

TOWN OF CLAYTON, NORTH CAROLINA
Financial Statements

For the Fiscal Year Ended June 30, 2019

Town of Clayton, North Carolina

Town Officials

JUNE 30, 2019

MAYOR

JODY McLEOD

TOWN COUNCIL

MICHAEL GRANNIS - MAYOR PRO-TEM

JASON THOMPSON

BOB SATTERFIELD

BOBBY BUNN

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, NORTH CAROLINA
For the Fiscal Year Ended June 30, 2019

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FINANCIAL SECTION

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Seven Lakes, North Carolina
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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, business-type activities, 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, 2019, 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 Controller 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 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton, North Carolina as of June 30, 2019, 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 Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 57 and 58, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 59, 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 60 and 61, respectively, and the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios on page 62 be presented to supplement the basic financial statements. Such information, although not a required 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 individual fund statements and budgetary schedules as well as the accompanying schedule of expenditures of federal and state awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act*, are presented for purposed of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements, budgetary 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 29, 2019 on our consideration of 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 Town of Clayton's internal control over financial reporting and compliance.



Rockingham, NC
October 29, 2019

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, 2019. 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.

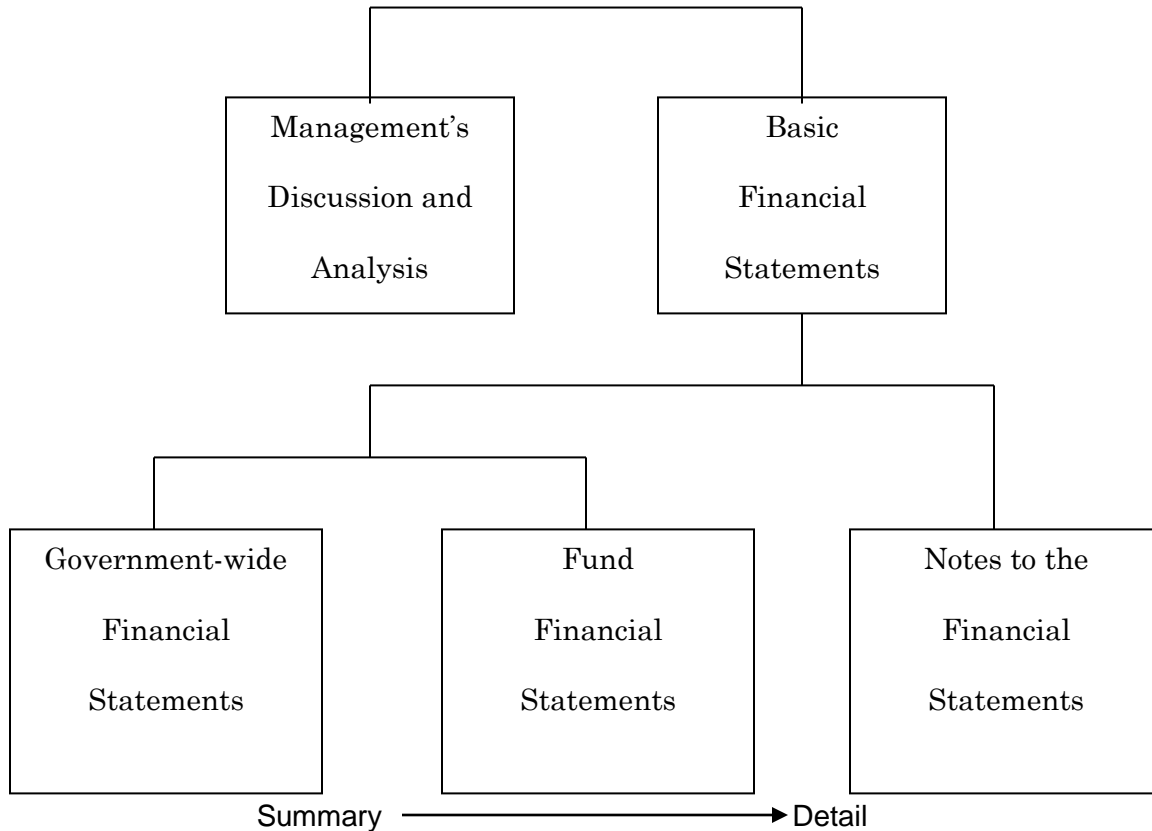
Financial Highlights

- 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 \$113,212,106 (*net position*). Of this amount \$18,136,664 (*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 \$9,523,363, 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 \$15,342,614, an increase of \$3,266,017 in comparison with the prior year. Approximately 21.74% of the ending fund balance, or \$3,335,079 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,646,406, or 31.99% of total general fund expenditures for the fiscal year.
- The Town of Clayton's total debt decreased by \$818,840 (2.28%) during the current fiscal year. The key factors attributable to this decrease were the rapid amortization of the existing debt burden by \$2,571,605 partially offset by \$1,622,114 increase in the net pension liability for the LGERS plan in conjunction with nominal increases in the liability for the LEOSA pension plan and total OPEB.
- 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 Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$17,744,180	\$13,505,438	\$18,542,308	\$20,824,771	\$ 36,286,488	\$ 34,330,209
Capital assets	52,725,889	51,652,706	62,230,536	55,695,506	114,956,425	107,348,212
Total assets	70,470,069	65,158,144	80,772,844	76,520,277	151,242,913	141,678,421
Deferred outflows of resources	3,022,626	1,947,056	545,313	332,379	3,567,939	2,279,435
Long-term liabilities	18,752,366	18,613,408	13,585,548	14,360,371	32,337,914	32,973,779
Other liabilities	3,402,754	2,420,576	4,884,752	3,913,660	8,287,506	6,334,236
Total liabilities	22,155,120	21,033,984	18,470,300	18,274,031	40,625,420	39,308,015
Deferred inflows of resources	803,003	785,803	170,323	175,295	973,326	961,098
Net position:						
Net investment in capital assets	39,351,889	36,938,149	48,507,170	40,877,732	87,859,059	77,815,881
Restricted	3,328,835	2,144,165	3,887,548	60,512	7,216,383	2,204,677
Unrestricted	7,853,848	6,203,099	10,282,816	17,465,086	18,136,664	23,668,185
Total net position	\$50,534,572	\$45,285,413	\$62,677,534	\$58,403,330	\$ 113,212,106	\$ 103,688,743

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 \$113,212,106 as of June 30, 2019. The Town's net position increased by \$9,523,363 for the fiscal year ended June 30, 2019, primarily due to increases in both governmental and business-type activities.

By far the largest portion of the Town of Clayton's net position (77.61%) 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, \$7,216,383, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18,136,664 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 \$1,184,670 for the Town's governmental activities, primarily due to a higher stabilization by State statute requirement and an increase for public improvements associated with the CAMPO LAPP capital project fund partially offset by increased utilization of Powell Bill monies. There was an increase of \$3,827,036 in restricted net position reported for business-type activities due to a State statute governing system development fees in the Water and Sewer Fund in conjunction with a higher USDA reserve requirement for debt service.

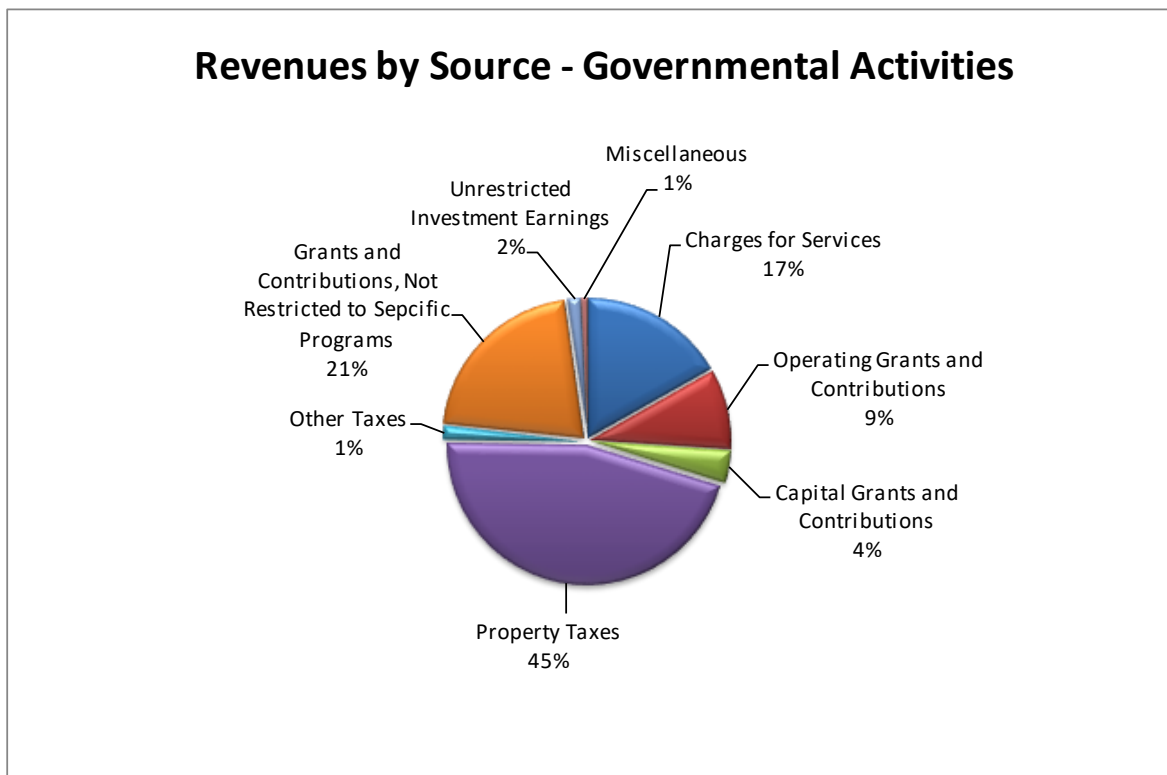
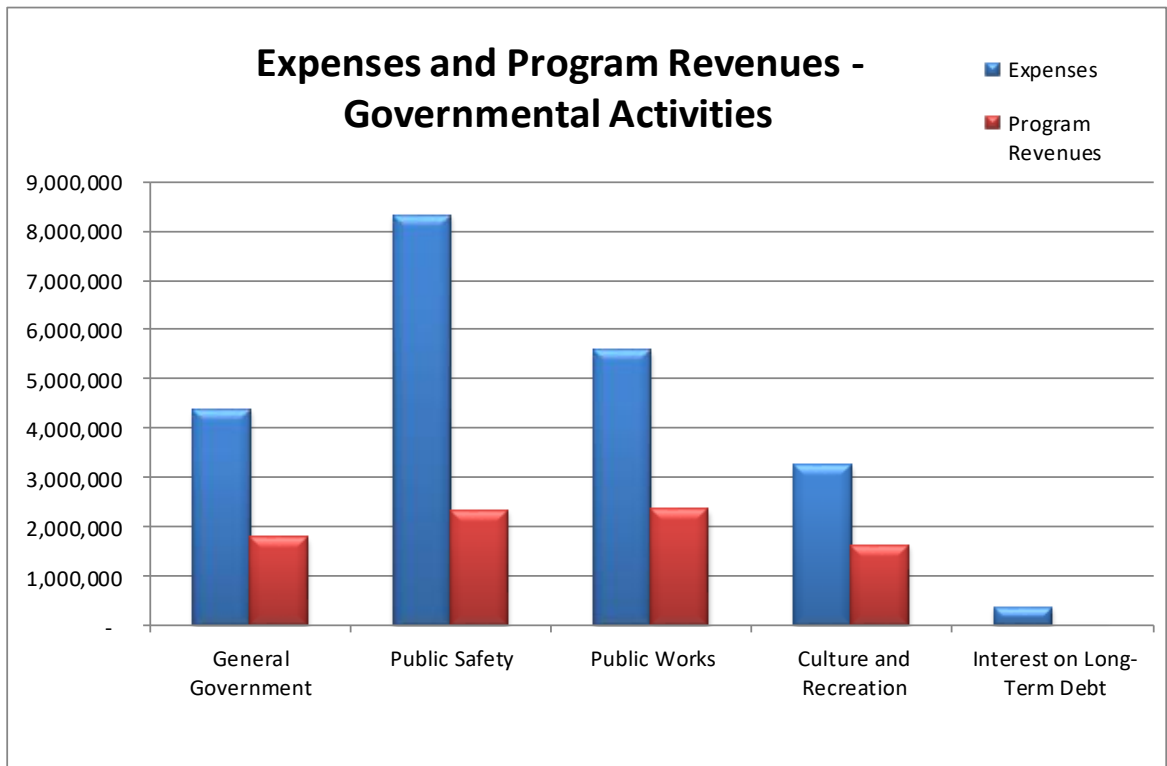
Town of Clayton Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 4,542,898	\$ 3,859,313	\$26,415,976	\$24,107,296	\$ 30,958,874	\$ 27,966,609
Operating grants and contributions	2,517,987	1,412,842	1,119,517	955,519	3,637,504	2,368,361
Capital grants and contributions	1,001,654	530,084	2,242,865	312,696	3,244,519	842,780
General revenues:						
Property taxes	12,335,657	10,713,528	-	-	12,335,657	10,713,528
Other taxes	391,933	392,041	-	-	391,933	392,041
Grants and contributions not restricted to specific programs	5,721,185	5,208,184	-	-	5,721,185	5,208,184
Unrestricted investment earnings	416,160	199,182	74,930	48,381	491,090	247,563
Miscellaneous	188,670	260,495	4,835,950	9,101,476	5,024,620	9,361,971
Total revenue	27,116,144	22,575,669	34,689,238	34,525,368	61,805,382	57,101,037
Expenses:						
General government	4,367,920	3,364,206	-	-	4,367,920	3,364,206
Public safety	8,316,755	7,598,194	-	-	8,316,755	7,598,194
Public works	5,571,092	4,566,117	-	-	5,571,092	4,566,117
Culture and recreation	3,246,162	2,880,502	-	-	3,246,162	2,880,502
Interest on long-term debt	365,056	396,619	-	-	365,056	396,619
Water and Sewer	-	-	17,037,703	15,346,202	17,037,703	15,346,202
Electric	-	-	13,377,331	12,410,909	13,377,331	12,410,909
Total expenses	21,866,985	18,805,638	30,415,034	27,757,111	52,282,019	46,562,749
Increase in net position before transfers	5,249,159	3,770,031	4,274,204	6,768,257	9,523,363	10,538,288
Transfers	-	-	-	-	-	-
Increase in net position	5,249,159	3,770,031	4,274,204	6,768,257	9,523,363	10,538,288
Net position, beginning	45,285,413	41,515,382	58,403,330	51,635,073	103,688,743	93,150,455
Net position, June 30	\$50,534,572	\$45,285,413	\$62,677,534	\$58,403,330	\$ 113,212,106	\$ 103,688,743

