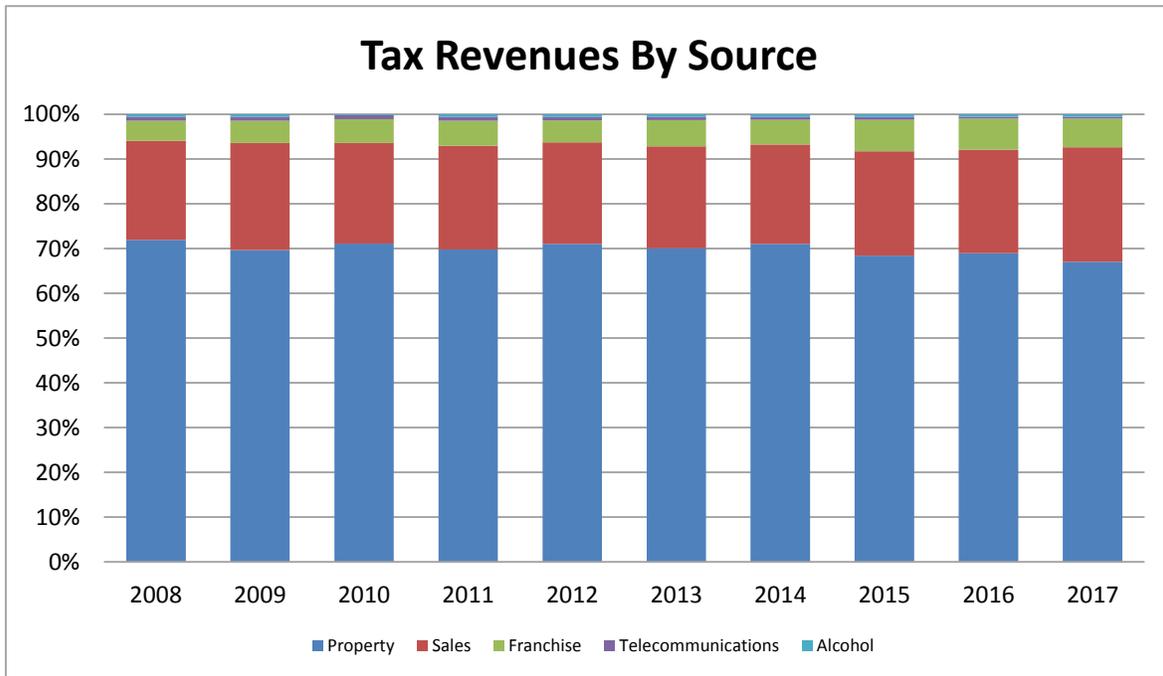
Expenses	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
General government	\$ 3,073,268	\$ 3,444,798	\$ 2,937,295	\$ 3,349,078	\$ 2,889,392	\$ 2,891,649	\$ 3,022,085	\$ 3,405,756	\$ 3,297,244	\$ 2,411,424
Public safety	7,182,282	6,688,430	6,477,802	6,159,070	5,870,952	5,749,306	5,595,345	5,914,190	5,761,209	5,445,651
Public works	4,147,262	4,230,893	4,139,308	3,583,516	3,438,151	2,945,050	2,828,337	3,012,842	2,998,564	2,765,683
Culture and recreation	2,957,396	2,793,931	2,583,676	2,259,979	2,147,576	1,979,108	1,836,914	1,894,227	1,808,121	1,689,214
Interest on long-term debt	420,924	810,830	669,335	705,993	832,444	870,236	645,725	409,069	339,114	280,458
Total governmental activities expenses	17,781,132	17,968,882	16,807,416	16,057,636	15,178,515	14,435,349	13,928,406	14,636,084	14,204,252	12,592,430
Business-type activities:										
Water and sewer	10,498,489	9,356,037	7,888,466	7,759,838	7,121,581	6,656,327	6,292,272	6,618,852	6,826,222	7,060,870
Electric	12,530,970	11,497,617	12,179,229	12,732,649	12,427,570	12,052,462	12,721,049	12,342,639	12,376,728	10,861,342
Total business-type activities expenses	23,029,459	20,853,654	20,067,695	20,492,487	19,549,151	18,708,789	19,013,321	18,961,491	19,202,950	17,922,212
Total primary government expenses	\$ 40,810,591	\$ 38,822,536	\$ 36,875,111	\$ 36,550,123	\$ 34,727,666	\$ 33,144,138	\$ 32,941,727	\$ 33,597,575	\$ 33,407,202	\$ 30,514,642
 Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 1,266,885	\$ 900,372	\$ 743,379	\$ 1,012,842	\$ 670,300	\$ 524,188	\$ 388,093	\$ 413,241	\$ -	\$ -
Public safety	17,580	20,917	19,121	18,915	28,944	20,404	32,961	24,982	695	4,416
Public works	1,617,747	1,543,930	1,448,472	1,392,393	1,374,227	1,212,288	1,172,643	1,139,204	1,582,738	1,613,008
Culture and recreation	924,783	900,797	682,981	462,402	664,432	541,268	446,947	163,769	130,574	127,244
Operating grants and contributions	1,796,504	1,782,270	1,522,362	1,117,363	1,023,369	980,116	946,535	904,069	971,218	1,104,690
Capital grants and contributions	1,166,222	595,913	773,379	1,793,819	1,588,744	433,306	447,724	873,513	1,043,361	580,065
Total governmental activities program revenues	6,789,721	5,744,199	5,189,694	5,797,734	5,350,016	3,711,570	3,434,903	3,518,778	3,728,586	3,429,423
Business-type activities:										
Charges for services:										
Water and sewer	9,555,071	8,915,619	8,221,760	7,784,396	7,716,133	7,567,633	7,328,079	6,389,227	6,178,248	6,277,889
Electric	12,808,389	12,257,935	12,617,614	12,510,816	12,185,913	12,038,845	12,780,001	12,479,719	11,910,902	11,167,778
Operating grants and contributions	794,406	707,079	363,774	308,526	335,072	291,277	196,755	202,311	151,061	180,306
Capital grants and contributions	-	941,142	-	293,551	479,412	220,907	837,258	-	79,160	1,196,576
Total business-type activities program revenues	23,157,866	22,821,775	21,203,148	20,897,289	20,716,530	20,118,662	21,142,093	19,071,257	18,319,371	18,822,549
Total primary government program revenues	\$ 29,947,587	\$ 28,565,974	\$ 26,392,842	\$ 26,695,023	\$ 26,066,546	\$ 23,830,232	\$ 24,576,996	\$ 22,590,035	\$ 22,047,957	\$ 22,251,972

