

FINANCIAL STATEMENTS

**Town Of Clayton**

Kent County, Delaware

**December 31, 2017**

TOWN OF CLAYTON

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	10
- Statement of Activities	11
Fund Financial Statements:	
- Balance Sheet – Governmental Funds	12
- Reconciliation of Balance Sheet – Governmental Funds to Statement of Net Position	13
- Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
- Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to Statement of Activities	15
- Statement of Net Position – Proprietary Funds	16
- Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	17
- Statement of Cash Flows – Proprietary Funds	18 - 19
NOTES TO FINANCIAL STATEMENTS	20 - 43
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	44
Schedule Of Proportionate Share Of Net Pension Liability	45
Schedule Of Pension Contributions	46
Schedule Of Net OPEB Liability	47
Schedule Of OPEB Contributions	48
Schedule Of Changes In Net OPEB Liability and Related Ratios	49
COMBINING NONMAJOR FUND STATEMENTS	
- Combining Balance Sheet – Nonmajor Governmental Funds	50
- Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Governmental Funds	51
OTHER REPORTS	
Independent Auditor's 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 <i>Auditing Standards</i>	52 - 53

# *Papaleo, Rosen & Chelf, P.A.*

CERTIFIED  
PUBLIC  
ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Town Council  
Town of Clayton  
Clayton, Delaware

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton, Delaware, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton, Delaware, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Town Council  
Town of Clayton

### **Report On Summarized Comparative Information**

We have previously audited the Town of Clayton, Delaware's December 31, 2016, financial statements, and we expressed unmodified opinions on the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated July 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Clayton, Delaware's basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements 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 3, 2018, on our consideration of the Town of Clayton, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Clayton, Delaware's internal control over financial reporting and compliance.

*Papaleo, Rosen & Chelf, P.A.*

Papaleo, Rosen & Chelf, PA  
Wilmington, Delaware  
October 3, 2018

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited  
December 31, 2017

This discussion and analysis of the Town of Clayton, Delaware (the "Town") provides an overview of the Town's financial performance for the fiscal year ended December 31, 2017. Please read it in conjunction with the Town's financial statements which begin on page 10.

**FINANCIAL HIGHLIGHTS**

The assets of the Town exceeded its liabilities at December 31, 2017, by \$6.6 million (net position). The Town's total net position decreased by \$600 thousand. The current year decrease in the Town's net position is due primarily to Capital outlays which was offset by growth in the Town which caused an increase in impact fee income and real estate transfer taxes. During 2017, property tax rates remained at \$0.75 per \$100 of assessed value.

As of December 31, 2017, the Town's governmental funds reported combined ending fund balances of \$4.0 million, a decrease of \$500 thousand as compared to the prior year. The current year decrease in fund balance can be attributed to the implementation of GASB Statement No. 75 (refer to Note 13).

As of December 31, 2017, the Town's proprietary funds reported a combined net position of \$2.7 million, which was the same when compared to the prior year. Electric billing rates decreased during 2017. Electric rates decreased from \$11.94 for the first 45 kw and \$0.1404 per kw thereafter to \$11.04 for the first 45kw and \$0.1204 per kw thereafter during 2017. Sewer billing rates remained the same as the prior year for the first 2,000 gallons at \$16.50 and each additional 1,000 gallons at \$6.00. Water billing rates remained the same as the prior year at \$9.50 for 2,000 gallons with each additional 1,000 gallons for \$4.00.

**Overview Of The Financial Statements**

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements and required supplementary information. This discussion and analysis is intended to serve as an introduction to the Town of Clayton's basic financial statements. The Town of Clayton's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are entity-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the entity-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

**Entity-Wide Financial Statements.** The entity-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting.

The statement of net position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods.

Both of the entity-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, and licensing and inspection. Business-type activities consist of the Town's electric distribution system and water supply and sewage collection system.

**Fund Financial Statements.** Traditional readers of government financial statements will find the fund financial statement presentation more familiar where the focus is on the Town's most significant funds. 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 uses fund accounting to ensure and demonstrate fiscal accountability. The Town uses governmental and proprietary fund financial statements to provide more detailed information about the Town's most significant funds rather than the Town as a whole.

**Governmental Funds.** Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the Statements of Net Position and Activities) and governmental funds is described in a reconciliation.