Governmental activities. Governmental activities increased the Town's net position by \$5,249,159, thereby accounting for 55.1% of the total growth in the net position of the Town of Clayton. Key elements of this increase are as follows:

- Property taxes increased 15.14%, or \$1,622,129, primarily due to a \$0.03 tax rate increase in conjunction with a higher tax base while maintaining a 100% tax collection percentage for registered motor vehicles, which is attributable to a change in State law.
- Sales tax revenues increased 9.85%, or \$513,001, due to ongoing economic growth.
- Expenses net of program revenues increased by \$801,047, or 6.16%, which is attributable to the following factors:
 - Charges for services increased \$683,585, or 17.71%, primarily due to the implementation of a revised fee structure.
 - Operating grants and contributions increased by \$1,105,145, or 78.22%, primarily due to an increase in the reimbursements from the Claytex Fire District that is directly related to the cost to provide fire protection services, including apparatus and equipment.
 - Capital grants and contributions increased by \$471,570, or 88.96%, primarily due to the timing of State funding received for the recently completed Pedestrian Connector project reported in the CAMPO LAPP capital project fund.

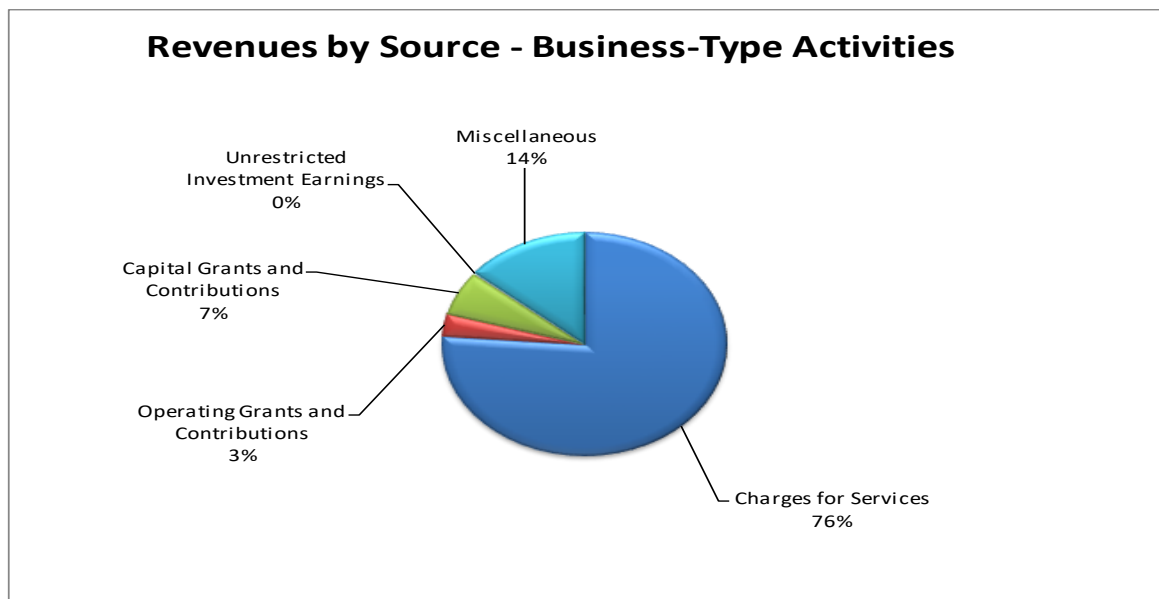
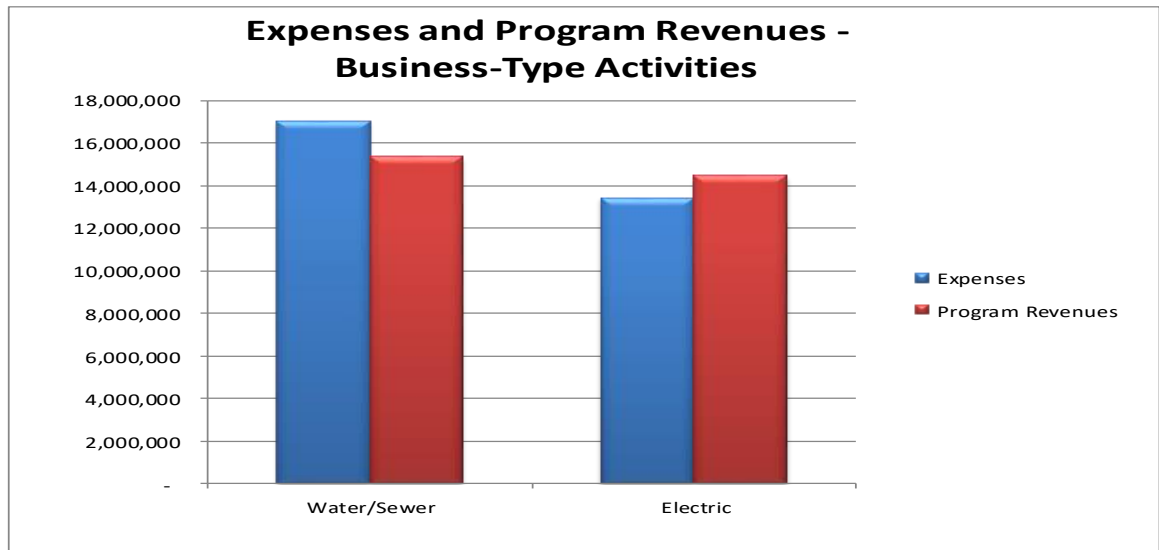
- Expenses increased by \$3,061,347, or 16.28%, compared to prior year primarily due to higher personnel costs related to staffing additions in public safety and public works in conjunction with increased utilization of professional services.



Business-type activities. Business-type activities increased the Town of Clayton's net position by \$4,274,204, accounting for a 44.9% increase in the government's net position. Key elements of this increase are as follows:

Expenses net of program revenues decreased by \$1,744,924, which is attributable to the following factors:

- Charges for services for business-type activities increased 9.6%, or \$2,308,680, primarily due to higher revenues generated by the water distribution, wastewater treatment operations, and electric distribution operations.
- Fees from development activity decreased 51.6%, or \$4,506,543, primarily due to a non-recurring industrial development project.
- Grants and contributions increased by \$2,094,167, primarily due to grant reimbursements recognized from the U.S. Economic Development Administration and State Department of Commerce for construction of the ECIA Lift Station capital project.
- Expenses increased 9.6%, or \$2,657,923, compared to prior year due to water capacity allocation purchases to support future demand, which is primarily attributable to industrial growth (refer to Exhibit C-1) in conjunction with higher wholesale power purchases.



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 \$15,342,614 with a net increase in fund balance of \$3,266,017. The increase in the fund balance of the CAMPO LAPP capital project fund results from the final grant reimbursement for the completed pedestrian connector project in conjunction with the incremental local match requirement for the Sam's Branch greenway extension. No change to report in the Parks & Recreation capital project fund.

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 \$7,646,406, while total fund balance reached \$14,455,315. 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 31.99% 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 60.5% of total general fund expenditures. Fund balance of the Town of Clayton's General Fund increased by \$2,735,351 during the current fiscal year. Key components of this change are as follows:

- Revenues from ad valorem taxes increased \$1,284,289, primarily due to a \$0.03 tax rate increase in conjunction with a higher tax base.
- Intergovernmental revenues increased \$1,578,399, primarily due to higher reimbursements of \$925,135 for fire protection services provided to the Claytex Fire District and higher sales tax revenues of \$513,001 attributable to continued improvement in the local economy.
- Permits and fees revenues increased \$426,431, primarily due to higher revenues from inspection fees attributable to building activity and a revised fee structure.
- Investment income increased by \$216,978, primarily due to higher investment earnings from the North Carolina Capital Management Trust portfolios.
- Total expenditures increased \$3,868,099, primarily due to \$1,864,953 increase in capital outlay for street improvements and equipment and vehicle acquisitions in public safety and public works. Personnel costs increased by \$1,389,369 in public safety and public works.

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 and a \$513,888 increase in fund balance appropriations between the original and final amended budget, primarily for a security system, parking expansion projects, and local match.

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 \$4,975,578, and for the Electric Fund, \$5,307,238. The total change in net position for the Water and Sewer and the Electric Funds was \$3,015,826 and \$1,258,378, respectively. Capital projects completed in the Water and Sewer Fund include the Raleigh/Clayton and Rollingwood Gravity Sewer projects while the ECIA Lift Station project is nearing completion. The LED Changeover Project is underway and is intended to be fully funded by the Electric Fund. Other factors concerning the finances of these two funds was covered in the discussion of the 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, 2019 amounts to \$114,956,425 (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 7.1% (a 14.1% increase for governmental activities and a 85.9% increase for business-type activities).

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

- In governmental activities, infrastructure additions of \$1,134,081 for street projects and \$1,392,717 for acquisition of rolling stock, equipment, and furniture.
- In business-type activities, construction in progress for various capital project funds decreased \$1,174,198, or \$1,653,532 decrease in the Water and Sewer Fund and \$479,334 increase in the Electric Fund in conjunction with infrastructure improvements of \$8,992,836 due to the completion of the Clayton/Raleigh and Rollinwood Gravity Sewer projects.
- No major demolitions were recorded this year.

Town of Clayton's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 7,766,938	\$ 7,766,938	\$ 1,129,143	\$ 1,129,143	\$ 8,896,081	\$ 8,896,081
Nitrogen credits	-	-	2,633,113	2,633,113	2,633,113	2,633,113
Construction in progress	531,942	446,373	7,009,967	8,184,164	7,541,909	8,630,537
Total non-depreciable assets	8,298,880	8,213,311	10,772,223	11,946,420	19,071,103	20,159,731
Water capacity allocation rights	-	-	3,600,000	3,600,000	3,600,000	3,600,000
Building and improvements	32,811,859	32,548,889	3,862,804	3,862,804	36,674,663	36,411,693
Plant, machinery, and equipment	4,067,911	3,981,568	66,108,537	57,046,724	70,176,448	61,028,292
Vehicles	8,467,117	7,704,339	3,445,583	2,966,028	11,912,700	10,670,367
Infrastructure	19,416,513	18,282,432	-	-	19,416,513	18,282,432
Total depreciable assets	64,763,400	62,517,228	77,016,924	67,475,556	141,780,324	129,992,784
Accumulated depreciation	(20,336,391)	(19,077,833)	(25,558,611)	(23,726,470)	(45,895,002)	(42,804,303)
Total depreciable assets, net	44,427,009	43,439,395	51,458,313	43,749,086	95,885,322	87,188,481
Total	\$ 52,725,889	\$ 51,652,706	\$ 62,230,536	\$ 55,695,506	\$ 114,956,425	\$ 107,348,212

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 \$14,859,413. Of this amount, \$3,770,000 comprises debt backed by the full faith and credit of the Town of Clayton. The revenues of the associated enterprise fund back \$11,089,413. The direct placement 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	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 3,770,000	\$ 4,160,000	\$ -	\$ -	\$ 3,770,000	\$ 4,160,000
Revenue bonds	-	-	11,089,413	11,794,079	11,089,413	11,794,079
BANs	-	-	-	-	-	-
Direct placement installment debt	9,604,000	10,554,557	2,698,097	3,224,479	12,302,097	13,779,036
Compensated Absences	700,869	652,914	145,366	130,468	846,235	783,382
OPEB	755,126	718,226	104,067	99,138	859,193	817,364
Pension related debt (LGERS)	3,496,322	2,140,210	674,492	408,490	4,170,814	2,548,700
Pension related debt (LEO)	2,080,484	2,054,515	-	-	2,080,484	2,054,515
Total	\$ 20,406,801	\$ 20,280,422	\$ 14,711,435	\$ 15,656,654	\$ 35,118,236	\$ 35,937,076

The Town's total debt decreased \$818,840, or 2.3%, during the current fiscal year primarily due to no new debt issuances in conjunction with the rapid amortization of financed debt partially offset by increases in the liability for the LGERS and LEOSA pension plans and total OPEB.