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net (expense) revenue										
Governmental activities	\$(10,991,411)	\$(12,224,683)	\$(11,617,722)	\$(10,259,902)	\$ (9,828,499)	\$(10,723,779)	\$(10,493,503)	\$(11,117,306)	\$(10,475,666)	\$(9,163,007)
Business-type activities	128,407	1,968,121	1,135,453	404,802	1,167,379	1,409,873	2,128,772	109,766	(883,579)	900,337
Total primary government net (expense) revenue	<u>\$(10,863,004)</u>	<u>\$(10,256,562)</u>	<u>\$(10,482,269)</u>	<u>\$ (9,855,100)</u>	<u>\$ (8,661,120)</u>	<u>\$(9,313,906)</u>	<u>\$(8,364,731)</u>	<u>\$(11,007,540)</u>	<u>\$(11,359,245)</u>	<u>\$(8,262,670)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 10,160,122	\$ 9,722,227	\$ 8,791,837	\$ 8,569,899	\$ 8,049,338	\$ 7,931,296	\$ 7,249,558	\$ 7,307,811	\$ 7,303,733	\$ 7,164,272
Other taxes	388,786	397,071	497,693	1,574,480	1,599,609	1,385,536	1,398,420	962,382	1,254,282	1,176,015
Unrestricted grants and contributions	4,904,578	4,281,555	3,961,445	2,690,464	2,594,116	2,636,522	2,504,441	2,339,785	2,543,761	2,243,668
Investment earnings	67,863	32,758	6,427	10,784	22,805	15,397	23,932	36,076	138,837	249,753
Miscellaneous	168,172	312,878	589,092	308,148	520,956	97,685	448,463	677,145	1,398,090	558,354
Transfers	-	-	-	-	685,692	-	-	-	-	(300,000)
Proceeds from borrowings	-	-	-	-	-	-	-	-	-	-
Total governmental activities	<u>15,689,521</u>	<u>14,746,489</u>	<u>13,846,494</u>	<u>13,153,775</u>	<u>13,472,516</u>	<u>12,066,436</u>	<u>11,624,814</u>	<u>11,323,199</u>	<u>12,638,703</u>	<u>11,092,062</u>
Business-type activities										
Investment earnings	26,916	14,362	4,215	7,026	10,761	11,659	16,644	13,540	88,252	217,901
Miscellaneous	1,856,607	2,419,542	1,431,251	2,085,958	2,421,613	915,727	359,331	358,923	717,116	1,492,948
Transfers	-	-	-	-	(685,692)	-	-	-	-	300,000
Total business-type activities	<u>1,883,523</u>	<u>2,433,904</u>	<u>1,435,466</u>	<u>2,092,984</u>	<u>1,746,682</u>	<u>927,386</u>	<u>375,975</u>	<u>372,463</u>	<u>805,368</u>	<u>2,010,849</u>
Total primary government	<u>\$ 17,573,044</u>	<u>\$ 17,180,393</u>	<u>\$ 15,281,960</u>	<u>\$ 15,246,759</u>	<u>\$ 15,219,198</u>	<u>\$ 12,993,822</u>	<u>\$ 12,000,789</u>	<u>\$ 11,695,662</u>	<u>\$ 13,444,071</u>	<u>\$ 13,102,911</u>
Changes in Net Position										
Governmental activities	\$ 4,698,110	\$ 2,521,806	\$ 2,228,772	\$ 2,893,873	\$ 3,644,017	\$ 1,342,657	\$ 1,131,311	\$ 205,893	\$ 2,163,037	\$ 1,929,055
Business-type activities	2,011,930	4,402,025	2,570,919	2,497,786	2,914,061	2,337,259	2,504,747	482,229	(78,211)	2,911,186
Total primary government	<u>\$ 6,710,040</u>	<u>\$ 6,923,831</u>	<u>\$ 4,799,691</u>	<u>\$ 5,391,659</u>	<u>\$ 6,558,078</u>	<u>\$ 3,679,916</u>	<u>\$ 3,636,058</u>	<u>\$ 688,122</u>	<u>\$ 2,084,826</u>	<u>\$ 4,840,241</u>



Town of Clayton
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)

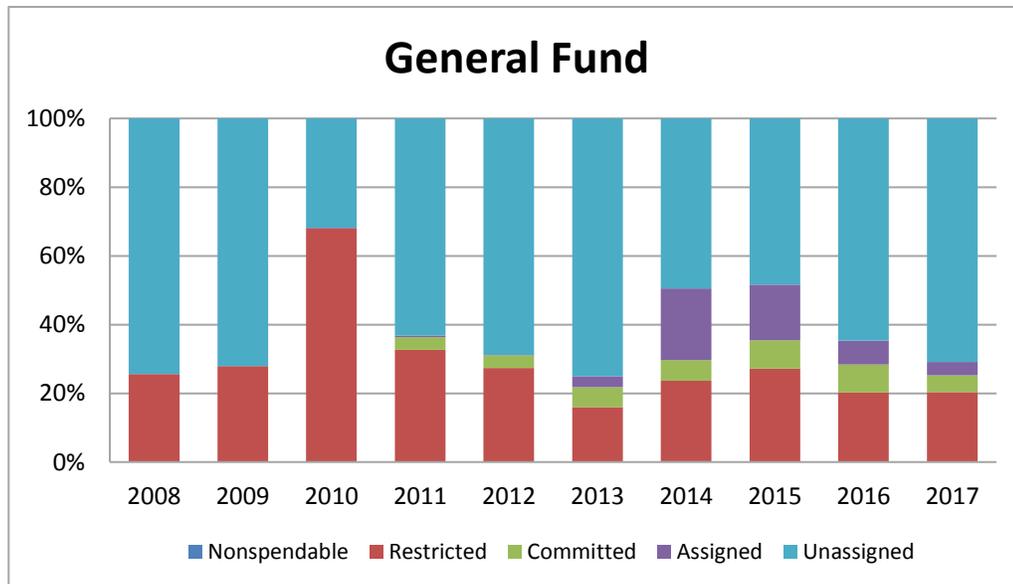
<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>Alcoholic Beverage Tax</u>	<u>Telecommunications Tax</u>
2017	\$ 10,084,003	\$ 3,845,911	\$ 959,773	\$ 84,946	\$ 60,971
2016	9,633,212	3,227,971	968,093	76,300	61,453
2015	8,741,219	2,978,962	903,237	81,919	73,073
2014	8,587,613	2,690,464	665,640	72,303	76,060
2013	7,984,694	2,594,116	674,211	66,364	78,472
2012	7,931,632	2,531,400	542,253	70,355	85,657
2011	7,244,251	2,403,131	576,336	63,171	87,516
2010	7,306,114	2,307,722	544,455	19,540	92,088
2009	7,292,034	2,504,203	512,761	57,970	96,028
2008	7,163,604	2,202,723	445,827	55,857	87,937