**Proprietary Funds.** Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like entity-wide financial statements, provide both long and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the Town's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the entity-wide financial statements. The Town uses proprietary funds to account for its electric distribution system and water supply and sewage collection system. The Town purchases 100 percent of its electric supply requirements from the Delaware Municipal Electric Corporation ("DEMEC") under a long-term full requirements service contract. In addition, the Town is charged a fee by the Town of Smyrna and Kent County to discharge the Town's proportionate share of wastewater into their respective facilities under an operating contract.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

**Notes To The Basic Financial Statements.** The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Town. A budgetary comparison schedule has been provided for the General Fund.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

**Entity-Wide Financial Analysis**

The following table presents a summary of the Statement of Net Position for the Town as of December 31, 2017, and 2016:

**Table 1 – Condensed Statement Of Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>ASSETS</b>						
Current and other assets	\$ 4,019,744	\$ 4,048,249	\$ 796,765	\$ 897,229	\$ 4,816,509	\$ 4,945,478
Capital assets, net and noncurrent assets	2,109,370	1,399,645	2,894,937	2,840,416	5,004,307	4,240,061
<b>TOTAL ASSETS</b>	<b>6,129,114</b>	<b>5,447,894</b>	<b>3,691,702</b>	<b>3,737,645</b>	<b>9,820,816</b>	<b>9,185,539</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
	346,536	247,930	-0-	-0-	346,536	247,930
<b>LIABILITIES</b>						
Current liabilities	513,707	520,913	445,044	430,909	958,751	951,822
Noncurrent liabilities	2,041,845	621,187	513,091	629,852	2,554,936	1,251,039
<b>TOTAL LIABILITIES</b>	<b>2,555,552</b>	<b>1,142,100</b>	<b>958,135</b>	<b>1,060,761</b>	<b>3,513,687</b>	<b>2,202,861</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
	83,445	59,649	-0-	-0-	83,445	59,649
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	2,084,647	1,379,822	2,371,448	2,276,606	4,456,095	3,656,428
Restricted	2,805,959	2,992,637	-0-	-0-	2,805,959	2,992,637
Unrestricted (deficit)	(1,053,953)	121,616	362,119	400,278	(691,834)	521,894
<b>TOTAL NET POSITION</b>	<b>\$ 3,836,653</b>	<b>\$ 4,494,075</b>	<b>\$ 2,733,567</b>	<b>\$ 2,676,884</b>	<b>\$ 6,570,220</b>	<b>\$ 7,170,959</b>

Invested in capital assets, net of related debt increased as a result of capital outlay and was offset by depreciation expense exceeding capital additions for the year. The largest portion of the Town's net position reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. Capital assets are used to provide services to residents and are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position increased due to the accumulation of resources restricted to public works projects and future growth initiatives.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

**Table 2 – Changes In Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 778,818	\$ 657,616	\$ 3,729,836	\$ 3,861,141	\$ 4,508,654	\$ 4,518,757
Operating grants and contributions	205,172	198,023	-0-	-0-	205,172	198,023
Capital grants and contributions	119,145	210,521	-0-	-0-	119,145	210,521
General revenues:						
Taxes	732,633	659,232	-0-	-0-	732,633	659,232
Franchise fees	53,844	50,160	-0-	-0-	53,844	50,160
Investment earnings	14,182	11,326	-0-	-0-	14,182	11,326
Miscellaneous	3,311	771	-0-	-0-	3,311	771
Transfers/Contributions	952,826	1,061,951	-0-	-0-	952,826	1,061,951
<b>TOTAL REVENUES</b>	<b>2,859,931</b>	<b>2,849,600</b>	<b>3,729,836</b>	<b>3,861,141</b>	<b>6,589,767</b>	<b>6,710,741</b>
<b>EXPENSES</b>						
General government	709,238	582,422	-0-	-0-	709,238	582,422
Public safety	1,179,945	1,169,946	-0-	-0-	1,179,945	1,169,946
Public works	503,843	491,327	-0-	-0-	503,843	491,327
Licensing and inspection	46,193	38,894	-0-	-0-	46,193	38,894
Electric operations	-0-	-0-	1,880,730	2,060,293	1,880,730	2,060,293
Water/Sewer operations	-0-	-0-	839,597	775,869	839,597	775,869
Transfers	-0-	-0-	952,826	1,061,951	952,826	1,061,951
<b>TOTAL EXPENSES</b>	<b>2,439,219</b>	<b>2,282,589</b>	<b>3,673,153</b>	<b>3,898,113</b>	<b>6,112,372</b>	<b>6,180,702</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>420,712</b>	<b>567,011</b>	<b>56,683</b>	<b>(36,972)</b>	<b>477,395</b>	<b>530,039</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>4,494,075</b>	<b>3,927,064</b>	<b>2,676,884</b>	<b>2,713,856</b>	<b>7,170,959</b>	<b>6,640,920</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>(1,078,134)</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>(1,078,134)</b>	<b>-0-</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 3,836,653</b>	<b>\$ 4,494,075</b>	<b>\$ 2,733,567</b>	<b>\$ 2,676,884</b>	<b>\$ 6,570,220</b>	<b>\$ 7,170,959</b>

**Governmental Activities**

The cost of all governmental activities in 2017 was \$2.5 million. The amount that taxpayers ultimately financed for these activities through Town taxes was \$733 thousand, or 29 percent. Other costs were paid by those who directly benefited from the programs (\$779 thousand, or 31 percent) or by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$1.3 million, or 67 percent).