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 \$152,016,164, 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, 2020

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

- The unemployment rate for Johnston County and the State average are unchanged at 3.9% and 4.2%, respectively. The unemployment rate information is not seasonally adjusted.
- Higher median household income. The median household income estimate for the Town was \$59,338 compared to \$54,610 for Johnston County and \$50,320 for the State.
- Property revaluation was effective January 1, 2019. The Town's property values rose significantly since the prior revaluation in 2011. While the tax rate remains the same at \$0.58 per \$100 valuation, ad valorem property tax revenues are projected to increase 26.2%. The municipal vehicle tax remains \$30 per vehicle, which is the maximum allowed by statute. Sales tax revenues are projected to grow 8% compared to the prior year budget. Actual sales tax growth was 11.1 % compared to prior year and 8.2% higher than budget.
- Budget expenditures in the General Fund are forecasted to be \$29,919,577, an increase of 16.4% compared to the prior year budget and includes 14 new positions in public safety (9), public works (3), and cultural and recreational (2). The budget includes a 2.5% cost-of-living adjustment (COLA) and funding for the classification and pay study's recommended salary grade and pay adjustments, which equates to a targeted increase of approximately 2.5% rather than across the board. The Town has a comprehensive capital improvement plan that will maximize debt capacity while maintaining compliance with the financial policy.
- The Town has chosen to appropriate \$935,000 for spending in the 2020 fiscal year budget, primarily to complete high priority street repairs utilizing the drawdown of existing Powell Bill funds in conjunction with a major parking improvement project.
- Rate changes in the Water and Sewer Fund reflect an overall rate increase of 9%. The water rate increase is 3% and the sewer rate increase is 16.5%, including pass-through costs from Johnston County. The residential base charge and commodity charge remain the same for the Electric Fund. A comprehensive rate study was completed in the Water and Sewer Fund that assessed the overall condition, determined the appropriate rate structure, and inclusion of the capital improvement program.

All of these factors were considered in preparing the Town of Clayton's budget for the 2020 fiscal year. The budget incorporates the goals and policies adopted by Council. Additional budget information is available on the Town's website: <https://www.townofclaytonnc.org/mayor-and-council/annual-reports-budgets.aspx>.

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, 2019

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	\$ 13,747,064	\$ 7,569,255	21,316,319	\$ 9,266
Taxes receivables (net)	25,800	-	25,800	-
Accounts receivable (net)	629,257	4,061,128	4,690,385	-
Due from/to other governments	1,980,742	1,944,298	3,925,040	-
Inventories	6,244	1,015,936	1,022,180	-
Restricted cash and cash equivalents	1,355,073	3,951,691	5,306,764	-
Total current assets	<u>17,744,180</u>	<u>18,542,308</u>	<u>36,286,488</u>	<u>9,266</u>
Non-current assets				
Capital assets (Note 3)				
Land, non-depreciable improvements and construction in progress	8,298,880	10,772,223	19,071,103	-
Other capital assets, net of depreciation	44,427,009	51,458,313	95,885,322	1,725
Total capital assets	<u>52,725,889</u>	<u>62,230,536</u>	<u>114,956,425</u>	<u>1,725</u>
Total assets	<u>\$ 70,470,069</u>	<u>\$ 80,772,844</u>	<u>\$ 151,242,913</u>	<u>\$ 10,991</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	3,015,460	542,261	3,557,721	
OPEB deferrals	7,166	3,052	10,218	-
Total deferred outflows of resources	<u>3,022,626</u>	<u>545,313</u>	<u>3,567,939</u>	
Total assets and deferred outflows of resources	<u>\$ 73,492,695</u>	<u>\$ 81,318,157</u>	<u>\$ 154,810,852</u>	<u>\$ 10,991</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2019

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	\$ 1,908,969	\$ 2,797,920	\$ 4,706,889	\$ -
Customer deposits	-	960,945	960,945	-
Current portion of long-term liabilities	1,654,435	1,125,887	2,780,322	-
Total current liabilities	3,563,404	4,884,752	8,448,156	-
Long-term liabilities				
Net pension liability	3,496,322	674,492	4,170,814	-
Total pension liability	2,080,484	-	2,080,484	-
Total OPEB liability	755,126	104,067	859,193	-
Due in more than one year	12,420,434	12,806,989	25,227,423	-
Total liabilities	22,315,770	18,470,300	40,786,070	-
DEFERRED INFLOWS OF RESOURCES				
Assessments	463,665	157,318	620,983	-
Prepaid taxes	3,132	-	3,132	-
Pension deferrals	106,527	3,492	110,019	-
OPEB deferrals	69,029	9,513	78,542	-
Total deferred inflows of resources	642,353	170,323	812,676	-
NET POSITION				
Net investment of capital assets	39,351,889	48,507,170	87,859,059	1,725
Restricted - Expendable:				
Other functions-Powell Bill	439,761	-	439,761	-
Public Improvements	884,052	3,796,572	4,680,624	-
USDA debt service reserve	-	90,976	90,976	-
Public Safety	16,091	-	16,091	-
Stabilization by State Statute	1,985,684	-	1,985,684	-
Restricted - Nonexpendable	3,247	-	3,247	-
Unrestricted	7,853,848	10,282,816	18,136,664	9,266
Total net position	50,534,572	62,677,534	113,212,106	10,991
Total liabilities, deferred inflows of resources and net position	\$ 73,492,695	\$ 81,318,157	\$ 154,810,852	\$ 10,991

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for	Operating Grants and	Capital Grants and	Primary Government			Clayton Downtown Development
		Services	Contributions	Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government operations	\$ 4,367,920	\$ 1,641,798	\$ 126,246	\$ -	\$ (2,599,876)	\$ -	\$ (2,599,876)	\$ -
Public safety	8,316,755	21,476	2,301,905	-	(5,993,374)	-	(5,993,374)	-
Public works	5,571,092	1,823,865	-	522,927	(3,224,300)	-	(3,224,300)	-
Cultural and recreational	3,246,162	1,055,759	89,836	478,727	(1,621,840)	-	(1,621,840)	-
Interest on long-term debt	365,056	-	-	-	(365,056)	-	(365,056)	-
Total governmental activities	<u>21,866,985</u>	<u>4,542,898</u>	<u>2,517,987</u>	<u>1,001,654</u>	<u>(13,804,446)</u>	<u>-</u>	<u>(13,804,446)</u>	<u>-</u>
Business-type activities								
Water and sewer	17,037,703	12,155,613	945,309	2,242,865	-	(1,693,916)	(1,693,916)	-
Electric	<u>13,377,331</u>	<u>14,260,363</u>	<u>174,208</u>	<u>-</u>	<u>-</u>	<u>1,057,240</u>	<u>1,057,240</u>	<u>-</u>
Total business-type activities	<u>30,415,034</u>	<u>26,415,976</u>	<u>1,119,517</u>	<u>2,242,865</u>	<u>-</u>	<u>(636,676)</u>	<u>(636,676)</u>	<u>-</u>
Total primary government	<u>\$ 52,282,019</u>	<u>\$ 30,958,874</u>	<u>\$ 3,637,504</u>	<u>\$ 3,244,519</u>	<u>\$ (13,804,446)</u>	<u>\$ (636,676)</u>	<u>\$ (14,441,122)</u>	<u>\$ -</u>
Component unit								
Clayton Downtown Development Association, Inc	<u>\$ 69,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,415)</u>
General revenues								
Property taxes, levied for general purposes					12,335,657	-	12,335,657	-
Sales taxes					5,721,185	-	5,721,185	-
Franchise taxes					266,452	-	266,452	-
Alcoholic beverage taxes					86,900	-	86,900	-
Other taxes					38,581	-	38,581	-
Unrestricted investment earnings					416,160	74,930	491,090	-
Miscellaneous					188,670	4,835,950	5,024,620	65,721
Total general revenues					<u>19,053,605</u>	<u>4,910,880</u>	<u>23,964,485</u>	<u>65,721</u>
Change in net position					5,249,159	4,274,204	9,523,363	(3,694)
Net position, beginning					45,285,413	58,403,330	103,688,743	14,685
Net position, ending					<u>\$ 50,534,572</u>	<u>\$ 62,677,534</u>	<u>\$ 113,212,106</u>	<u>\$ 10,991</u>

TOWN OF CLAYTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

Exhibit 3

	Major Funds				
	General	Parks & Rec. Capital Project	CAMPO LAPP Capital Project	Total Non-Major Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 13,743,817	\$ -	\$ -	\$ 3,247	\$ 13,747,064
Restricted cash	455,852	238,472	660,749	-	1,355,073
Receivables, net					
Taxes	25,800	-	-	-	25,800
Accounts	629,257	-	-	-	629,257
Due from other governments	1,980,742	-	-	-	1,980,742
Inventories	6,244	-	-	-	6,244
Total assets	\$ 16,841,712	\$ 238,472	\$ 660,749	\$ 3,247	\$ 17,744,180
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 1,893,800	\$ -	\$ 15,169	\$ -	\$ 1,908,969
Total liabilities	1,893,800	-	15,169	-	1,908,969
Deferred Inflows of Resources					
Assessments	463,665	-	-	-	463,665
Property tax receivable	25,800	-	-	-	25,800
Prepaid taxes	3,132	-	-	-	3,132
Total Deferred Inflows of Resources	492,597	-	-	-	492,597
Fund balances					
Non Spendable					
Inventories	6,244	-	-	-	6,244
Perpetual maintenance	-	-	-	3,247	3,247
Restricted					
Stabilization by State Statute	1,985,684	-	-	-	1,985,684
Streets - Powell Bill	439,761	-	-	-	439,761
Public Improvements	-	238,472	645,580	-	884,052
USDA debt service reserve	-	-	-	-	-
Public Safety-Police	16,091	-	-	-	16,091
Library	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Committed					
Public Improvements	844,401	-	-	-	844,401
Public Safety-Fire	-	-	-	-	-
Assigned					
Public Safety-Fire	2,355	-	-	-	2,355
Public Improvements	2,298,794	-	-	-	2,298,794
Debt Service	280,579	-	-	-	-
Subsequent year's expenditures	935,000	-	-	-	935,000
Unassigned	7,646,406	-	-	-	7,646,406
Total fund balances	14,455,315	238,472	645,580	3,247	15,342,614
Total liabilities, deferred inflows of of resources and fund balances	\$ 16,841,712	\$ 238,472	\$ 660,749	\$ 3,247	\$ 17,744,180
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					\$ 15,342,614
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					52,725,889
Deferred outflows of resources related to pensions are not reported in the funds					3,015,460
Deferred outflows of resources related to OPEB are not reported in the funds					7,166
Earned revenues considered deferred inflows of resources in fund statements					25,800
Compensated absences not expected to be materially liquidated with expendable available resources					(700,869)
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					(13,374,000)
Net pension liability					(3,496,322)
Total pension liability					(2,080,484)
OPEB liability					(755,126)
Deferred inflows of resources related to pensions are not reported in the funds					(106,527)
Deferred inflows of resources related to OPEB are not reported in the funds					(69,029)
Net position of governmental activities					\$ 50,534,572

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Exhibit 4

	Major Funds				
	General Fund	Parks & Rec. Capital Project	CAMPO LAPP Capital Project	Total Non-Major Fund	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$11,920,879	\$ -	\$ -	\$ -	\$ 11,920,879
Other taxes and licenses	428,741	-	-	-	428,741
Unrestricted intergovernmental	8,307,899	-	-	-	8,307,899
Restricted intergovernmental	774,148	-	478,727	-	1,252,875
Permits and fees	1,914,886	-	-	-	1,914,886
Sales and services	2,686,465	-	-	-	2,686,465
Investment earnings	416,159	-	-	1	416,160
Miscellaneous	185,523	-	3,147	-	188,670
Total revenues	<u>26,634,700</u>	<u>-</u>	<u>481,874</u>	<u>1</u>	<u>27,116,575</u>
EXPENDITURES					
Current					
General government operations	4,043,006	-	-	-	4,043,006
Public safety	8,814,762	-	-	-	8,814,762
Public works	6,436,548	-	-	-	6,436,548
Cultural and recreational	2,810,520	-	-	-	2,810,520
Debt service					
Principal retirement	1,340,557	-	-	-	1,340,557
Interest and other charges	365,056	-	-	-	365,056
Capital outlay	-	-	40,109	-	40,109
Total expenditures	<u>23,810,449</u>	<u>-</u>	<u>40,109</u>	<u>-</u>	<u>23,850,558</u>
Excess (deficiency) of revenues over expenditures	2,824,251	-	441,765	1	3,266,017
OTHER FINANCING SOURCES (USES)					
Transfers from (to) other funds	(88,900)	-	88,900	-	-
Total other financing sources (uses)	<u>(88,900)</u>	<u>-</u>	<u>88,900</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,735,351	-	530,665	1	3,266,017
Fund balance, beginning	<u>11,719,964</u>	<u>238,472</u>	<u>114,915</u>	<u>3,246</u>	<u>12,076,597</u>
Fund balances, ending	<u>\$14,455,315</u>	<u>\$ 238,472</u>	<u>\$ 645,580</u>	<u>\$ 3,247</u>	<u>\$ 15,342,614</u>

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, 2019

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ 3,266,017
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	2,875,337
Depreciation	(1,802,154)

Contributions to the LGERS pension plan in the current fiscal year are not included on the Statement of Activities	786,216
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Benefit payments paid and administrative expense for LEOSA are not included on the Statement of Activities	34,770
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OPEB benefit payments paid and administrative expense are not included on the Statement of Activities	7,166
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	
Taxes including interest and penalties	(431)

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	(47,955)
Pension expense	(1,144,145)
OPEB plan expense	(66,219)

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>1,340,557</u>	<u>1,340,557</u>

Total changes in net position of governmental activities	<u>\$ 5,249,159</u>
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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, 2019