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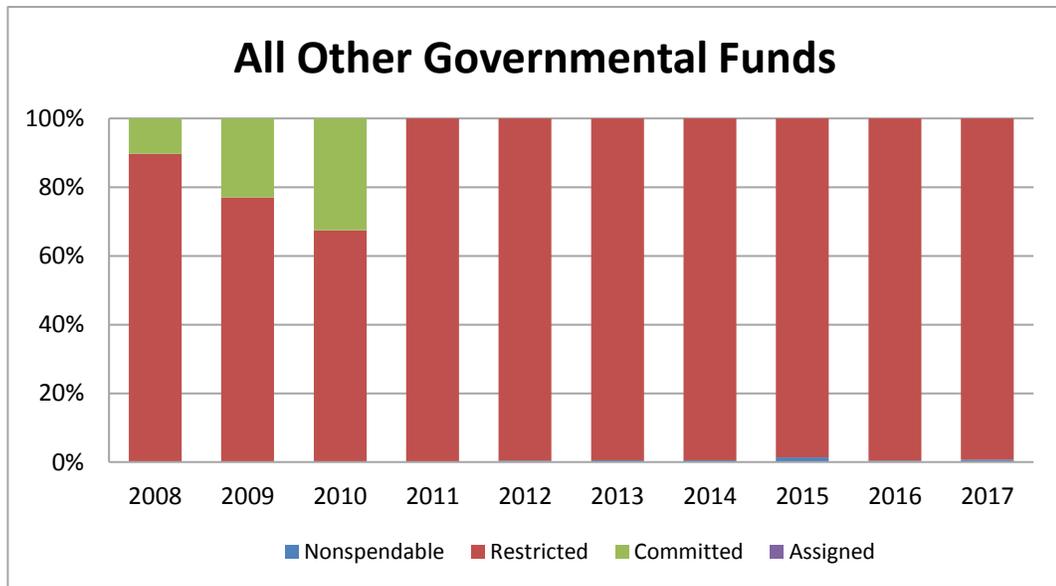
Town of Clayton
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2017	2016	2015	2014
General Fund				
Nonspendable	\$ 8,961	\$ 12,448	\$ 13,870	\$ 19,979
Restricted	1,833,924	1,548,805	2,059,911	1,987,897
Committed	449,090	626,954	626,955	510,568
Assigned	349,852	538,443	1,237,421	1,761,509
Unassigned	6,440,869	4,979,718	3,694,249	4,194,760
Total general fund	\$ 9,082,696	\$ 7,706,368	\$ 7,632,406	\$ 8,474,713
All Other Governmental Funds				
Nonspendable	\$ 3,245	\$ 3,244	\$ 3,244	\$ 3,242
Restricted	465,271	738,079	240,687	643,840
Committed	-	-	-	-
Assigned	-	-	-	-
Total all other governmental funds	\$ 468,516	\$ 741,323	\$ 243,931	\$ 647,082



Fiscal Year					
2013	2012	2011	2010	2009	2008
\$ 15,908	\$ -	\$ -	\$ -	\$ -	\$ -
1,343,811	2,309,833	2,497,248	8,007,923	2,226,861	1,999,265
494,918	315,668	286,418	-	-	-
262,304	6,061	32,430	21,908	-	-
<u>6,378,452</u>	<u>5,813,270</u>	<u>4,836,252</u>	<u>3,750,283</u>	<u>5,737,562</u>	<u>5,819,819</u>
<u><u>\$ 8,495,393</u></u>	<u><u>\$ 8,444,832</u></u>	<u><u>\$ 7,652,348</u></u>	<u><u>\$ 11,780,114</u></u>	<u><u>\$ 7,964,423</u></u>	<u><u>\$ 7,819,084</u></u>

\$ 3,234	\$ 3,226	\$ 3,217	\$ 3,198	\$ 3,180	\$ 3,160
653,964	750,892	4,038,249	1,196,152	1,876,127	3,492,035
-	-	-	577,543	560,211	401,622
-	-	-	-	-	-
<u><u>\$ 657,198</u></u>	<u><u>\$ 754,118</u></u>	<u><u>\$ 4,041,466</u></u>	<u><u>\$ 1,776,893</u></u>	<u><u>\$ 2,439,518</u></u>	<u><u>\$ 3,896,817</u></u>



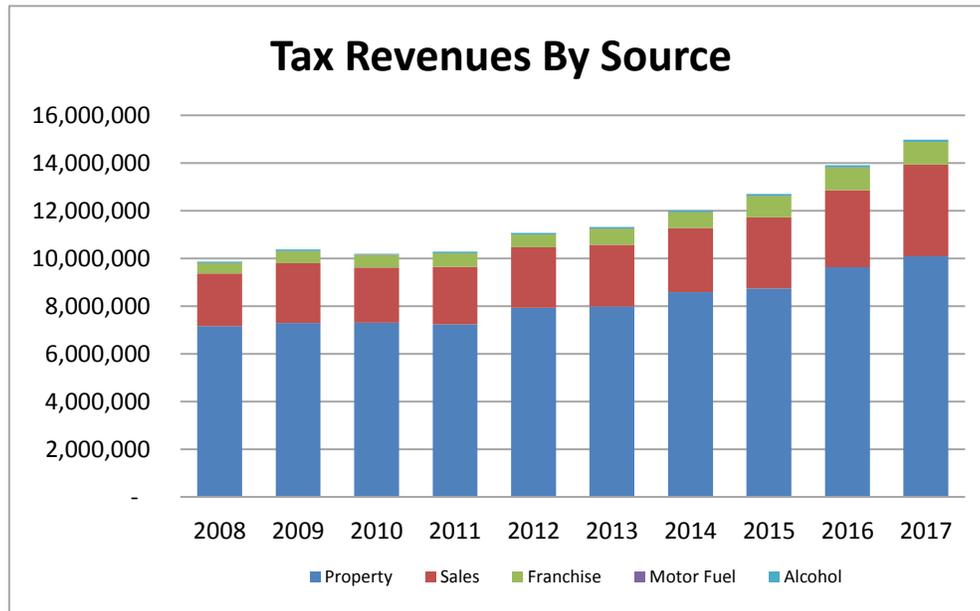
Town of Clayton
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2017	2016	2015	2014
Revenues				
Taxes	\$ 10,084,003	\$ 9,633,212	\$ 8,741,219	\$ 8,587,613
Licenses and permits	1,678,714	1,268,508	1,020,078	1,223,613
Intergovernmental	8,241,150	7,012,885	6,409,382	7,068,660
Charges for services	2,241,345	2,214,357	2,038,690	1,855,127
Investment earnings	67,863	32,758	6,427	10,784
Miscellaneous	168,172	312,878	589,092	308,148
Total revenues	<u>22,481,247</u>	<u>20,474,598</u>	<u>18,804,888</u>	<u>19,053,945</u>
Expenditures				
General government	3,254,628	3,329,772	2,905,451	2,895,658
Public safety	6,715,156	6,214,778	6,037,678	5,623,161
Public works	3,628,355	3,746,085	3,705,018	3,178,465
Culture and recreation	2,584,627	2,422,091	2,213,745	1,928,696
Capital outlay	3,258,335	2,173,397	3,284,397	3,125,028
Debt Service				
Principal	1,515,701	1,423,505	1,484,723	1,627,740
Interest and other fees	420,924	810,830	669,335	705,993
Total expenditures	<u>21,377,726</u>	<u>20,120,458</u>	<u>20,300,347</u>	<u>19,084,741</u>
Excess of revenues over (under) expenditures	1,103,521	354,140	(1,495,458)	(30,796)
Other financing sources (uses)				
Transfers In (Out)	-	-	-	-
Proceeds from borrowings	-	-	-	-
Bonds issued	-	-	-	-
Premium on bonds issued	-	-	-	-
Capital leases	-	217,214	-	-
Fair market value of purchased property	-	-	250,000	-
Total other financing sources (uses)	<u>-</u>	<u>217,214</u>	<u>250,000</u>	<u>-</u>
Net changes in fund balances	<u>\$ 1,103,521</u>	<u>\$ 571,354</u>	<u>\$ (1,245,458)</u>	<u>\$ (30,796)</u>
Fund balances, beginning	8,447,691	7,876,337	9,121,795	9,152,591
Change in accounting principle	-	-	-	-
Prior period adjustment	-	-	-	-
Fund balances, beginning as restated	<u>8,447,691</u>	<u>7,876,337</u>	<u>9,121,795</u>	<u>9,152,591</u>
Fund balances, ending	<u>\$ 9,551,212</u>	<u>\$ 8,447,691</u>	<u>\$ 7,876,337</u>	<u>\$ 9,121,795</u>
Debt service as a percentage of noncapital expenditures	10.69%	12.45%	12.66%	14.62%