Increase in charges for services relate primarily to an increase in impact fees which can be attributed to the continued development within Town limits. Increases in taxes relate primarily to an increase in transfer taxes from the prior year in the amount of \$62 thousand.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

As indicated by the governmental program expenses, general government programs accounted for 29 percent of the Town's governmental activities and remained consistent with prior year amounts. Public safety expenses accounted for 48 percent of the Town's governmental activities, public works expenses accounted for 21 percent, and licensing and inspection expenses accounted for 2 percent, all consistent with prior year amounts.

**Business-Type Activities And Proprietary Funds**

Charges for services represent the principal revenue source for the Town's business-type activities and proprietary funds were \$3.7 million which was a decrease of approximately \$200 thousand due to a decrease in electric usage charges. The overall expenses of the business-type activities decreased by approximately 4 percent. Expense decreases are due to a decrease in electric purchased.

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the Town's financing requirements. In particular, the unreserved 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 December 31, 2017, the Town's governmental funds reported combined ending fund balances of \$3.5 million, which is consistent with the prior year. The governmental funds remained mainly unchanged because of the increase of approximately \$716 thousand in capital outlays which offset the increases in taxes of approximately \$72 thousand, impact assessments of approximately \$96 thousand, and transfers in of approximately \$953 thousand. Approximately 88 percent, or \$3.1 million, constitutes fund balance reserved for special purposes, leaving an unassigned portion of fund balance of \$415 thousand.

The General Fund is the chief operating fund of the Town. As of December 31, 2017, the total of the General Fund was approximately \$889 thousand, of which \$415 thousand is unreserved and undesignated, \$275 thousand has been designated by the Town to fund future costs for post-employment benefits, \$97 thousand has been reserved for future public safety costs, \$126 thousand has been reserved for future public works costs, and \$21 thousand has been reserved for inventory and prepaid costs. The fund balance decreased by \$13 thousand during the year ended December 31, 2017.

The other major fund of the Town is the Impact Fees Fund which is used to accumulate resources for future growth initiatives as mandated by law.

Significant changes in revenues and expenditures for the governmental funds are consistent with the prior analysis of the governmental activities revenues and expenses. Other financing sources consisted of transfers from the proprietary funds to subsidize the government's primary governmental operations.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the Town's budget and actual results can be found on page 44. There were no amendments to the original budget. A summary of significant variations between budget amounts and actual results are as follows:

- Transfer tax revenue was \$172 thousand more than budget due to the timing of the completion of development projects and the sale of the associated properties.
- Charges for services revenue were \$53 thousand more than budget due to increased permits and trash fees collected.
- Intergovernmental revenues were \$143 thousand more than budget due to additional grant funding.
- Fines and forfeits revenues were \$26 thousand less than budget due to less fines issued.
- General government expenses were under budget by \$134 thousand due to a decrease in expected building maintenance and repairs, office expenses, and retiree health expenses.
- Public safety expenses were over budget by \$37 thousand due to an increase in salaries for the public safety department.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's capital assets for its governmental and business-type activities as of December 31, 2017, amounted to \$5.0 million, net of accumulated depreciation. Capital assets include land, building and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. Current year additions of \$1.0 million exceeded depreciation expense of \$269 thousand.

More detailed information about the Town's capital assets is presented in the notes to the basic financial statements.

**Debt Administration**

During the year ended December 31, 2017, the Town paid approximately \$40 thousand to bring the total debt to approximately \$523 thousand through the Delaware Department of Natural Resources and Environmental Control to finance the Town's water treatment facilities.

More detailed information about the Town's long-term liabilities is presented in the notes to the basic financial statements.

**TOWN OF CLAYTON**  
Management's Discussion and Analysis – Unaudited (cont'd)  
December 31, 2017

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The primary economic factor affecting the budget for the Town of Clayton is the residential housing market. Industrial and commercial activities are minimal. Impact fees imposed upon new residential construction support infrastructure improvements. Permit fees and transfer taxes support the operations of Public Works and Administrative department operations, respectively.