Exhibit 6

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 11,730,191	\$ 11,730,191	\$ 11,920,879	\$ 190,688
Other taxes and licenses	460,000	460,000	428,741	(31,259)
Unrestricted intergovernmental	8,183,784	8,183,784	8,307,899	124,115
Restricted intergovernmental	776,176	776,176	774,148	(2,028)
Permits and fees	1,146,890	1,146,890	1,914,886	767,996
Sales and services	2,518,034	2,518,034	2,686,465	168,431
Investment earnings	212,742	224,415	416,159	191,744
Miscellaneous	40,264	40,264	185,523	145,259
Total revenues	25,068,081	25,079,754	26,634,700	1,554,946
EXPENDITURES				
Current				
General government operations	4,546,638	4,696,307	4,043,006	653,301
Public safety	9,050,563	9,077,088	8,814,762	262,326
Public works	7,231,316	7,400,496	6,436,548	963,948
Cultural and recreational	2,893,794	2,985,081	2,810,520	174,561
Debt service				
Principal retirement	1,621,136	1,621,136	1,340,557	280,579
Interest and other charges	365,056	365,056	365,056	-
Total expenditures	25,708,503	26,145,164	23,810,449	2,334,715
Revenues over (under) expenditures	(640,422)	(1,065,410)	2,824,251	3,889,661
OTHER FINANCING SOURCES (USES)				
Transfer from (to) other funds	-	(88,900)	(88,900)	-
Total other financing sources (uses)	-	(88,900)	(88,900)	-
Fund balance appropriated	640,422	1,154,310	-	(1,154,310)
Net change in fund balance	\$ -	\$ -	2,735,351	\$ 2,735,351
Fund balances, beginning			11,719,964	
Fund balances, ending			\$ 14,455,315	

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2019

Exhibit 7

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,947,864	\$ 4,621,391	\$ 7,569,255
Accounts receivable (net) - billed	1,394,936	853,612	2,248,548
Accounts receivable (net) - unbilled	791,146	1,021,434	1,812,580
Due from/to other governments	1,944,298	-	1,944,298
Inventories	250,644	765,292	1,015,936
Restricted cash and cash equivalents	3,887,548	64,143	3,951,691
Total current assets	11,216,436	7,325,872	18,542,308
Non-current assets			
Capital assets			
Land, improvements and construction in progress	10,272,889	499,334	10,772,223
Other capital assets, net of depreciation	38,290,475	13,167,838	51,458,313
Capital assets, net	48,563,364	13,667,172	62,230,536
Total non-current assets	48,563,364	13,667,172	62,230,536
Total assets	\$59,779,800	\$ 20,993,044	\$ 80,772,844
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	322,212	220,049	542,261
OPEB deferrals	3,052	-	3,052
Total deferred outflows of resources	325,264	220,049	545,313
Total assets and deferred outflows of resources	\$60,105,064	\$ 21,213,093	\$ 81,318,157
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 1,713,861	\$ 1,084,059	\$ 2,797,920
Customer deposits	262,533	698,412	960,945
Compensated absences - current	40,848	31,834	72,682
Revenue bond note payable - current	91,000	486,667	577,667
Direct placement installment purchases payable - current	475,538	-	475,538
Total current liabilities	2,583,780	2,300,972	4,884,752
Noncurrent liabilities			
Other noncurrent liabilities			
Compensated absences	40,849	31,835	72,684
Net pension liability	400,784	273,708	674,492
OPEB liability	55,255	48,812	104,067
Revenue bond note payable - noncurrent	6,231,746	4,280,000	10,511,746
Direct placement installment purchases payable - current	2,222,559	-	2,222,559
Total noncurrent liabilities	8,951,193	4,634,355	13,585,548
Total liabilities	11,534,973	6,935,327	18,470,300
DEFERRED INFLOWS OF RESOURCES			
Assessments	157,318	-	157,318
Pension deferrals	2,075	1,417	3,492
OPEB deferrals	5,051	4,462	9,513
Total deferred inflows of resources	164,444	5,879	170,323
NET POSITION			
Net investments in capital assets	39,542,521	8,964,649	48,507,170
Restricted for USDA debt service reserve	90,976	-	90,976
Restricted for capital improvement program	3,796,572	-	3,796,572
Unrestricted	4,975,578	5,307,238	10,282,816
Total net position	48,405,647	14,271,887	62,677,534
Total liabilities, deferred inflows of resources and net position	\$60,105,064	\$ 21,213,093	\$ 81,318,157

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2019

Exhibit 8

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
OPERATING REVENUES			
Charges for services	\$ 12,075,238	\$ 14,260,363	\$ 26,335,601
Water and sewer taps	80,375	-	80,375
Other operating revenues	945,309	174,208	1,119,517
Total operating revenues	<u>13,100,922</u>	<u>14,434,571</u>	<u>27,535,493</u>
OPERATING EXPENSES			
Electric operations	-	11,785,243	11,785,243
Water distribution	9,269,765	-	9,269,765
Water preventive maintenance	934,716	-	934,716
Waste collection and treatment	3,452,791	-	3,452,791
Tax reimbursements - General Fund	-	35,250	35,250
Support services - General Fund	1,724,925	910,980	2,635,905
Depreciation and amortization	1,374,663	539,375	1,914,038
Total operating expenses	<u>16,756,860</u>	<u>13,270,848</u>	<u>30,027,708</u>
Operating income (loss)	<u>(3,655,938)</u>	<u>1,163,723</u>	<u>(2,492,215)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	22,696	52,234	74,930
Interest and other charges	(280,843)	(106,483)	(387,326)
Capacity fees	164,150	-	164,150
Nutrient offset fees	273,225	-	273,225
System Development Fees	3,796,572	-	3,796,572
Miscellaneous	453,099	148,904	602,003
Total nonoperating revenue (expenses)	<u>4,428,899</u>	<u>94,655</u>	<u>4,523,554</u>
Income (loss) before contributions	<u>772,961</u>	<u>1,258,378</u>	<u>2,031,339</u>
Capital contributions	<u>2,242,865</u>	<u>-</u>	<u>2,242,865</u>
Change in net position	<u>3,015,826</u>	<u>1,258,378</u>	<u>4,274,204</u>
Total net position, beginning	<u>45,389,821</u>	<u>13,013,509</u>	<u>58,403,330</u>
Total net position, ending	<u>\$ 48,405,647</u>	<u>\$ 14,271,887</u>	<u>62,677,534</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2019

Exhibit 9
Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 9,811,676	\$ 14,101,594	\$ 23,913,270
Cash paid for goods and services	(12,911,844)	(11,543,388)	(24,455,232)
Cash paid to or on behalf of employees for services	(1,435,844)	(1,038,063)	(2,473,907)
Other operating revenues	945,309	174,208	1,119,517
Miscellaneous revenue	453,099	148,904	602,003
Net cash provided by operating activities	<u>(3,137,604)</u>	<u>1,843,255</u>	<u>(1,294,349)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Capacity fees	164,150	-	164,150
Capital contributions	2,242,865	-	2,242,865
System development fees	3,796,572	-	3,796,572
Nutrient offset fees	273,225	-	273,225
Total cash flows from noncapital financing activities	<u>6,476,812</u>	<u>-</u>	<u>6,476,812</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(7,099,750)	(1,349,318)	(8,449,068)
Principal paid on bond maturities and equipment contracts	(614,381)	(616,667)	(1,231,048)
Interest paid on bond maturities and equipment contracts	<u>(280,843)</u>	<u>(106,483)</u>	<u>(387,326)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,994,974)</u>	<u>(2,072,468)</u>	<u>(10,067,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>22,696</u>	<u>52,234</u>	<u>74,930</u>
Net increase (decrease) in cash and cash equivalents	(4,633,070)	(176,979)	(4,810,049)
Balances, beginning	<u>11,468,482</u>	<u>4,862,513</u>	<u>16,330,995</u>
Balances, ending	<u>\$ 6,835,412</u>	<u>\$ 4,685,534</u>	<u>\$ 11,520,946</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2019

Exhibit 9
Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (3,655,938)	\$ 1,163,723	\$ (2,492,215)
Adjustments to reconcile operating income to net cash provided by operating activities			
Miscellaneous revenue	453,099	148,904	602,003
Depreciation & amortization	1,374,663	539,375	1,914,038
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	\$ (2,343,937)	\$ (158,769)	(2,502,706)
(Increase) decrease in inventory	(19,865)	(5,015)	(24,880)
Increase (decrease) in accounts payable and accrued liabilities	892,054	22,857	914,911
Increase (decrease) in customer deposits	117,868	108,709	226,577
Increase in OPEB liability	1,169	3,760	4,929
Increase in accrued vacation pay	12,683	2,215	14,898
Increase in deferred outflows of resources-pensions	(135,094)	(77,675)	(212,769)
Increase in deferred outflows of resources-OPEB	(165)	-	(165)
Increase in net pension liability	168,802	97,200	266,002
Decrease in deferred inflows of resources-pensions	(4,569)	(3,638)	(8,207)
Increase in deferred inflows of resources-OPEB	1,626	1,609	3,235
Total adjustments	518,334	679,532	1,197,866
Net cash provided by operating activities	\$ (3,137,604)	\$ 1,843,255	\$ (1,294,349)

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2019

Exhibit 10

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 2,085,348
Taxes receivable	<u>-</u>
Total assets	<u>\$ 2,085,348</u>
Liabilities	
Liabilities:	
Intergovernmental payable	<u>2,085,348</u>
Total liabilities	<u>\$ 2,085,348</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, 2019

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:

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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, 2019

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 fair value. The NCCMT-Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term Portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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 the Electric 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 state law governing revenues from system development fees (G.S. 162A-211) and a \$90,976 sinking fund requirement by the USDA.

Town of Clayton Restricted Cash

Governmental Activities			
General Fund			
	Streets	\$	439,761
	Public Safety		16,091
Capital Project Funds			
	Parks and Recreation		238,472
	Public Transportation		660,749
Total governmental activities		\$	<u>1,355,073</u>
Business-type Activities			
Electric Fund			
	Unspent revenue bond proceeds	\$	64,143
Water and Sewer Fund			
	Capital improvements - State Statute		3,796,572
Water and Sewer Fund			
	USDA future debt service		90,976
Total Business-type Activities		\$	<u>3,951,691</u>
Total Restricted Cash		\$	<u><u>5,306,764</u></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, 2018.

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, 2019 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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 2019 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 OPEB and pension deferrals.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 – North Carolina G.S 159-8 prohibits units of government from budgeting or spending a portion of fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S.159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as a "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is imposed by law through constitutional provisions or enabling legislation. RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted fund balance on the face of the balance sheet.

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 debt proceeds.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Defined Benefit Cost-Sharing Plans

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.

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, 2019, the Town's deposits had a carrying amount of \$6,344,585 and a bank balance of \$6,429,887. 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 \$9,266 and the bank balance was \$9,266. At June 30, 2019, the Town's petty cash fund totaled \$3,300.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Investments

At June 30, 2019, the Town of Clayton had \$10,873,059 and \$11,487,487 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 0.11 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, 2019 are net of the following allowances for doubtful accounts:

General fund:	
Taxes receivable	\$ 8,800
Accounts receivable	<u>1,908</u>
	10,708

Receivables - Allowances for Doubtful Accounts (Continued)

Enterprise funds	<u>45,795</u>
Total	<u>\$ 56,503</u>

Due from Other Governmental Agencies

At June 30, 2019, funds due from other governmental agencies consisted of the following:

	Governmental Activities			Business-type Activities
	General	Non-Major Governmental	Total	
Local Option Sales Tax	\$ 825,532	\$ -	\$ 825,532	\$ -
Franchise Sales Tax	236,724	-	236,724	-
Telecommunication Sales Tax	11,690	-	11,690	-
Video Programming Fees	39,775	-	39,775	-
Solid Waste Disposal Fees	3,722	-	3,722	-
Vehicle & Property taxes	308,478	-	308,478	-
PEG Channel	13,513	-	13,513	-
ABC Distribution	16,290	-	16,290	-
Claytex Fire District	429,889	-	429,889	-
Grant Reimbursements	95,129	-	95,129	1,944,298
	<u>\$ 1,980,742</u>	<u>\$ -</u>	<u>\$ 1,980,742</u>	<u>\$ 1,944,298</u>

Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019, was as follows:

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 7,766,938	\$ -	\$ -	\$ 7,766,938
Construction in progress	446,373	85,569	-	531,942
Total capital assets not being depreciated	<u>8,213,311</u>	<u>85,569</u>	<u>-</u>	<u>8,298,880</u>
Capital assets being depreciated				
Buildings and improvements	32,548,889	262,970	-	32,811,859
Equipment	3,981,568	86,343	-	4,067,911
Vehicles and motorized equipment	7,704,339	1,306,374	543,596	8,467,117
Infrastructure	18,282,432	1,134,081	-	19,416,513
Total capital assets being depreciated	<u>62,517,228</u>	<u>2,789,768</u>	<u>543,596</u>	<u>64,763,400</u>
Less accumulated depreciation				
Buildings	6,022,094	703,965	-	6,726,059
Equipment	3,363,757	208,962	-	3,572,719
Vehicles and motorized equipment	6,050,875	523,582	543,596	6,030,861
Infrastructure	3,641,107	365,645	-	4,006,752
Total accumulated depreciation	<u>19,077,833</u>	<u>1,802,154</u>	<u>543,596</u>	<u>20,336,391</u>
Total capital assets being depreciated, net	<u>43,439,395</u>	<u>987,614</u>	<u>-</u>	<u>44,427,009</u>
Governmental activity capital assets, net	<u>\$ 51,652,706</u>	<u>\$ 1,073,183</u>	<u>\$ -</u>	<u>\$ 52,725,889</u>

At June 30, 2019, construction in progress was comprised primarily of the public improvement construction projects.