Fiscal Year					
2013	2012	2011	2010	2009	2008
\$ 7,984,694	\$ 7,931,632	\$ 7,244,251	\$ 7,306,114	\$ 7,292,034	\$ 7,163,604
1,060,864	726,688	575,556	529,748	550,072	802,563
6,667,741	5,252,125	5,122,366	4,948,652	5,711,754	4,988,377
1,874,335	1,754,815	1,639,842	1,342,543	1,264,805	1,058,166
22,805	15,397	23,932	36,076	138,837	249,753
520,956	97,685	477,846	677,145	1,213,907	414,153
<u>18,131,395</u>	<u>15,778,342</u>	<u>15,083,793</u>	<u>14,840,278</u>	<u>16,171,409</u>	<u>14,676,616</u>
2,442,668	2,470,834	2,586,501	2,994,719	2,638,543	1,982,216
5,357,560	5,231,200	5,001,618	5,305,648	5,245,807	5,017,638
3,089,937	2,660,077	2,608,345	2,805,203	2,895,533	2,644,920
1,962,514	1,851,413	1,793,801	1,860,810	1,760,348	1,623,764
4,021,172	5,912,652	8,563,407	2,072,292	5,208,660	5,368,997
1,493,228	1,542,991	1,564,823	1,289,839	1,296,582	1,100,701
832,444	870,236	645,725	409,069	339,114	280,458
<u>19,199,523</u>	<u>20,539,403</u>	<u>22,764,220</u>	<u>16,737,580</u>	<u>19,384,587</u>	<u>18,018,694</u>
(1,068,128)	(4,761,061)	(7,680,427)	(1,897,302)	(3,213,178)	(3,342,078)
685,692	-	-	-	-	(300,000)
-	-	-	-	-	-
-	2,000,000	-	5,000,000	-	-
-	14,900	-	50,368	-	-
336,077	251,297	6,367,000	-	1,901,218	9,194,135
-	-	-	-	-	-
<u>1,021,769</u>	<u>2,266,197</u>	<u>6,367,000</u>	<u>5,050,368</u>	<u>1,901,218</u>	<u>8,894,135</u>
<u>\$ (46,359)</u>	<u>\$ (2,494,864)</u>	<u>\$ (1,313,427)</u>	<u>\$ 3,153,066</u>	<u>\$ (1,311,960)</u>	<u>\$ 5,552,057</u>
9,198,950	11,693,814	13,557,008	10,403,942	11,715,902	6,163,845
-	-	(549,767)	-	-	-
-	-	-	-	-	-
<u>9,198,950</u>	<u>11,693,814</u>	<u>13,007,241</u>	<u>10,403,942</u>	<u>11,715,902</u>	<u>6,163,845</u>
<u>\$ 9,152,591</u>	<u>\$ 9,198,950</u>	<u>\$ 11,693,814</u>	<u>\$ 13,557,008</u>	<u>\$ 10,403,942</u>	<u>\$ 11,715,902</u>
15.32%	16.50%	15.57%	11.58%	11.54%	10.92%

Town of Clayton
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Motor Fuel Tax	Alcoholic Beverage Tax	Total
2017	\$ 10,084,003	\$ 3,845,911	\$ 959,773	\$ 103	\$ 84,946	\$ 14,974,736
2016	9,633,212	3,227,971	968,093	88	76,300	13,905,664
2015	8,741,219	2,978,962	903,237	93	81,919	12,705,430
2014	8,587,613	2,690,464	665,640	26	72,303	12,016,046
2013	7,984,694	2,594,116	674,211	97	66,364	11,319,482
2012	7,931,632	2,531,400	542,253	192	70,355	11,075,832
2011	7,244,251	2,403,131	576,336	55	63,171	10,286,944
2010	7,306,114	2,307,722	544,455	13,183	19,540	10,191,014
2009	7,292,034	2,504,203	512,761	6,409	57,970	10,373,377
2008	7,163,604 ²	2,202,723	445,827	236	55,857	9,868,247

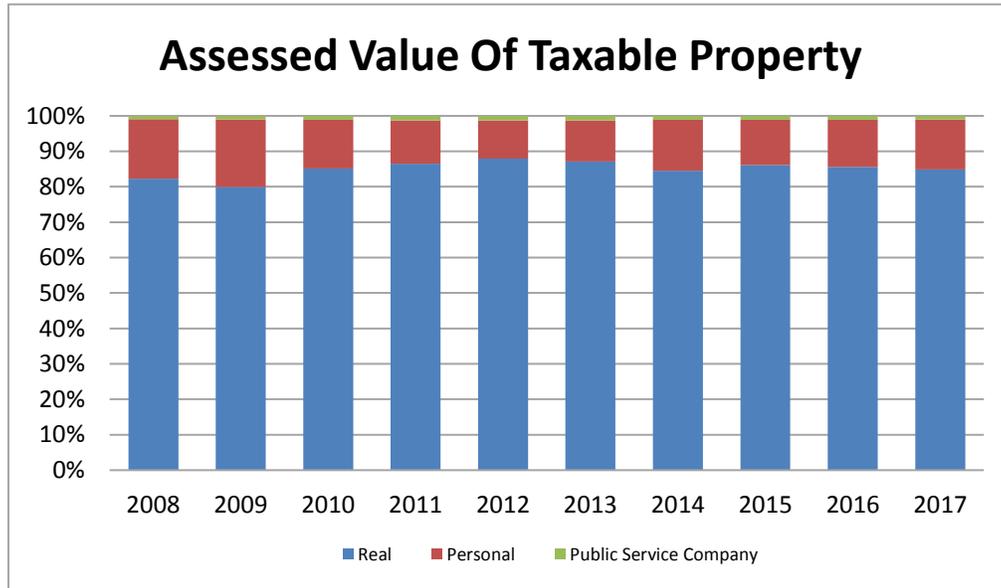


¹ Motor fuel tax repealed in 2003. Subsequent year revenues attributable to retail purchases.

² A significant portion of the increase is due to a large business personal property discovery.

Town of Clayton, North Carolina
Assessed Value of Taxable Property
Last Ten Fiscal Years