Rates for taxes and fees for services will remain consistent in 2018 in relation to 2017.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Town's finances. If you have questions about this report or need any additional information, please contact the Town of Clayton, 414 Main Street, P. O. Box 1130, Clayton, Delaware 19938-1130.

**TOWN OF CLAYTON**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**  
**(With Summarized Comparative Data for December 31, 2016)**

	Governmental Activities	Business-Type Activities	Totals	
			2017	2016 *
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 3,510,974	\$ 558,591	\$ 4,069,565	\$ 4,145,881
Investments	145,849	-0-	145,849	131,667
Taxes receivable	13,351	-0-	13,351	16,462
Accounts receivable	13,270	137,948	151,218	150,851
Other receivables	56,277	-0-	56,277	57,321
Inventory	7,605	88,853	96,458	60,947
Prepaid expenses	37,562	4,999	42,561	41,982
Due from other fund	234,856	6,374	241,230	340,367
Total Current Assets	<u>4,019,744</u>	<u>796,765</u>	<u>4,816,509</u>	<u>4,945,478</u>
Noncurrent Assets:				
Capital assets, net	2,109,370	2,894,937	5,004,307	4,240,061
Total Noncurrent Assets	<u>2,109,370</u>	<u>2,894,937</u>	<u>5,004,307</u>	<u>4,240,061</u>
<b>TOTAL ASSETS</b>	<u>6,129,114</u>	<u>3,691,702</u>	<u>9,820,816</u>	<u>9,185,539</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred contributions and changes in proportion related to pension activity	221,081	-0-	221,081	247,930
Deferred contributions and changes in proportion related to OPEB activity	125,455	-0-	125,455	-0-
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts payable	8,093	214,851	222,944	222,877
Due to other fund	241,230	-0-	241,230	340,367
Impact fee escrows	134,302	-0-	134,302	72,725
Accrued salaries and benefits	38,231	10,412	48,643	42,146
Accrued interest	-0-	5,881	5,881	6,376
Deferred revenue	20,000	-0-	20,000	-0-
Loan payable	24,723	41,425	66,148	60,144
Accrued compensated absences	47,128	20,685	67,813	60,102
Utility deposits	-0-	151,790	151,790	147,085
Total Current Liabilities	<u>513,707</u>	<u>445,044</u>	<u>958,751</u>	<u>951,822</u>
Noncurrent Liabilities:				
Accrued compensated absences	84,339	31,027	115,366	102,440
Net pension liability	165,727	-0-	165,727	204,439
Post-employment benefits	1,791,779	-0-	1,791,779	420,671
Loan payable	-0-	482,064	482,064	523,489
Total Noncurrent Liabilities	<u>2,041,845</u>	<u>513,091</u>	<u>2,554,936</u>	<u>1,251,039</u>
<b>TOTAL LIABILITIES</b>	<u>2,555,552</u>	<u>958,135</u>	<u>3,513,687</u>	<u>2,202,861</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred investment earnings related to pension activity	79,066	-0-	79,066	59,649
Deferred postemployment benefits	4,379	-0-	4,379	-0-
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	2,084,647	2,371,448	4,456,095	3,656,428
Unrestricted (liability)	(1,053,953)	362,119	(691,834)	521,894
Restricted for police	97,068	-0-	97,068	81,558
Restricted for public works	126,343	-0-	126,343	187,332
Restricted for future growth initiatives	2,582,548	-0-	2,582,548	2,723,747
<b>TOTAL NET POSITION</b>	<u>\$ 3,836,653</u>	<u>\$ 2,733,567</u>	<u>\$ 6,570,220</u>	<u>\$ 7,170,959</u>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(With Summarized Comparative Data for the Year Ended December 31, 2016)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 709,238	\$ 3,242	\$ 2,605	\$ -0-	\$ (703,391)	\$ -0-	\$ (703,391)
Public safety	1,179,945	94,872	161,866	-0-	(923,207)	-0-	(923,207)
Public works	503,843	619,336	40,701	119,145	275,339	-0-	275,339
Licensing and inspection	46,193	61,368	-0-	-0-	15,175	-0-	15,175
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>2,439,219</b>	<b>778,818</b>	<b>205,172</b>	<b>119,145</b>	<b>(1,336,084)</b>	<b>-0-</b>	<b>(1,336,084)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Electric	1,880,730	2,823,122	-0-	-0-	-0-	942,392	942,392
Water/Sewer	839,597	906,714	-0-	-0-	-0-	67,117	67,117
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>2,720,327</b>	<b>3,729,836</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>1,009,509</b>	<b>1,009,509</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,159,546</b>	<b>\$ 4,508,654</b>	<b>\$ 205,172</b>	<b>\$ 119,145</b>	<b>(1,336,084)</b>	<b>1,009,509</b>	<b>(326,575)</b>
<b>GENERAL REVENUE</b>							
Real estate taxes					410,441	-0-	410,441
Real estate transfer taxes					322,192	-0-	322,192
Franchise fees					53,844	-0-	53,844
Investment income					14,182	-0-	14,182
Miscellaneous					3,311	-0-	3,311
<b>TRANSFERS</b>					952,826	(952,826)	-0-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>1,756,796</b>	<b>(952,826)</b>	<b>803,970</b>
<b>CHANGE IN NET POSITION</b>					420,712	56,683	477,395
<b>NET POSITION, BEGINNING OF YEAR</b>					4,494,075	2,676,884	7,170,959
<b>PRIOR PERIOD ADJUSTMENT (See Note 12)</b>					(1,078,134)	-0-	(1,078,134)
<b>NET POSITION, END OF YEAR</b>					<b>\$ 3,836,653</b>	<b>\$ 2,733,567</b>	<b>\$ 6,570,220</b>
							<b>\$ 7,170,959</b>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**  
(With Summarized Comparative Data for December 31, 2016)