General government	\$ 202,092
Public safety	563,018
Public works	555,845
Cultural and recreational	<u>481,199</u>
Total depreciation expense	<u>\$ 1,802,154</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

	<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	\$ 1,109,143	\$ -	\$ -	\$ 1,109,143
Nitrogen credits	2,633,113	-	-	2,633,113
Construction in progress	<u>8,184,164</u>	<u>4,704,102</u>	<u>6,357,633</u>	<u>6,530,633</u>
Total capital assets not being depreciated	<u>11,926,420</u>	<u>4,704,102</u>	<u>6,357,633</u>	<u>10,272,889</u>
Capital assets being depreciated				
Wastewater capacity allocation rights	3,600,000	-	-	3,600,000
Buildings	2,478,745	-	-	2,478,745
Plant and distribution system	38,845,913	8,426,071	-	47,271,984
Furniture and maintenance equipment	1,526,503	68,977	-	1,595,480
Vehicles	<u>1,504,778</u>	<u>258,233</u>	<u>16,687</u>	<u>1,746,324</u>
Total capital assets being depreciated	<u>47,955,939</u>	<u>8,753,281</u>	<u>16,687</u>	<u>56,692,533</u>
Less accumulated depreciation for				
Wastewater capacity allocation rights	2,295,000	180,000	-	2,475,000
Buildings	573,342	54,068	-	627,410
Plant and distribution system	12,057,390	804,061	-	12,861,451
Furniture and maintenance equipment	1,211,941	142,882	-	1,354,823
Vehicles	<u>906,409</u>	<u>193,652</u>	<u>16,687</u>	<u>1,083,374</u>
Total accumulated depreciation	<u>17,044,082</u>	<u>1,374,663</u>	<u>16,687</u>	<u>18,402,058</u>
Total Capital assets being depreciated, net	<u>30,911,857</u>	<u>7,378,618</u>	<u>-</u>	<u>38,290,475</u>
Water and Sewer Fund				
Capital Assets – net	<u>\$ 42,838,277</u>	<u>\$ 12,082,720</u>	<u>\$ 6,357,633</u>	<u>\$ 48,563,364</u>
Electric Fund				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	-	479,334	-	479,334
Total capital assets not being depreciated	<u>20,000</u>	<u>479,334</u>	<u>-</u>	<u>499,334</u>
Capital assets being depreciated				
Buildings	1,384,059	-	-	1,384,059
Plant and distribution system	16,433,072	566,765	-	16,999,837
Furniture and maintenance	241,236	-	-	241,236
Vehicles	<u>1,461,250</u>	<u>304,587</u>	<u>66,578</u>	<u>1,699,259</u>
Total capital assets being depreciated	<u>19,519,617</u>	<u>871,352</u>	<u>66,578</u>	<u>20,324,391</u>
Less accumulated depreciation for				
Buildings	343,418	31,103	-	374,521
Plant and distribution system	4,972,314	368,150	-	5,340,464
Furniture and maintenance equipment	230,401	4,437	-	234,838
Vehicles	<u>1,136,255</u>	<u>135,685</u>	<u>65,210</u>	<u>1,206,730</u>
Total accumulated depreciation	<u>6,682,388</u>	<u>539,375</u>	<u>65,210</u>	<u>7,156,553</u>
Total capital assets being depreciation, net	<u>12,837,229</u>	<u>331,977</u>	<u>1,368</u>	<u>13,167,838</u>
Electric Fund				
Capital Assets – net	<u>\$ 12,857,229</u>	<u>\$ 811,311</u>	<u>\$ 1,368</u>	<u>\$ 13,667,172</u>
Business-type activities capital assets, net	<u>\$ 55,695,506</u>			<u>\$ 62,230,536</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan and Postemployment 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, 2019 was 7.81% of compensation for general employees and firefighters and 8.5% 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 \$934,387 for the year ended June 30, 2019.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment 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, 2019, the Town reported a liability of \$4,170,814 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.17581%, which was an increase of 0.00898% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$1,207,767. At June 30, 2019, 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	\$ 643,458	\$ 21,591
Changes of assumptions	1,106,773	-
Net difference between projected and actual earnings on pension plan investments	572,529	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	95,997	-
Town contributions subsequent to the measurement date	934,387	-
Total	<u>\$ 3,353,144</u>	<u>\$ 21,591</u>

\$934,387 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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2019	\$ 1,150,179
2020	752,537
2021	155,851
2022	338,600
2023	-
Thereafter	-
	<u>\$ 2,397,167</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 2017 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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, 2017 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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 2017 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. 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, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.00%. 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease	Discount	1% Increase
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Town of Clayton's proportionate share of the net pension liability (asset)	\$ 10,018,658	\$4,170,814	\$ (715,735)

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, 2017, 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>43</u>
Total	<u>46</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment 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, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate is based on the yield of the S&P Municipal Bond 20-year High Grade Rate Index as of December 31, 2018.

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 \$69,540 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, 2019 the Town reported total pension liability of \$2,080,484. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$164,347.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 89,036	\$ -
Changes of assumptions	80,771	88,428
Town benefit payments and plan administrative expense made subsequent to the measurement date	34,770	-
Total	<u>\$ 204,577</u>	<u>\$ 88,428</u>

\$34,770 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources related to pensions and will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ 20,095
2021	20,095
2022	20,095
2023	24,032
2024	(2,861)
Thereafter	<u>(77)</u>
	\$ 81,379

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 3.64 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 (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 2,246,931	\$ 2,080,484	\$ 1,926,917

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

	2019
Beginning balance	\$2,054,515
Service Cost	80,428
Interest on total pension liability	63,824
Changes in benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	29,511
Changes of assumptions and other inputs	(78,254)
Benefit payments	(69,540)
Other changes	-
Ending balance of the total pension liability	<u>\$2,080,484</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, 2017 valuation were based on the results of an actual experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 1,207,767	\$ 164,347	\$ 1,372,114
Pension Liability	4,170,814	2,080,484	6,251,298
Proportionate share of the net pension liability	0.17581%	N/A	
Deferred Outflows of Resources			
Differences between expected and actual experience	643,458	89,036	732,494
Changes of assumptions	1,106,773	80,771	1,187,544
Net difference between projected and actual earnings on pension plan investments	572,529	-	572,529
Changes in proportion and differences between contributions and proportionate share of contributions	95,997	-	95,997
Benefit payments paid subsequent to the measurement date	934,387	34,770	969,157
Deferred Inflows of Resources			
Differences between expected and actual experience	21,591	-	21,591
Changes of assumptions	-	88,428	88,428
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations *(Continued)*

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 \$140,797 and \$359,124 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 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, 2018, the State contributed \$17,952,000 to the plan. The Town of Clayton's proportionate share of the State's contribution is \$5,169.

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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations *(Continued)*

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

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

At June 30, 2019, 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 \$14,063. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018 and at June 30, 2017 was 0%.

For the year ended June 30, 2019, the Town recognized pension expense of \$3,999 and revenue of \$3,999 for support provided by the State. At June 30, 2019, 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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 7.00%. 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

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Postemployment Benefit (Continued)

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 June 30, 2017, 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	149	41
Total	<u>151</u>	<u>42</u>

Total OPEB Liability

The Town's total OPEB liability of \$859,193 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

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

Inflation	2.50 percent
Salary increases	3.50 - 7.75 percent, including inflation
Discount rate	3.89 percent
Healthcare cost trends rates	Medical and prescription drug – 7.50 percent

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.

Changes in the Total OPEB Liability

Balance at July 1, 2018	\$817,364
Changes for the year:	
Service cost	57,571
Interest	28,945
Changes in benefit terms	-
Differences expected and actual experience	(999)
Changes of assumptions and other inputs	(35,027)
Benefit payments	(8,661)
Net changes	<u>41,829</u>
Balance at June 30, 2019	<u>\$859,193</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and Mortality Improvement Scale MP-2015.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Postemployment Benefit (Continued)

Sensitivity of the Town's total OPEB liability to changes in the discount rate. The following presents the Town of Clayton's total OPEB liability calculated using the discount rate of 3.89 percent, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.89 percent) or one percentage point higher (4.89 percent) than the current rate:

	1% Decrease (2.89%)	Discount Rate (3.89%)	1% Increase (4.89%)
Total OPEB liability	\$ 970,029	\$ 859,193	\$ 761,746

Sensitivity of the Town's total OPEB liability to changes in the healthcare cost trend rate. The following presents the Town of Clayton's total OPEB liability calculated using the healthcare cost trend rates, as well as what the Town's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	\$ 729,739	\$ 859,193	\$ 1,017,559

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$77,270. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,031
Changes of assumptions	-	77,511
Town benefit payments and plan administrative expense made subsequent to the measurement date	10,218	-
Total	<u>\$ 10,218</u>	<u>\$ 78,542</u>

\$10,218 paid as benefits paid subsequent to the measurement date have been reported as deferred outflows of resources related to pensions and will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB liability will be recognized in OPEB expense as follows:

2019	\$ (9,246)
2020	\$ (9,246)
2021	\$ (9,246)
2022	\$ (9,246)
2023	\$ (9,246)
Thereafter	<u>(32,312)</u>
	\$ (78,542)

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*)

B. Liabilities (Continued)

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	\$ 934,387
Benefit payments made and administrative expenses for LEOSSA	34,770
Benefit payments made and administrative expenses for OPEB	10,218
Differences between expected and actual experience	732,494
Changes of assumptions	1,187,544
Net difference between projected and actual	572,529
Changes in proportion and differences between employer contributions and proportionate share of contributions	95,997

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

Prepaid taxes (General Fund)	\$ 3,132
Taxes Receivable, less penalties (General Fund)	25,800
Deferred revenue	-
Community Development Assessments (General Fund)	463,665
Special Assessments (Water Fund)	157,318
Changes in assumptions	165,939
Differences between expected and actuarial experience	22,622
Changes in proportion and differences between employer contributions and proportionate share of contributions	-

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 \$5 million per occurrence, property coverage of \$81.8 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

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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, 2019, the Town was a defendant to Shenandoah Homes LLC, et al., Case No. 19 CVS 640 filed in Johnston County. The Town maintains it has complied with all the North Carolina laws governing certain fees charged to developers in connection with property development. The Town is vigorously defending the case and the trial date is set for June 8, 2020. In the opinion of the Town's management, the ultimate effect of this legal matter 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, 2019 consist of the following:

	<u>Serviced by</u>	
	<u>Governmental</u>	<u>Business-type</u>
	<u>Activities</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	\$ 2,750,000	\$ -
\$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>1,020,000</u>	<u>-</u>
Total general obligation bonds	<u>\$ 3,770,000</u>	<u>\$ -</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%	\$ -	\$ 1,353,746
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%	-	130,000
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%	-	4,704,000

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

	Serviced by	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Revenue Bonds (Continued)		
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%	-	265,000
Electric System Revenue Bond, Series 2016 dated September 22, 2016 and maturing in 2031; interest at 2.09%	-	<u>4,636,667</u>
Total revenue bonds	<u>\$ -</u>	<u>\$ 11,089,413</u>
<u>Direct Placement Installment Purchase</u>		
Community Center Refunding; contract of \$5,402,000 due in Annual installment maturing in July 2029; interest at 2.1%	\$ 4,169,000	\$ -
2016 Park Land Refunding; contract for \$852,000; due in annual installments of variable principal starting in 2016; interest at 2.15%	446,000	-
2016 Clayton Law Enforcement Center Refunding; contract of \$5,626,000 annual installments of variable principal starting in 2016; interest at 2.2%	4,989,000	-
2015 Vector truck; contract of \$339,000; due in annual installments of \$44,307 including interest of 3.15%	-	186,746
2008 Sanitary Sewer Loan; contract of \$3,600,000; due in annual installments of \$180,000; interest at 2.10%	-	1,620,000
2007 Sanitary Sewer Loan; contract for \$3,921,798; due in annual installments of \$257,117 plus interest at 2.205%.	-	771,351
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	-	<u>120,000</u>
Total direct placement installment purchases	<u>9,604,000</u>	<u>2,698,097</u>
Total outstanding	13,374,000	13,787,510
Less current portion	<u>1,304,000</u>	<u>1,053,205</u>
	<u>\$ 12,070,000</u>	<u>\$ 12,734,305</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

At June 30, 2019, the Town of Clayton had a legal debt margin of \$152,016,164

Changes in long-term liabilities

Compensated absences and pension liabilities for governmental activities have been liquidated in the General Fund.