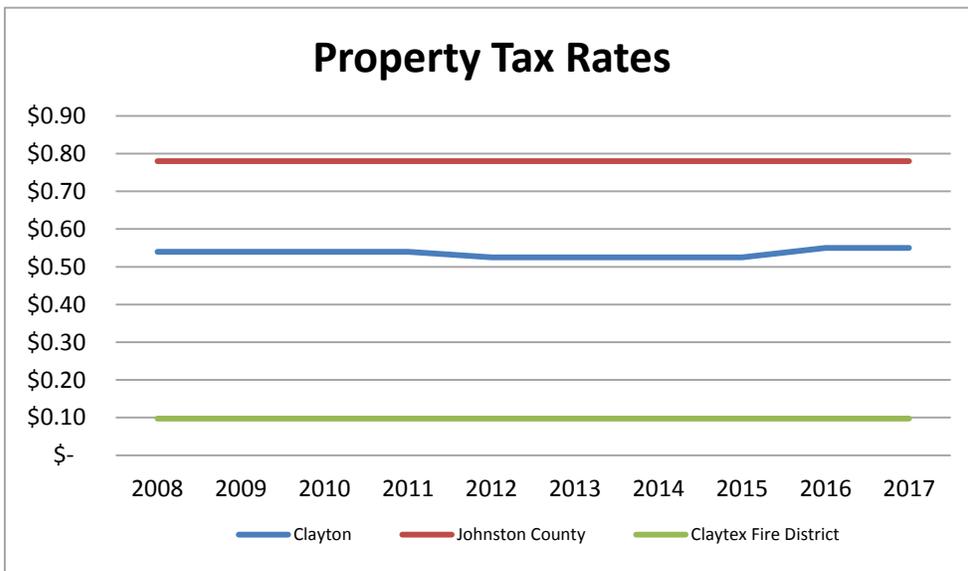
Fiscal Year Ended June 30	Real Property	Personal Property	Public Service Company Property	Total Assessed Value	Total Direct Tax Rate
2017	1,576,886,523	261,978,308	19,555,947	1,858,420,778	0.55
2016	1,533,873,923	237,782,546	19,824,324	1,791,480,793	0.55
2015	1,454,430,248	214,972,791	19,009,889	1,688,412,928	0.525
2014	1,396,500,503	235,885,630	19,000,115	1,651,386,248	0.525
2013	1,350,711,655	180,096,314	19,831,496	1,550,639,465	0.525
2012	1,323,310,338	162,289,692	18,846,856	1,504,446,886	0.54
2011	1,161,772,413	165,179,088	17,569,992	1,344,521,493	0.54
2010	1,167,559,357	188,007,072	14,961,981	1,370,528,410	0.54
2009	1,074,385,562	255,974,599	14,260,653	1,344,620,814	0.54
2008	1,101,258,435	224,430,056	12,796,537	1,338,485,028	0.49



Note: Assessed valuations are created at 100% of market value. Real property revaluation is required by state statute at least every eight years. 2011 was the last revaluation.

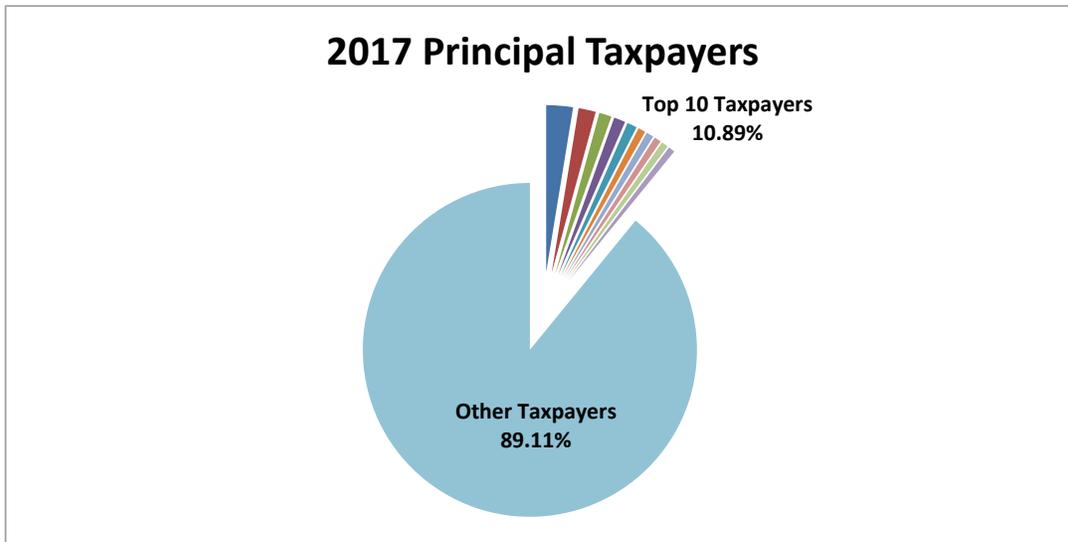
**Town of Clayton
Property Tax Rates - Direct and Overlapping Governments
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Town of Clayton</u>	<u>Overlapping Governments</u>		<u>Total Rate</u>
			<u>Johnston County</u>	<u>Claytex Fire District</u>	
2017	2016	0.55	0.78	0.0975	1.4275
2016	2015	0.55	0.78	0.0975	1.4275
2015	2014	0.525	0.78	0.0975	1.4025
2014	2013	0.525	0.78	0.0975	1.4025
2013	2012	0.525	0.78	0.0975	1.4025
2012	2011	0.525	0.78	0.0975	1.4025
2011	2010	0.54	0.78	0.0975	1.4175
2010	2009	0.54	0.78	0.0975	1.4175
2009	2008	0.54	0.78	0.0975	1.4175
2008	2007	0.54	0.78	0.0975	1.4175



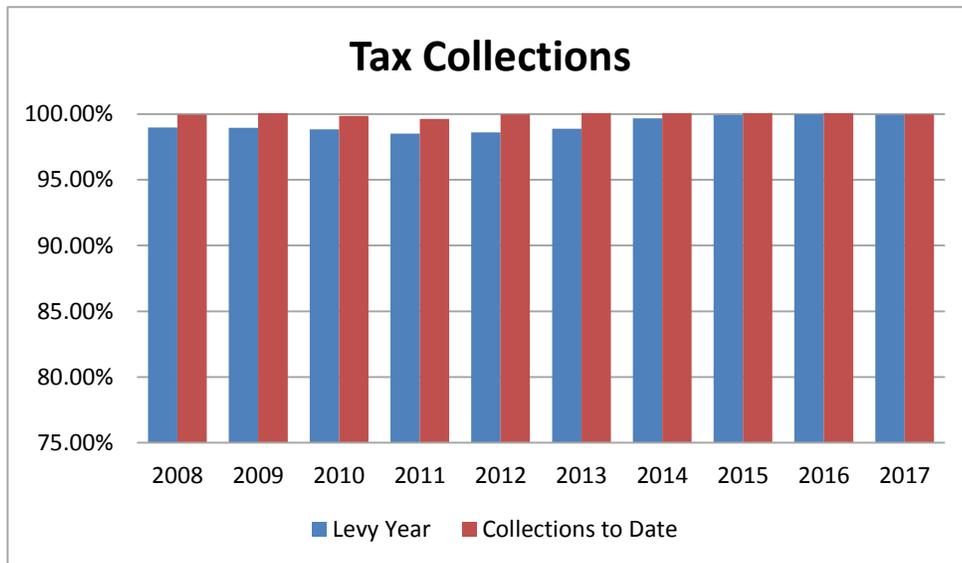
**Town of Clayton
Principal Property Taxpayers
June 30, 2017**

Taxpayer	2017			2008		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Crown Raleigh III & IV LLC	47,885,690	1	2.58%			
Automatic Rolls of NC LLC	31,016,478	2	1.67%			
Fred Smith Companies	22,267,771	3	1.20%			
Amelia Station LLC	20,640,462	4	1.11%			
Clayton Multi-Family Investments LLC	17,609,609	5	0.95%			
Wal-Mart	13,440,820	6	0.72%			
3C Packaging & Elphick Properties	13,104,830	7	0.71%			
DDRM Clayton Corners LLC	12,380,430	8	0.67%			
Caterpillar Inc	12,324,244	9	0.66%			
Amelia Village LLC	11,739,529	10	0.63%			
Sprint Nextel Corporation				173,512,706	1	12.96%
JER Clayton LLC				21,847,912	2	1.63%
Wal-Mart				15,813,364	3	1.18%
Riverwood Athletic Club LLC				13,081,490	4	0.98%
Inland Southeast Clayton LLC				11,318,030	5	0.85%
Amelia Village LLC				9,838,587	6	0.74%
Waltham Group				8,667,431	7	0.65%
Parkside Village Associates				7,055,230	8	0.53%
Carolina Telephone				5,815,604	9	0.43%
Clayton Town Center LLC				5,676,890	10	0.42%
Totals	\$ 202,409,863		10.90%	\$ 272,627,244		20.37%
Total Assessed Value	\$ 1,858,420,778			\$ 1,338,485,028		