	Restated Balances July 1, 2018	Increases	Decreases	Balances June 30, 2019	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 4,160,000	\$ -	\$ 390,000	\$ 3,770,000	\$ 390,000
Direct placement installment purchase	10,554,557	-	950,557	9,604,000	914,000
Compensated absences	652,914	687,880	639,925	700,869	350,435
Total OPEB liability	718,226	36,900	-	755,126	-
Net pension liability (LGERS)	2,140,210	1,356,112	-	3,496,322	-
Total pension obligation (LEO)	2,054,515	25,969	-	2,080,484	-
Governmental activity long-term liabilities	<u>\$ 20,280,422</u>	<u>\$ 2,106,861</u>	<u>\$ 1,980,482</u>	<u>\$20,406,801</u>	<u>\$1,654,435</u>
Business-type activities:					
Revenue bonds	\$ 11,794,079	\$ -	\$ 704,666	\$ 11,089,413	\$ 577,667
Direct placement installment purchase	3,224,479	-	526,382	2,698,097	475,538
Total OPEB liability	99,138	4,929	-	104,067	-
Net pension liability (LGERS)	408,490	266,002	-	674,492	-
Compensated absences	130,468	139,367	124,469	145,366	72,682
Business-type activity long-term liabilities	<u>\$ 15,656,654</u>	<u>\$ 410,298</u>	<u>\$ 1,355,517</u>	<u>\$14,711,435</u>	<u>\$1,125,887</u>

Maturities of long-term debt

The annual requirements to retire all debt outstanding, other than compensated absences and net pension obligation, at June 30, 2019, including interest, are as follows:

	Bond obligation		Installment purchases		Total debt due	
	Principal	Interest	Principal	Interest	Principal	Interest
Governmental activities						
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	163,283	1,301,000	267,671
2023	370,000	91,587	858,000	143,681	1,228,000	235,268
2024	370,000	79,068	816,000	125,534	1,186,000	204,602
2025-2029	1,610,000	203,287	3,910,000	373,019	5,520,000	576,306
Thereafter	250,000	5,469	1,281,000	34,979	1,531,000	40,448
Total	<u>3,770,000</u>	<u>730,974</u>	<u>9,604,000</u>	<u>1,226,127</u>	<u>13,374,000</u>	<u>1,957,101</u>
Business-type activities						
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	457,667	270,280	180,000	22,680	637,667	292,960
2024	460,667	259,478	180,000	18,900	640,667	278,378
2025-2029	2,360,333	1,131,342	720,000	37,800	3,080,333	1,169,142
Thereafter	6,326,746	2,773,157	120,000	-	6,446,746	2,773,157
	<u>11,089,413</u>	<u>5,310,825</u>	<u>2,698,097</u>	<u>214,678</u>	<u>13,787,510</u>	<u>5,525,503</u>
Total	<u>\$14,859,413</u>	<u>\$ 6,041,799</u>	<u>\$12,302,097</u>	<u>\$ 1,440,805</u>	<u>\$27,161,510</u>	<u>\$ 7,482,604</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

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, 2019 are as follows:

	Water & Sewer	Electric
Operating revenues	\$13,100,922	\$14,434,571
Operating expenses	<u>9,864,297</u>	<u>12,731,473</u>
Net Revenues	\$ 3,236,625 ¹	\$ 1,703,098 ¹
20% Unrestricted Net Position	N/A ²	<u>1,067,766 ²</u>
Income Available for Debt Service	<u>\$ 3,236,625</u>	<u>\$ 2,770,864</u>
Debt service, principal and interest paid (Revenue bond only)	\$ 299,791	\$ 723,150
Debt service coverage ratio	10.79	3.83
Debt service, principal and interest paid (All indebtedness)	\$ 895,224	\$ 723,150
Debt service coverage ratio	3.61	3.83

¹ Per rate covenants, this does not include depreciation expense of \$1,374,663 and \$539,375, 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 \$11,001,730. Principal and interest paid for the current year and total customer net revenues were \$299,791 and \$3,236,625, 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 \$5,398,508. Principal and interest paid for the current year and total customer net revenues were \$723,150 and \$1,703,098, respectively.

C. Interfund Balances and Activity

Transfers to/from Other Funds at June 30, 2019, consist of the following:

From the General Fund to the CAMPO LAPP Capital Project to fund local match	\$88,900
From the Electric Fund to the LED Changeover Capital Project to fully fund project	\$881,741

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

D. Revenues, Expenditures and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2019, the Town of Clayton has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$3,999 for the 11 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.

Also, the Town has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$11,383 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, 2019. 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, 2019, the Town reported revenues and expenditures for the payments of \$11,383 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, 2019. 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, 2019 were \$9,743,292.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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	\$14,455,315
Less:	
Inventories	6,244
Stabilization by State Statute	1,985,684
Streets-Powell Bill	439,761
Public Improvements	844,401
Public Safety	16,091
Appropriate Fund Balance in 2020 Budget	935,000
Working Capital / Fund Balance Policy	4,779,870
Remaining Fund Balance	5,448,264

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.

Required Supplemental Financial Data

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

Schedule of Proportionate Share of Net Pension Liability (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

Schedule of Changes in Total OPEB Liability

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

	2019	2018	2017	2016	2015	2014
Clayton's proportion of net pension liability (asset) %	-0.17581%	-0.16683%	-0.15451%	-0.14713%	0.13908%	0.13910%
Clayton's proportion of net pension liability (asset) \$	\$ 4,170,814	\$ 2,548,700	\$ 3,279,220	\$ 660,311	\$ (820,219)	\$ 1,676,689
Clayton's covered payroll	\$ 10,619,679	\$ 10,139,578	\$ 9,006,884	\$ 8,257,291	\$ 7,646,861	\$ 7,378,465
Clayton's proportionate share of net pension liability (asset) as a percentage of its covered payroll	39.27%	25.14%	36.41%	8.00%	-10.73%	22.72%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	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 LGRS plan.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 934,387	\$ 820,218	\$ 759,610	\$ 617,145	\$ 591,319	\$ 545,001
Contributions in relation to the contractually required contribution	<u>\$ 934,387</u>	<u>\$ 820,218</u>	<u>\$ 759,610</u>	<u>\$ 617,145</u>	<u>\$ 591,319</u>	<u>\$ 545,001</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Clayton's covered payroll	\$ 11,718,813	\$ 10,619,679	\$ 10,139,578	\$ 9,006,884	\$ 8,257,291	\$ 7,646,861
Contributions as a percentage of covered payroll	7.97%	7.72%	7.49%	6.85%	7.16%	7.13%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Clayton's proportionate share of the net pension liability %	0.00000%	0.00000%	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 *	\$ 14,063	\$ 59,433	\$ 46,700	\$ 46,361	\$ 42,834
Total	<u>\$ 14,063</u>	<u>\$ 59,433</u>	<u>\$ 46,700</u>	<u>\$ 46,361</u>	<u>\$ 42,834</u>
Clayton's covered payroll	\$ 1,430,987	\$ 1,204,539	\$ 974,364	\$ 895,826	\$ 698,205
Clayton's proportionate share of the net pension liability as a percentage of its covered payroll	0.98%	4.93%	4.79%	5.18%	6.13%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.35%	84.94%	91.40%	93.42%

* The membership declined from 52 to 11 as of June 30, 2019.

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

	2019	2018	2017
Beginning balance	\$ 2,054,515	\$ 1,762,104	\$ 1,725,158
Service Cost	80,428	73,293	72,517
Interest on total pension liability	63,824	66,804	60,648
Changes in benefit terms	-	-	-
Differences between expected and actuarial experience	29,511	95,487	-
Changes of assumptions and other inputs	(78,254)	119,697	(43,544)
Benefit payments	(69,540)	(62,870)	(52,675)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 2,080,484</u>	<u>\$ 2,054,515</u>	<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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total pension liability	\$ 2,080,484	\$ 2,054,515	\$ 1,762,104	\$ 1,725,158	\$ 1,094,305	\$ 1,016,980	\$ 911,025	\$ 769,822	\$ 672,393	\$ 796,120
Covered payroll	2,631,786	2,619,148	2,475,010	2,475,010	2,131,150	2,100,941	2,075,282	2,105,132	2,020,788	2,131,334
Total pension liability as a percentage of covered payroll	79.05%	78.44%	71.20%	69.70%	51.35%	48.41%	43.90%	36.57%	33.27%	37.35%

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.

TOWN OF CLAYTON, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

	2019	2018
Service Cost	\$ 57,571	\$ 62,599
Interest on total OPEB liability	28,945	23,863
Changes in benefit terms	-	-
Differences between expected and actuarial experience	(999)	(163)
Changes of assumptions and other inputs	(35,027)	(57,281)
Benefit payments	(8,661)	(8,810)
Other changes	-	-
Net change in total OPEB liability	\$ 41,829	\$ 20,208
Total OPEB liability - beginning	817,364	797,156
Total OPEB liability - ending	<u>\$ 859,193</u>	<u>\$ 817,364</u>
Covered payroll	\$ 9,817,568	\$ 9,817,568
Total OPEB liability as a percentage of covered payroll	8.75%	8.33%

Notes to Schedule

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

<u>Fiscal year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%

**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, 2019

Exhibit A-1
Page 1 of 6

	2019		Variance
	Budget	Actual	Positive (Negative)
REVENUES:			
Ad valorem taxes:			
Taxes	\$ -	\$11,894,829	\$ -
Penalties and interest	-	26,050	-
Total	11,730,191	11,920,879	190,688
Other taxes and licenses:			
Motor vehicle licenses	-	415,209	-
Payments in lieu of taxes	-	13,532	-
Total	460,000	428,741	(31,259)
Unrestricted intergovernmental:			
Local option sales tax	-	4,585,262	-
ABC profit distribution	-	126,246	-
Gasoline tax refunds	-	186	-
Utilities sales tax	-	1,038,688	-
Piped natural gas sales tax	-	45,970	-
Telecommunications sales tax	-	51,265	-
Video programming fees	-	177,148	-
Beer and wine tax	-	86,900	-
Tax Reimbursements	-	35,250	-
Reimbursement from rural fire department	-	2,160,984	-
Total	8,183,784	8,307,899	124,115
Restricted intergovernmental:			
Powell Bill allocation	-	522,927	-
State grants	-	89,836	-
Federal grants	-	42,563	-
Controlled substance tax	-	9,920	-
PEG channel support	-	54,054	-
On-behalf of payments - Fire	-	15,382	-
First responder subsidy	-	24,523	-
Solid waste disposal tax	-	14,943	-
Total	776,176	774,148	(2,028)
Permits and fees:			
Alarm response fees	-	6,460	-
Recreation fees in lieu	-	266,628	-
Building permits	-	1,051,361	-
Inspection and rezoning fees	-	590,437	-
Total	1,146,890	1,914,886	767,996

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, 2019

Exhibit A-1
Page 2 of 6

	2019		Variance
	Budget	Actual	Positive (Negative)
REVENUES: (Continued)			
Sales and service:			
Court costs and fees	-	15,016	-
Refuse collection fees	-	1,743,625	-
Cemetery lots and fees	-	80,240	-
Public safety contributions	-	58,453	-
Recreation fees and contributions	-	434,387	-
Clayton Center Cultural Arts	-	273,854	-
Library fees and contributions	-	80,890	-
Total	<u>2,518,034</u>	<u>2,686,465</u>	<u>168,431</u>
Investment earnings	<u>224,415</u>	<u>416,159</u>	<u>191,744</u>
Miscellaneous:			
Miscellaneous	-	10,485	-
Sale of surplus property	-	12,265	-
Lease revenue	-	18,731	-
Reimbursable projects	-	5,004	-
Damage and insurance reimbursement	-	139,038	-
Total	<u>40,264</u>	<u>185,523</u>	<u>145,259</u>
Total Revenues	<u>25,079,754</u>	<u>26,634,700</u>	<u>1,554,946</u>
EXPENDITURES:			
General Government:			
Legislative:			
Salaries and employee benefits	-	259,717	-
Other operating expenditures	-	98,863	-
Reimbursement - proprietary funds	-	(60,819)	-
Total	<u>-</u>	<u>297,761</u>	<u>-</u>
Administration:			
Salaries and employee benefits	-	430,249	-
Other operating expenditures	-	416,229	-
Capital outlay	-	308,430	-
Reimbursement - proprietary funds	-	(310,832)	-
Total	<u>-</u>	<u>844,076</u>	<u>-</u>
Human Resources:			
Salaries and employee benefits	-	258,874	-
Other operating expenditures	-	101,418	-
Reimbursement - proprietary funds	-	(64,129)	-
Total	<u>-</u>	<u>296,163</u>	<u>-</u>
Special Appropriations:			
Citizen Boards	-	16,711	-
Cultural arts and economic development	-	20,000	-
Total	<u>-</u>	<u>36,711</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, 2019

Exhibit A-1
Page 3 of 6

	2019		Variance
	Budget	Actual	Positive (Negative)
EXPENDITURES: (Continued)			
General Government: (Continued)			
Legal:			
Retainer and legal fees	-	191,622	-
Reimbursement - proprietary funds	-	(78,600)	-
Total	-	113,022	-
Total General Government	2,050,451	1,587,733	462,718
Financial Services:			
Salaries and employee benefits	-	451,253	-
Other operating expenditures	-	413,372	-
Reimbursement - proprietary funds	-	(312,381)	-
Total	561,013	552,244	8,769
Customer Service:			
Salaries and employee benefits	-	561,319	-
Other operating expenditures	-	122,177	-
Capital outlay	-	24,685	-
Reimbursement - proprietary funds	-	(677,083)	-
Total	42,889	31,098	11,791
Data and Technology Services:			
Salaries and employee benefits	-	83,012	-
Other operating expenditures	-	122,304	-
Contract services	-	832,727	-
Reimbursement - proprietary funds	-	(181,849)	-
Total	868,548	856,194	12,354
Community Development Services:			
Planning and Zoning:			
Salaries and employee benefits	-	525,091	-
Other operating expenditures	-	111,202	-
Total	-	636,293	-
Downtown and Economic Development			
Salaries and employee benefits	-	207,414	-
Capital outlay	-	9,000	-
Other operating expenditures	-	104,947	-
Total	-	321,361	-
Total Community Development Services	1,071,595	957,654	113,941
Public Information:			
Salaries and employee benefits	-	131,931	-
Other operating expenditures	-	21,166	-
Reimbursement - proprietary funds	-	(95,014)	-
Total	101,811	58,083	43,728
Total General Government Operations	4,696,307	4,043,006	653,301

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, 2019

Exhibit A-1
Page 4 of 6

	2019		Variance
	Budget	Actual	Positive (Negative)
EXPENDITURES: (Continued)			
Law Enforcement:			
Police Administration:			
Salaries and employee benefits	-	353,058	-
Vehicle maintenance and fuel	-	2,723	-
Other operating expenditures	-	233,838	-
Total	-	589,619	-
Police Investigation:			
Salaries and employee benefits	-	680,601	-
Vehicle maintenance and fuel	-	12,493	-
Other operating expenditures	-	85,031	-
Capital outlay	-	31,786	-
Total	-	809,911	-
Police Patrol:			
Salaries and employee benefits	-	2,060,196	-
Vehicle maintenance and fuel	-	96,440	-
Other operating expenditures	-	174,894	-
Capital outlay	-	228,892	-
Total	-	2,560,422	-
Police Special Operations			
Salaries and employee benefits	-	855,230	-
Vehicle maintenance and fuel	-	24,985	-
Other operating expenditures	-	100,450	-
Capital outlay	-	176,370	-
Total	-	1,157,035	-
Total Law Enforcement	5,329,261	5,116,987	212,274
Fire Protection:			
Salaries and employee benefits	-	2,566,689	-
Vehicle maintenance and fuel	-	68,949	-
Other operating expenditures	-	457,548	-
Capital outlay	-	589,207	-
On Behalf of Payments-Fire	-	15,382	-
Total	-	3,697,775	-
Total Fire Protection	3,747,827	3,697,775	50,052
Total Public Safety	9,077,088	8,814,762	262,326
Public Works:			
Administration:			
Salaries and employee benefits	-	449,320	-
Other operating expenditures	-	63,511	-
Reimbursement - proprietary funds	-	(352,268)	-
Total	-	160,563	-

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, 2019

Exhibit A-1
Page 5 of 6

	2019		Variance
	Budget	Actual	Positive (Negative)
EXPENDITURES: (Continued)			
Public Works: (Continued)			
Inspections:			
Salaries and employee benefits	-	604,486	-
Vehicle maintenance and fuel	-	6,755	-
Other operating expenditures	-	38,855	-
Capital outlay	-	99,272	-
Total	-	749,368	-
GIS:			
Salaries and employee benefits	-	141,797	-
Other operating expenditures	-	12,396	-
Reimbursement - proprietary funds	-	(112,968)	-
Total	-	41,225	-
Engineering:			
Salaries and employee benefits	-	372,926	-
Other operating expenditures	-	71,201	-
Reimbursement - proprietary funds	-	(163,157)	-
Total	-	280,970	-
Vehicle Maintenance Shop:			
Salaries and employee benefits	-	198,703	-
Other operating expenditures	-	111,058	-
Reimbursement - proprietary funds	-	(66,573)	-
Total	-	243,188	-
Streets:			
Salaries and employee benefits	-	409,445	-
Vehicle maintenance and fuel	-	33,784	-
Street lights	-	189,614	-
Other operating expenditures	-	231,701	-
Capital outlay	-	1,229,816	-
Reimbursement - proprietary funds	-	(79,221)	-
Total	-	2,015,139	-
Property Maintenance:			
Salaries and employee benefits	-	843,171	-
Vehicle maintenance and fuel	-	27,304	-
Other operating expenditures	-	302,391	-
Capital outlay	-	92,213	-
Reimbursement - proprietary funds	-	(81,011)	-
Total	-	1,184,068	-
Sanitation:			
Yard waste services	-	282,497	-
Trash hauling fee	-	741,676	-
Landfill fees	-	279,184	-
Recycling efforts	-	457,794	-
Miscellaneous activities	-	876	-
Total	-	1,762,027	-
Total Public Works	7,400,496	6,436,548	963,948

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, 2019

Exhibit A-1
Page 6 of 6

	2019		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Parks & Recreation:			
Salaries and employee benefits	-	754,126	-
Vehicle maintenance and fuel	-	6,917	-
Other operating expenditures	-	682,448	-
Total Parks & Recreation	<u>1,534,840</u>	<u>1,443,491</u>	<u>91,349</u>
Cultural & Performing Arts:			
Salaries and employee benefits	-	442,877	-
Other operating expenditures	-	255,447	-
Capital outlay	-	45,557	-
Total Cultural & Performing Arts	<u>815,719</u>	<u>743,881</u>	<u>71,838</u>
Library Operations:			
Salaries and employee benefits	-	463,332	-
Contract services	-	66,543	-
Other operating expenditures	-	93,273	-
Total Library Operations	<u>634,522</u>	<u>623,148</u>	<u>11,374</u>
Total Cultural and Recreational	<u>2,985,081</u>	<u>2,810,520</u>	<u>174,561</u>
Debt Service:			
Principal retirement	-	1,340,557	-
Interest and fees	-	365,056	-
Total Debt Service	<u>1,986,192</u>	<u>1,705,613</u>	<u>280,579</u>
Total Expenditures	<u>26,145,164</u>	<u>23,810,449</u>	<u>2,334,715</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,065,410)</u>	<u>2,824,251</u>	<u>3,889,661</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers (to) from other funds:			
Transfer to CAMPO LAPP Project	(88,900)	(88,900)	-
Total other financing sources (uses)	<u>(88,900)</u>	<u>(88,900)</u>	<u>-</u>
Fund balance appropriated	<u>1,154,310</u>	<u>-</u>	<u>(1,154,310)</u>
Net change in fund balance	<u>\$ -</u>	<u>2,735,351</u>	<u>\$ 2,735,351</u>
Fund balance, beginning		<u>11,719,964</u>	
Fund balance, ending		<u>\$14,455,315</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, 2019

	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, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES:					
Grant revenue	\$ 3,814,625	\$ 756,818	\$ 478,727	\$ 1,235,545	\$(2,579,080)
Miscellaneous	-	-	3,147	3,147	3,147
Total Revenues	<u>3,814,625</u>	<u>756,818</u>	<u>481,874</u>	<u>1,238,692</u>	<u>(2,575,933)</u>
EXPENDITURES:					
Capital outlay:					
Construction	4,670,655	1,459,532	40,109	1,499,641	3,171,014
Easement acquisition	25,000	23,205	-	23,205	1,795
Design	<u>306,000</u>	<u>257,722</u>	<u>-</u>	<u>257,722</u>	<u>48,278</u>
Total expenditures	<u>5,001,655</u>	<u>1,740,459</u>	<u>40,109</u>	<u>1,780,568</u>	<u>3,221,087</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,187,030)</u>	<u>\$ (983,641)</u>	<u>\$ 441,765</u>	<u>\$ (541,876)</u>	<u>\$ 645,154</u>
OTHER FINANCING SOURCES:					
Transfer from General Fund	<u>1,187,030</u>	<u>1,098,556</u>	<u>88,900</u>	<u>1,187,456</u>	<u>426</u>
Total other financing sources:	<u>1,187,030</u>	<u>1,098,556</u>	<u>88,900</u>	<u>1,187,456</u>	<u>426</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 114,915</u>	<u>\$ 530,665</u>	<u>\$ 645,580</u>	<u>\$ 645,580</u>
Fund balance, beginning			<u>114,915</u>		
Fund balance, ending			<u>\$ 645,580</u>		

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, 2019

Exhibit B-1

	<u>Permanent Fund Horne Cemetery Fund</u>	<u>Total Non-Major Governmental Fund</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,247	\$ 3,247
Total assets	<u>\$ 3,247</u>	<u>\$ 3,247</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts payable and accrued liabilities	<u>-</u>	<u>-</u>
Fund balance		
Perpetual maintenance	<u>3,247</u>	<u>3,247</u>
Total fund balance	<u>3,247</u>	<u>3,247</u>
Total liabilities and fund balances	<u>\$ 3,247</u>	<u>\$ 3,247</u>

HORNE CEMETERY FUND

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

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Investment Earnings	\$ -	\$ 1	\$ 1
EXPENDITURES			
Cemetery Care	-	-	-
Revenues over expenditures	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>
Fund balance, beginning		<u>3,246</u>	
Fund balance, ending		<u>\$ 3,247</u>	

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.

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.

LED Changeover Project Fund – This fund is used to account for the Town's changeover to LED lighting fixtures for operational efficiencies.

	2019		Variance Positive (Negative)
	Budget	Actual	
REVENUES:			
Operating revenues:			
Water sales	\$ -	\$ 6,396,312	\$ -
Sewer charges	-	5,678,926	-
Connection and tap fees	-	80,375	-
Total	<u>11,678,168</u>	<u>12,155,613</u>	<u>477,445</u>
Other operating revenues	<u>1,060,022</u>	<u>945,309</u>	<u>(114,713)</u>
Total operating revenues	<u>12,738,190</u>	<u>13,100,922</u>	<u>362,732</u>
Nonoperating revenues:			
Investment earnings	-	22,696	-
Capacity fees	-	164,150	-
Nutrient offset fees	-	273,225	-
System development fees	-	3,796,572	-
Miscellaneous	-	453,099	-
Total nonoperating revenues	<u>3,183,561</u>	<u>4,709,742</u>	<u>1,526,181</u>
Total revenues	<u>15,921,751</u>	<u>17,810,664</u>	<u>1,888,913</u>
EXPENDITURES:			
Water Distribution Operations:			
Water purchases	-	7,844,756	-
Salaries and employee benefits	-	597,279	-
Meter replacements	-	143,042	-
Bad debt expense	-	34,143	-
Other operating expenditures	-	606,091	-
Total water distribution	<u>11,549,186</u>	<u>9,225,311</u>	<u>2,323,875</u>
Preventative Maintenance:			
Salaries and employee benefits	-	431,920	-
Chemicals	-	96,416	-
Supplies	-	4,371	-
Other operating expenditures	-	402,009	-
Total preventative maintenance	<u>1,279,005</u>	<u>934,716</u>	<u>344,289</u>
Water Treatment:			
Sewer capacity purchases	-	507,900	-
Salaries and employee benefits	-	406,645	-
Chemicals	-	27,712	-
Supplies	-	18,637	-
Contract Services	-	1,979,253	-
Other operating expenditures	-	512,644	-
Total water treatment	<u>3,458,199</u>	<u>3,452,791</u>	<u>5,408</u>
Total water distribution and treatment	<u>16,286,390</u>	<u>13,612,818</u>	<u>2,673,572</u>

	2019		Variance Positive (Negative)
	Budget	Actual	
EXPENDITURES: (Continued)			
Debt service:			
Principal	\$ -	\$ 614,381	\$ -
Interest	-	280,843	-
Total debt service	895,224	895,224	-
Capital outlay:			
Water distribution	-	1,027,761	
Water prevention	-	1,005,846	
Water treatment	-	68,977	-
Total capital outlay	3,078,433	2,102,584	975,849
Reimbursement - General Fund:			
Support services - General Fund	1,724,925	1,724,925	-
Total expenditures	21,984,972	18,335,551	3,649,421
REVENUES OVER (UNDER) EXPENDITURES	(6,063,221)	(524,887)	5,538,334
Other financing sources (uses)			
Transfer to Capital Project funds	(4,145,923)	-	4,145,923
Total other financing sources	(4,145,923)	-	4,145,923
Fund balance appropriated	10,209,144	-	(10,209,144)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-	(524,887)	(524,887)
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		\$ (524,887)	
Reconciling items:			
Capital outlay		2,102,584	
Principal retirement		614,381	
Increase in accrued vacation pay		(12,683)	
Increase in deferred outflows of resources - pensions		135,092	
Increase in net pension liability		(168,802)	
Decrease in deferred inflows of resources - pensions		4,569	
Increase in deferred outflows of resources - OPEB		165	
Increase in deferred inflows of resources - OPEB		(1,626)	
Increase in OPEB liability		(1,169)	
Depreciation & Amortization		(1,374,663)	
Transfer to Capital Project Funds		-	
Capital Contribution		2,242,865	
Interest income from Capital Projects Fund		-	
Total Reconciling items		3,540,713	
Change in net position		\$ 3,015,826	

**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, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Miscellaneous	\$ 255,000	\$ 255,000	\$ -	\$ 255,000	\$ -
Interest earnings	-	440	-	440	440
Total revenues	<u>255,000</u>	<u>255,440</u>	<u>-</u>	<u>255,440</u>	<u>440</u>
EXPENDITURES:					
Clayton capacity charges	807,400	807,366	-	807,366	34
Construction	5,075,164	4,635,944	291,834	4,927,778	147,386
Design services	510,000	504,984	-	504,984	5,016
Easements	271,500	271,075	(52)	271,023	477
Construction inspection	-	-	-	-	-
Geotechnical investigation	13,200	13,200	-	13,200	-
Contingency	300	265	-	265	35
Total expenditures	<u>6,677,564</u>	<u>6,232,834</u>	<u>291,782</u>	<u>6,524,616</u>	<u>152,948</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (6,422,564)</u>	<u>\$ (5,977,394)</u>	<u>\$ (291,782)</u>	<u>\$ (6,269,176)</u>	<u>\$ 153,388</u>
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	1,325,564	1,325,564	-	1,325,564	-
Proceeds from revenue bond	5,097,000	5,097,000	-	5,097,000	-
Total other financing sources	<u>6,422,564</u>	<u>6,422,564</u>	<u>-</u>	<u>6,422,564</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 445,170</u>	<u>\$ (291,782)</u>	<u>\$ 153,388</u>	<u>\$ 153,388</u>
Fund balance, beginning			<u>445,170</u>		
Fund balance, ending			<u>\$ 153,388</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, 2019