**Town of Clayton
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections for Prior Years¹	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2017	\$ 10,220,594	\$ 10,215,865	99.95%	\$ 4,047	\$ 10,219,912	99.99%
2016	9,850,359	9,848,249	99.98%	13,687	9,861,936	100.12%
2015	8,864,881	8,858,872	99.93%	24,347	8,883,219	100.21%
2014	8,670,312	8,643,376	99.69%	81,283	8,724,659	100.63%
2013	8,141,032	8,050,222	98.88%	124,052	8,174,274	100.41%
2012	7,898,355	7,789,545	98.62%	106,635	7,896,180	99.97%
2011	7,260,417	7,153,560	98.53%	79,643	7,233,203	99.63%
2010	7,401,944	7,316,730	98.85%	74,698	7,391,428	99.86%
2009	7,174,079	7,099,624	98.96%	173,993	7,273,617	101.39%
2008	7,154,864	7,082,517	98.99%	69,305	7,151,822	99.96%



¹ The table above reflects the total amount of delinquent taxes collected in each fiscal year. Information regarding the levy year to which delinquent tax collections pertain is unavailable.

Town of Clayton
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities			Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation Bonds	Capital Leases	General Obligation Bonds	Revenue Bonds	Capital Leases			
2017	\$4,550,000	\$11,707,127	\$ -	\$12,495,746	\$ 3,803,496	\$ 32,556,369	N/A	170.05
2016	4,940,000	12,832,828	-	7,426,746	4,425,183	29,624,757	N/A	159.56
2015	5,330,000	13,649,118	-	2,609,746	5,117,874	26,706,738	N/A	147.58
2014	5,720,000	14,743,841	-	2,109,746	6,141,836	28,715,423	N/A	161.54
2013	6,110,000	15,981,581	80,000	1,604,000	7,403,570	31,179,151	N/A	178.36
2012	6,500,000	16,748,732	215,000	1,844,000	8,374,326	33,682,058	N/A	194.93
2011	4,750,000	17,790,426	345,000	480,000	10,314,470	33,679,896	N/A	199.43
2010	5,000,000	12,738,249	475,000	720,000	11,788,487	30,721,736	N/A	182.30
2009	-	14,028,088	580,000	960,000	13,376,674	28,944,762	N/A	177.11
2008	-	13,423,453	690,000	1,200,000	12,736,056	28,049,509	N/A	173.26

Note 1: Details on the town's outstanding debt can be found in the notes to the financial statements on pages 49-53.

¹ See Schedule of Demographic and Economic Statistics.

Town of Clayton, North Carolina
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Assessed Valuation ¹	Percent of Taxable Property	Per Capita ²
2017	\$4,550,000	\$1,858,420,778	0.24%	\$ 23.77
2016	4,940,000	1,791,480,793	0.28%	26.61
2015	5,330,000	1,688,412,928	0.32%	29.45
2014	5,720,000	1,651,386,248	0.35%	32.18
2013	6,190,000	1,550,639,465	0.40%	35.41
2012	6,715,000	1,504,446,886	0.45%	38.86
2011	5,095,000	1,344,521,493	0.38%	30.17
2010	5,475,000	1,370,528,410	0.40%	32.49
2009	580,000	1,344,620,814	0.04%	3.55
2008	690,000	1,338,485,028	0.05%	4.26

Note: See pages 49-53 in the notes to the financial statements for debt details.

¹ See Assessed Value of Taxable Property on page 98.

² See Demographic and Economic Statistics on page 107.

Town of Clayton, North Carolina
Computation of Direct and Overlapping Governmental Activities Debt
Last Ten Fiscal Years

Fiscal Year	Clayton			Johnston County			Town's Share of Debt
	Governmental Activities Debt Outstanding	Assessed Valuation	Percent Applicable to Town	General Obligation Bonds Outstanding ¹	Assessed Valuation ¹	Percentage Applicable to Town ²	
2017	\$16,257,127	\$1,858,420,778	100%	\$242,970,000	\$15,755,331,025	10.55%	\$41,892,807
2016	17,772,828	1,791,480,793	100%	266,255,000	15,102,257,966	10.60%	46,007,592
2015	18,979,118	1,688,412,928	100%	263,270,000	14,403,354,135	10.49%	46,602,465
2014	20,463,841	1,651,386,248	100%	268,835,000	14,106,075,834	10.48%	48,637,821
2013	22,091,581	1,550,639,465	100%	271,075,000	13,648,061,592	10.20%	49,747,865
2012	23,248,732	1,504,446,886	100%	288,235,000	13,185,634,723	10.24%	52,767,577
2011	22,540,426	1,344,521,493	100%	310,125,000	13,091,213,424	9.31%	51,424,977
2010	17,738,249	1,370,528,410	100%	325,995,000	11,725,441,791	10.47%	51,854,500
2009	14,028,088	1,344,620,814	100%	340,645,000	11,472,157,697	10.49%	49,765,489
2008	13,423,453	1,338,485,028	100%	273,695,000	10,974,674,669	10.87%	43,175,090

¹ Provided by Johnston County Finance Department.

² Determined by ratio of assessed value of property subject to taxation in Johnston County.

**Town of Clayton
 Legal Debt Margin Information
 Last Ten Fiscal Years**

	2017	2016	2015	2014
Debt limit	\$ 148,673,663	\$ 143,318,464	\$ 135,073,034	\$ 132,110,900
Total net debt applicable to limit	<u>16,257,127</u>	<u>17,772,828</u>	<u>18,979,118</u>	<u>20,463,841</u>
Legal debt margin	<u>\$ 132,416,536</u>	<u>\$ 125,545,636</u>	<u>\$ 116,093,916</u>	<u>\$ 111,647,059</u>
Total net debt applicable to the limit as a percentge of debt limit	10.93%	12.40%	14.05%	15.49%

Legal Debt Margin Calculation for Fiscal Year 2017

Total assessed value	\$ 1,858,420,778
Debt limit (8% of total assessed value)	148,673,663
Less general obligation debt	<u>(16,257,127)</u>
Legal debt margin	<u>\$ 132,416,536</u>

Fiscal Year

2013	2012	2011	2010	2009	2008
\$ 124,051,157	\$ 120,355,751	\$ 107,561,719	\$ 109,642,273	\$ 107,569,665	\$ 107,078,802
22,091,581	23,248,732	22,540,426	17,738,249	14,028,088	13,423,453
\$ 101,959,576	\$ 97,107,019	\$ 85,021,293	\$ 91,904,024	\$ 93,541,577	\$ 93,655,349
17.81%	19.32%	20.96%	16.18%	13.04%	12.54%

**Town of Clayton
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population ¹	Personal Income ²	Per Capita Personal Income	Median Age ¹	School Enrollment ³	Unemployment Rate ⁴
2017	191,450	N/A	N/A	37.70	35,484	3.9
2016	185,660	N/A	N/A	37.00	35,484	4.7
2015	180,959	N/A	N/A	37.00	34,660	5.5
2014	177,758	N/A	N/A	37.00	33,341	5.7
2013	174,812	N/A	N/A	36.00	33,175	7.4
2012	172,791	N/A	N/A	36.00	32,821	8.6
2011	168,878	N/A	N/A	36.30	32,274	9.9
2010	168,525	N/A	N/A	36.10	31,665	9.9
2009	163,428	N/A	N/A	34.90	31,366	10.2
2008	161,889	N/A	N/A	36.00	30,563	5.7

Note: Data not available for Town of Clayton. Johnston County data presented.