Exhibit C-3

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Grants	\$ 3,748,000	\$ 312,696	\$ 2,242,865	\$ 2,555,561	\$ (1,192,439)
Miscellaneous	25,000	-	-	-	\$ (25,000)
Total revenues	<u>3,773,000</u>	<u>312,696</u>	<u>2,242,865</u>	<u>2,555,561</u>	<u>(1,217,439)</u>
EXPENDITURES:					
Professional services	1,500,000	981,031	194,301	1,175,332	324,668
Easements	25,000	17,136	-	17,136	7,864
Sewer line improvements	6,000,000	825,364	4,509,801	5,335,165	664,835
Contingency	300,000	-	-	-	300,000
Total expenditures	<u>7,825,000</u>	<u>1,823,531</u>	<u>4,704,102</u>	<u>6,527,633</u>	<u>1,297,367</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (4,052,000)</u>	<u>\$ (1,510,835)</u>	<u>\$ (2,461,237)</u>	<u>\$ (3,972,072)</u>	<u>\$ 79,928</u>
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	4,052,000	4,052,000	-	4,052,000	-
Total other financing sources	<u>4,052,000</u>	<u>4,052,000</u>	<u>-</u>	<u>4,052,000</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 2,541,165</u>	<u>\$ (2,461,237)</u>	<u>\$ 79,928</u>	<u>\$ 79,928</u>
Fund balance, beginning			<u>2,541,165</u>		
Fund balance, ending			<u>\$ 79,928</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, 2019

Exhibit C-4

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Grants	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Professional services	24,323	23,693	630	24,323	-
Easements	7,938	7,938	(130)	7,808	130
Sewer line improvements	859,262	858,479	782	859,261	1
Contingency	-	-	-	-	-
Total expenditures	891,523	890,110	1,282	891,392	131
REVENUES OVER (UNDER) EXPENDITURES	\$ (891,523)	\$ (890,110)	\$ (1,282)	\$ (891,392)	\$ 131
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Water and Sewer fund	891,523	888,700	-	888,700	(2,823)
Total other financing sources	891,523	888,700	-	888,700	(2,823)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	\$ -	\$ (1,410)	\$ (1,282)	\$ (2,692)	\$ (2,692)
Fund balance, beginning			(1,410)		
Fund balance, ending			\$ (2,692)		

	2019		Variance
	Budget	Actual	Positive (Negative)
REVENUES:			
Operating revenues:			
Electricity sales	\$ -	\$ 13,975,256	\$ -
Connection fees	-	78,373	-
Penalties	-	206,734	-
Total	13,705,500	14,260,363	554,863
Other operating revenues	150,850	174,208	23,358
Total operating revenues	13,856,350	14,434,571	578,221
Nonoperating revenues:			
Investment earnings	-	52,228	-
Damage reimbursement	-	45,226	-
Miscellaneous	-	103,678	-
Total nonoperating revenues	87,535	201,132	113,597
Total revenues	13,943,885	14,635,703	691,818
EXPENDITURES:			
Electric operations:			
Electric power purchased	-	9,743,292	-
Salaries and employee benefits	-	1,038,063	-
Contracted maintenance	-	309,698	-
Vehicle maintenance	-	36,585	-
Load control expense	-	78,057	-
Bad Debt expense	-	70,960	-
Other operating expenditures	-	485,117	-
Total electric operations	11,765,702	11,761,772	3,930
Debt service:			
Principal	-	616,667	-
Interest	-	106,483	-
Total debt service	723,150	723,150	-
Capital outlay	939,225	871,353	67,872
Reimbursement - General Fund:			
Taxes	39,100	35,250	-
Support services	910,980	910,980	-
Total reimbursement	950,080	946,230	3,850

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

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2019**

**Exhibit C-5
Page 2 of 2**

	2019		Variance Positive (Negative)
	Budget	Actual	
Total expenditures	14,378,157	14,302,505	75,652
REVENUES OVER (UNDER) EXPENDITURES	\$ (434,272)	\$ 333,198	\$ 767,470
Other financing sources (uses)			
Transfer to Capital Project Fund	(881,741)	(881,741)	-
Total other financing sources	(881,741)	(881,741)	-
Fund balance appropriated	1,316,013	-	(1,316,013)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-	(548,543)	(548,543)
RECONCILIATION FROM BUDGETARY BASIS (MODIFIED ACCRUAL) TO FULL ACCRUAL:			
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		\$ (548,543)	
Reconciling items:			
Capital outlay		871,353	
Principal retirement		616,667	
Increase in accrued vacation pay		(2,215)	
Increase in deferred outflows of resources - pensions		77,675	
Increase in net pension liability		(97,200)	
Decrease in deferred inflows of resources - pensions		3,638	
Increase in deferred outflows of resources - OPEB		-	
Increase in deferred inflows of resources - OPEB		(1,609)	
Increase in OPEB liability		(3,760)	
Depreciation		(539,375)	
Interest income from Capital Project Fund		6	
Transfer to Capital Project Fund		881,741	
Total Reconciling items		1,806,921	
Change in net position		\$ 1,258,378	

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, 2019

	<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)	\$ -	\$ 243,546	\$ -	\$ 243,546	\$ 243,456
Fund balance, beginning			243,546		
Fund balance, ending			\$ 243,546		

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, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to date	Variance Positive (Negative)
REVENUES					
Interest earnings	\$ -	\$ 429	\$ 6	\$ 435	\$ 435
Total revenues	-	429	6	435	435
EXPENDITURES:					
Construction	5,164,995	5,164,757	-	5,164,757	238
Contingency	48,358	3,500	-	3,500	44,858
Total expenditures	5,213,353	5,168,257	-	5,168,257	45,096
REVENUES OVER (UNDER) EXPENDITURES	\$ (5,213,353)	\$ (5,167,828)	\$ 6	\$ (5,167,822)	\$ 45,531
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Electric fund	(136,647)	(136,647)	-	(136,647)	-
Proceeds from revenue bond	5,350,000	5,350,000	-	5,350,000	-
Total other financing sources	5,213,353	5,213,353	-	5,213,353	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	\$ -	\$ 45,525	\$ 6	\$ 45,531	\$ 45,531
Fund balance, beginning			45,525		
Fund balance, ending			\$ 45,531		

ELECTRIC CAPITAL PROJECTS FUND -

LED CHANGEOVER PROJECT

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

From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Years	Actual Current Year	Total to date	Variance Positive (Negative)
REVENUES					
Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Construction	881,741	-	479,334	479,334	402,407
Total expenditures	881,741	-	479,334	479,334	402,407
REVENUES OVER (UNDER)					
EXPENDITURES	\$ (881,741)	\$ -	\$ (479,334)	\$ (479,334)	\$ 402,407
OTHER FINANCING SOURCES:					
Operating transfers (to) from:					
Electric fund	881,741	-	881,741	881,741	-
Total other financing sources	881,741	-	881,741	881,741	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER)					
EXPENDITURES	\$ -	\$ -	\$ 402,407	\$ 402,407	\$ 402,407
Fund balance, beginning			-		
Fund balance, ending			\$ 402,407		

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, 2019

Exhibit D-1

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
ASSETS				
Cash and cash equivalents	\$ 2,020,314	\$ 1,820,652	\$ 1,755,618	\$ 2,085,348
Taxes receivable	16,143	-	16,143	-
Total assets	<u>\$ 2,036,457</u>	<u>\$ 1,820,652</u>	<u>\$ 1,771,761</u>	<u>\$ 2,085,348</u>
LIABILITIES				
Intergovernmental payable	<u>2,036,457</u>	<u>1,820,652</u>	<u>1,771,761</u>	<u>2,085,348</u>
Total liabilities	<u>\$ 2,036,457</u>	<u>\$ 1,820,652</u>	<u>\$ 1,771,761</u>	<u>\$ 2,085,348</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, 2019

Exhibit E-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 12,003,153	\$ 12,001,822	1,332
2017-2018	2,420	-	474	1,947
2016-2017	547	-	-	547
2015-2016	174	-	-	174
2014-2015	194	-	-	194
2013-2014	4,264	-	398	3,867
2012-2013	7,057	-	218	6,839
2011-2012	6,183	-	71	6,112
2010-2011	4,522	-	-	4,522
2009-2010	4,141	-	-	4,141
2008-2009	5,530	-	602	4,928
	<u>\$ 35,031</u>	<u>\$ 12,003,153</u>	<u>\$ 12,003,584</u>	<u>\$ 34,600</u>
Plus: Uncollected 2018-2019 ad valorem taxes receivable on annually registered vehicles				-
Less: Allowance for uncollectible accounts General Fund				<u>8,800</u>
Ad valorem taxes receivable - net				<u>\$ 25,800</u>
Reconciliation with revenues				
Ad valorem taxes - General Fund				<u>\$ 11,920,879</u>
Reconciling items:				
Interest collected				(26,050)
EDIG Rebate				95,375
Releases/adjustments				<u>13,380</u>
Subtotal				<u>82,705</u>
Total collections and credits				<u>\$ 12,003,584</u>

TOWN OF CLAYTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Fiscal Year Ended June 30, 2019

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	\$2,047,961,758	\$0.580	\$11,878,178	\$10,693,038	\$1,185,140
Penalties	-		-	-	-
Total	<u>2,047,961,758</u>		<u>11,878,178</u>	<u>10,693,038</u>	<u>1,185,140</u>
Discoveries:					
Current years taxes	20,445,636	0.580	118,585	118,585	-
Prior year taxes	<u>1,172,769</u>	0.545	<u>6,390</u>	<u>6,390</u>	-
Total	<u>21,618,405</u>		<u>124,975</u>	<u>124,975</u>	-
Abatements:					
Current years taxes	<u>(2,203,109)</u>		<u>(12,778)</u>	<u>(6,165)</u>	<u>(6,613)</u>
Total	<u>(2,203,109)</u>		<u>(12,778)</u>	<u>(6,165)</u>	<u>(6,613)</u>
Total property valuation	<u><u>\$2,067,377,054</u></u>				
Net levy			11,990,375	10,811,849	1,178,527
Uncollected taxes at June 30, 2019			<u>1,332</u>	<u>1,332</u>	-
Current year's taxes collected			<u>\$11,989,044</u>	<u>\$10,810,517</u>	<u>\$1,178,527</u>
Current levy collection percentage			<u>99.99%</u>	<u>99.99%</u>	<u>100.00%</u>

COMPLIANCE SECTION

220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 557-1176

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
Town of 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, 2019, 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 29, 2019. The financial statements of the Town of Clayton ABC Board were not audited in accordance with *Governmental Auditing Standards*.

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 Audit 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 29, 2019

220 East Washington Street
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Rockingham, North Carolina 28380
(910) 557-1176

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;
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 Town of Clayton, North Carolina, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect¹ on each of the Town of Clayton's major federal programs for the year ended June 30, 2019. The Town of Clayton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that 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 occurred. 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 of the Town of Clayton's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2019.

Report on Internal Control Over Compliance

Management of the 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 the Town of Clayton's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 significant deficiencies or material weaknesses. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rockingham, NC
October 29, 2019

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Other Office Locations:
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Statesville, North Carolina

Report on Compliance for Each Major State 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 State Program

We have audited the Town of Clayton, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Town of Clayton's major State programs for the year ended June 30, 2019. The Town of Clayton's major State 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 State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Clayton's major State 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 State 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 State program occurred. 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 State program. However, our audit does not provide a legal determination on Town of Clayton's compliance.

Opinion on Each Major State 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 State programs for the year ended June 30, 2019.

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 State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State 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 State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 29, 2019

TOWN OF CLAYTON, NORTH CAROLINA
SCHEDULE OF QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified *None Reported*

Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major Federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified *None Reported*

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

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

Identification of major Federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program</u>
11.300	Investments for Public Works and Economic Development Facilities

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

Auditee qualified as low-risk auditee? *No*

TOWN OF CLAYTON, NORTH CAROLINA
SCHEDULE OF QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified None Reported

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 State programs:

Powell Bill
Office of the Governor-Special Appropriation

Section II – Federal Award Findings and Questioned Costs

None reported

Section III – State 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, 2019

Grantor/Pass-through Grantor/Program title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal Direct & - Pass-through Expenditures	State Expenditures	Local Expenditures
<u>U.S. Department of Transportation</u>					
Highway Planning and Construction					
North Carolina Department of Transportation				-	-
TIP Project - EL-5100 OB (Pedestrian Connector)	20.205		478,727	-	-
State Community and Highway Safety					
North Carolina Department of Transportation					
Governors Highway Safety Program	20.600		38,616	-	-
<u>U.S. Department of Justice</u>					
Bulletproof Vest Partnership Program	16.607		3,946	-	-
<u>U.S. Economic Development Administration</u>					
Investments for Public Works and Economic Development Facilities	11.300		1,890,298	-	-
<u>National Endowment for the Humanities</u>					
North Carolina Department of Cultural and Natural Resources					
Library Services and Technology Act Grant	45.310		35,554	-	-
<u>Federal Emergency Management Agency/Department of Homeland Security</u>					
North Carolina Department of Public Safety, Division of Emergency Management					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)					
Hurricane Matthew	97.036		13,198	4,399	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)					
Hurricane Florence	97.036		71,347	23,782	-
Total assistance federal programs			<u>2,531,686</u>	<u>28,181</u>	<u>-</u>
STATE GRANTS					
<u>N.C. Department of Transportation</u>					
Powell Bill	N/A	9.9000	-	720,961	-
<u>N.C. Department of Natural and Cultural Resources</u>					
State Aid Library Grant	N/A		-	13,363	-
<u>Office of the Governor</u>					
Special appropriation	N/A	7975	-	50,000	-
<u>N.C. Department of Environmental Quality</u>					
Asset Inventory and Assessment	N/A	W-17-0075	-	120,000	-
Asset Inventory and Assessment	N/A	D-17-0076	-	120,000	-
<u>N.C. Department of Commerce</u>					
Rural Economic Development - Regional Public Pretreatment Facility	N/A	2017-123-5300-1534	-	426,040	-
Total assistance state programs			<u>-</u>	<u>1,450,364</u>	<u>-</u>
Total assistance			<u>\$ 2,531,686</u>	<u>\$ 1,478,545</u>	<u>\$ -</u>

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.