¹ AccessNC (ESRI)

² Bureau of Economic Analysis

³ Johnston County School System

⁴ NC Department of Commerce

**Town of Clayton
Principal Employers
Current Year**

Rank	Top Employers - Johnston County	Industry	Employees	Percentage of County Employment ¹
1	Johnston County School System	Education	1,000 +	N/A
2	Johnston Health	Health Services	1,000 +	N/A
3	Grifols Therapeutics Inc	Manufacturing	1,000 +	N/A
4	Johnston County Government	Public Administration	1,000 +	N/A
5	Asplundh Tree Expert Co.	Professional & Business	1,000 +	N/A
6	Novo Nordisk Pharmaceutical	Manufacturing	500-999	N/A
7	Food Lion	Trade	500-999	N/A
8	Wal-Mart Associates Inc.	Trade	500-999	N/A
9	Johnston Technical Institute	Education & Health Services	500-999	N/A
10	Flanders Airpure NC Division	Manufacturing	500-999	N/A
Total County Employment			89,084 ²	

¹ Data not available for the Clayton. Percentage of County Employment isn't available.

² Source: North Carolina Department of Commerce.

Note: Nine year historical data unavailable.

Town of Clayton
Full-time Equivalent Town Government Employees by Function
Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General government	43	39	33	35	37	35	35	42	43	39
Public safety										
Police										
Officers	43	43	42	42	42	41	41	41	41	42
Civilians	3	3	3	3	4	4	4	4	4	4
Fire										
Firefighters and officers	23	16	16	16	14	14	14	14	11	10
Civilians	0	1	1	1	1	1	1	1	1	1
Public works	37	34	34	26	23	24	24	28	26	27
Culture and recreation	13	13	11	11	11	12	12	11	11	9
Water/Sewer	18	16	17	16	16	16	16	16	13	10
Electric	13	11	11	11	11	10	10	10	10	9
Total	<u>193</u>	<u>176</u>	<u>168</u>	<u>161</u>	<u>159</u>	<u>157</u>	<u>157</u>	<u>167</u>	<u>160</u>	<u>151</u>

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**Town of Clayton
Operating Indicators by Function
Last Ten Fiscal Years**

Function	2017	2016	2015	2014
Police				
Physical arrests	439	531	522	542
Traffic citations	2,974	4,303	4,373	3,751
Fire				
Number of calls answered	2,187	2,006	1,520	793
Inspections	541	293	360	304
Streets				
Street resurfacing (feet)	281	3,368	-	2,583
Pavement repairs	62	67	32	87
Sanitation				
Refuse collected (tons)	5,691	5,371	5,191	4,517
Recyclables collected (tons)	1,020	1,056	1,002	932
Culture and recreation				
Athletic field permits issued	686	647	519	405
Cultural arts center event rentals	852	795	869	666
Water				
New connections	512	343	257	232
Leak repairs	71	54	70	90
Average daily consumption	2,805,204	2,569,231	2,374,645	2,334,356
Wastewater				
Average daily sewage treatment (in thousands of gallons)	2,254	1,991	2,068	1,821

Source: Various town departments.

Fiscal Year					
2013	2012	2011	2010	2009	2008
424	502	547	691	551	695
3,070	3,283	4,399	3,291	2,978	3,110
769	661	771	718	700	817
388	432	290	334	322	342
2,632	4,320	17,886	2,380	-	-
67	64	59	79	82	35
4,729	4,977	4,587	4,518	4,657	5,256
1,016	962	929	879	815	489
456	367	49	22	19	19
733	689	830	651	549	581
191	117	80	121	200	342
126	95	72	150	116	81
2,259,806	2,277,256	2,270,151	2,148,158	2,192,885	2,288,340
1,605	1,581	1,780	1,781	1,619	1,370

**Town of Clayton
Capital Asset Statistics by Function
Last Ten Fiscal Years**

Function	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	54	57	55	55	55	55	42	42	42	42
K-9 units	2	2	2	2	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2	2	2	2	2
Highways and streets										
Streets (miles)	80	78	76	74	71	70	68	68	67	67
Culture and recreation										
Parks	7	7	7	7	7	6	5	5	5	5
Libraries	1	1	1	1	1	1	1	1	1	1
Cultural arts centers	1	1	1	1	1	1	1	1	1	1
Sewer										
Wastewater treatment facilities	1	1	1	1	1	1	1	1	1	1
Electric										
Distribution stations	1	1	1	1	1	1	1	1	1	2
Street lights	1,454	1,430	1,437	1,441	1,425	1,403	1,390	1,373	1,365	1,350

Sources: Various town departments.

Note: No capital asset indicators are available for the general government function.

Town of Clayton, North Carolina
Commercial and Residential Construction Values (Unaudited)
Last Ten Fiscal Years

Fiscal Year Ended June 30	Commercial Construction ¹		Residential Construction ¹		Total		Bank Deposits ²
	Number of Units	Value	Number of Units	Value	Number of Units	Value	
2017	315	\$ 90,967,827 ³	596	\$70,267,241	911	\$161,235,068	\$ 406,960,000
2016	266	44,723,908	368	53,670,828	634	98,394,736	373,098,000
2015	220	26,023,349	361	50,156,711	581	76,180,060	356,188,000
2014	312	125,635,824 ⁴	235	35,750,910	547	161,386,734	339,588,000
2013	55	16,528,032	231	31,936,424	286	48,464,456	321,239,000
2012	199	12,459,728	179	22,777,173	378	35,236,901	323,341,000
2011	43	18,279,491	84	13,040,057	127	31,319,548	301,020,000
2010	109	224,729,841 ⁵	112	14,800,632	221	239,530,473	299,889,000
2009	68	24,999,625	103	15,834,177	171	40,833,802	302,061,000
2008	80	44,463,164 ⁶	314	45,007,188	394	89,470,352	282,020,000

¹ Compiled by Town of Clayton Inspections.

² Federal Deposit Insurance Corporation Summary of Deposits.

³ Increase due to a large biopharmaceutical expansion project by Novo Nordisk in the East Clayton Industrial Area .

⁴ Increase due to several large expansion projects such as Grifols (\$43.9 million) and Novo Nordisk (\$20.6 million).

⁵ Increase due to \$200 million Talecris Biotherapeutics expansion project.

⁶ Increase due to several large commercial projects such as the Johnston Memorial Hospital project.

Town of Clayton, North Carolina
Schedule of Insurance in Force
 June 30, 2017

<u>Type of Coverage</u>	<u>Details of Coverage</u>	
Health Insurance State Health Plan		70/30 Plan: \$40-\$337 per event; 30% coinsurance; \$7,748 maximum out-of-pocket 80/20 Plan: \$0-\$450 per event; 20% coinsurance; \$6,850 maximum out-of-pocket Consumer-Directed Health Plan: 15% coinsurance; \$3,500 maximum out-of-pocket
Life Insurance	Varied	One times yearly salary per employee up to \$100,000
Workman's Compensation		Bodily injury by accident - Each accident Bodily injury by disease - Each employee Bodily injury by disease - Coverage limit
General Liability	2,000,000 2,500	Each occurrence Deductible
Police Professional Liability	2,000,000 3,000,000 2,500	Each occurrence and annual Annual aggregate Deductible
Public Officials Liability/ Employment Practices Liability	1,000,000 3,000,000 10,000	Each claim and annual Annual aggregate Deductible
Public Employees Blanket Bond	75,000 250	Indemnification Deductible
Public Officials Bond Finance Director Tax Collector	250,000 25,000 0	Liability Liability Deductible
Automobile Liability	2,000,000 2,500	Per occurrence Deductible
Automobile Comprehensive	3,811,562 500 1,000	Actual cash value or cost of repair, whichever is less deductible - private passenger & light trucks deductible - all others
Automobile Collision	3,811,562 500 1,000	Actual cash value or cost of repair, whichever is less deductible - private passenger & light trucks deductible - all others
Uninsured Motorist	250,000 2,500	Limits of coverage Deductible
Real & Personal Property	73,501,310 2,500	Cause of loss Deductible per occurrence includes boiler & machinery
Municipal Equipment	1,389,984 2,500	All risk coverage Deductible per occurrence
Computer Equipment/Media	250,000 2,500	Limits of coverage Deductible
Fine Arts	106,900 500	Limits of coverage Deductible
Boiler & Machinery	5,000,000 2,500	Limits of coverage Deductible

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Town of Clayton, North Carolina
Schedule of Utility Rates
 June 30, 2017

WATER RATES (MONTHLY):

Customer charges:

	<u>In Town Basic Charge</u>	<u>Outside Town Basic Charge</u>
Up to 15,000 gal.	\$10.10	\$19.85
Next 85,000 gal.	\$10.53	\$30.89
Next 150,000 gal.	\$20.71	\$61.43
Over 250,000 gal.	\$41.07	\$122.51

Commodity Charges:

	<u>Basic Charge (All Use)</u>	<u>Facility Charge</u>	<u>Total</u>
In Town:			
Up to 100,000 gal.	\$3.09	\$.80/kgal	\$3.89/kgal
Over 100,000 gal.	2.98	--	2.98
Out of Town:			
Up to 100,000 gal.	\$4.89	\$.80/kgal	\$5.69/kgal
Over 100,000 gal.	4.75	--	4.75

RIVERWOOD WATER RATES:

<u>Base Charge</u>	<u>Amount</u>
3/4" -1"	\$16.70
1 1/2"	\$30.70
2"	\$40.70
3"	\$60.70
4"	\$100.70

Water Commodity Charge = \$4.02 per 1,000 gallons of usage.

SEWER RATES (MONTHLY):

Sewer only customers - Residential only \$26.92.

Customer charges:

	<u>Basic Charge</u>	<u>Service Availability</u>	<u>Total Outside Town</u>
Up to 15,000 gal.	\$5.20	\$15.60	\$20.80
Next 85,000 gal.	10.40	31.20	41.60
Next 150,000 gal.	20.80	62.40	83.20
Over 250,000 gal.	41.60	124.80	166.40

Commodity Charges:

	<u>Basic Charge (All Use)</u>	<u>Facility Charge</u>	<u>Total</u>
In Town:			
Up to 100,000 gal.	\$4.55	\$.64/kgal.	\$5.19/kgal.
Over 100,000 gal.	4.34	--	4.34
Out of Town:			
Up to 100,000 gal.	\$6.32	\$.64/kgal.	\$6.96/kgal.
Over 100,000 gal.	5.86	--	5.86

Minimum Monthly Charge:

In Town	\$10.39
Out of Town	\$27.76

ELECTRIC RATES:

Residential

Single Phase Service Customer Charge	\$6.95
Three Phase Service Customer Charge	\$10.20 (Single Phase plus \$3.25)
Energy Charge	\$.1218 per kWh

Small General Service:

Customer Charge	\$15.00
Energy Charge	\$.13613 per kWh for first 750 kWh*
	\$.09043 per kWh for next 2000 kWh
	\$.07892 per kWh for additional kWh

*When the kWh of billing Demand exceeds 5 kW, add in the block 150 kWh for each additional kW of such excess.

Medium General Service:

Customer Charge	\$20.00
Billing Demand	\$7.56 for all kW
Kilowatt-hour Energy Charge	\$.07826 for all kWh

Large General Service:

Customer Charge	\$100.00
kW Demand Charge:	
All Coincident Peak Demand	\$17.50 per CP kW
All Excess Demand	\$1.50 per kW
Energy Charge	\$.04813 per kWh

Coincident Peak Non-Residential Service:

Customer Charge	\$75.00
kW Demand Charge:	
All Coincident Peak Demand	\$18.00 per CP kW
All Excess Demand	\$3.50 per kW
Energy Charge	\$.05549 per kWh

General Service Time of Use

Customer Charge	\$50.00
Demand Charge – All On-Peak kW	\$17.27 per kW
Energy Charges – All kWh	\$.06184 per kWh

Institutional Service

Customer Charge	\$10.00
Energy Charge	\$.13163 per kWh for first 600 kWh
	\$.11411 per kWh for next 1900 kWh
	\$.10549 per kWh for additional kWh

Area Lights:

Residential Unit	\$11.58 per month
Small Commercial Unit	\$15.37 per month
Large Commercial Unit	\$35.08 per month
Underground Charge	\$4.66 per month
Wooden Pole	\$2.91 per month
Decorative Pole	\$6.40 per month
Pole Purchase	At Cost

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COMPLIANCE SECTION

220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 895-2899

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Clayton, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Clayton, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Town of Clayton, North Carolina's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Town of Clayton's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Anderson Smith + Wike PLLC". The signature is written in a cursive, flowing style.

Rockingham, NC
October 30, 2017

220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 895-2899

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; in Accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Clayton, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the compliance of Town of Clayton, North Carolina 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 the Town of Clayton's major Federal programs for the year ended June 30, 2017. The Town of Clayton's major Federal programs are identified in the summary of auditors' 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 each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Clayton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, *Uniform Guidance*, and the State Single Audit Implementation Act require that we 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. An audit includes examining, on a test basis, evidence about the Town of Clayton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of Clayton's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Clayton 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, 2017.

Report on Internal Control Over Compliance

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

Our 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Rockingham, NC
October 30, 2017

**TOWN OF CLAYTON, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2017**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None Noted*

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None Noted*

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

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

Identification of major Federal program:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
20.205	TIP Project – EL-5100 OB (Pedestrian Connector)

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

Auditee qualified as low-risk auditee? *No*

State Awards

None

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

**TOWN OF CLAYTON, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<u>Grantor/Pass-through Grantor/Program title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal Direct & - Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>U.S. Department of Transportation</u> NCDOT TIP Project - EL-5100 OB (Pedestrian Connector)	20.205		756,818	-	-
<u>Federal Emergency Management Agency/Department of Homeland Security</u> Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		83,370	27,790	-
Total assistance federal programs			840,188	27,790	-
STATE GRANTS					
<u>N.C. Department of Transportation</u> Powell Bill	N/A	9.9000	-	380,530	-
Total assistance state programs			-	380,530	-
Total assistance			\$ 840,188	\$ 408,320	\$ -

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Clayton under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the SEFSA presents only a select portion of the operations of the Town of Clayton, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Clayton.

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town of Clayton has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.