	General Fund	Impact Fees Fund	Nonmajor Governmental Funds	Totals	
				2017	2016 *
<b>ASSETS</b>					
Cash and cash equivalents	\$ 978,054	\$ 2,484,744	\$ 48,176	\$ 3,510,974	\$ 3,452,312
Investments	145,849	-0-	-0-	145,849	131,667
Taxes receivable	13,351	-0-	-0-	13,351	16,462
Accounts receivable	13,270	-0-	-0-	13,270	13,211
Other receivables	56,277	-0-	-0-	56,277	57,321
Inventory	7,605	-0-	-0-	7,605	6,370
Prepaid expenses	37,562	-0-	-0-	37,562	37,244
Due from other funds	2,750	232,106	-0-	234,856	333,662
<b>TOTAL ASSETS</b>	<b>1,254,718</b>	<b>2,716,850</b>	<b>48,176</b>	<b>4,019,744</b>	<b>4,048,249</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	8,093	-0-	-0-	8,093	11,551
Impact fee escrows	-0-	134,302	-0-	134,302	72,725
Accrued salaries and benefits	38,231	-0-	-0-	38,231	32,917
Accrued compensated absences	47,128	-0-	-0-	47,128	43,530
Deferred revenue	20,000	-0-	-0-	20,000	-0-
Due to other funds	238,480	-0-	2,750	241,230	340,367
<b>TOTAL LIABILITIES</b>	<b>351,932</b>	<b>134,302</b>	<b>2,750</b>	<b>488,984</b>	<b>501,090</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue – property taxes	13,351	-0-	-0-	13,351	16,462
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>13,351</b>	<b>-0-</b>	<b>-0-</b>	<b>13,351</b>	<b>16,462</b>
<b>FUND BALANCES:</b>					
Unassigned	415,273	-0-	-0-	415,273	269,937
Committed for: Post-employment benefits	275,221	-0-	-0-	275,221	245,291
Restricted for police	88,588	-0-	8,480	97,068	81,558
Restricted for public works	89,397	-0-	36,946	126,343	187,332
Restricted for future growth initiatives	-0-	2,582,548	-0-	2,582,548	2,723,747
Nonspendable	20,956	-0-	-0-	20,956	22,832
<b>TOTAL FUND BALANCES</b>	<b>889,435</b>	<b>2,582,548</b>	<b>45,426</b>	<b>3,517,409</b>	<b>3,530,697</b>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON  
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 3,517,409
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.		2,109,370
Some of the Town's assets are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds.		13,351
Some assets and liabilities, including loans payable and net pension benefits (obligations), that are not due and payable in the current period and, therefore, are not reported in the funds.		
Loans payable	\$ ( 24,723)	
Net pension asset (liability)	( 165,727)	
Post-employment benefits	<u>(1,791,779)</u>	(1,982,229)
Expenses accrued for compensated absences reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.		(84,339)
Deferred outflows and inflows or resources related to pension and OPEB activities are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pension activity of \$221,081 consists of \$168,443 of deferred outflows of resources pension expense and \$52,638 of deferred outflow of 2017 employer contributions related to the pension.		221,081
Deferred inflows of resources related to pension activity.		(79,066)
Deferred outflows of resources related to OPEB activity of \$125,455 consists of \$125,455 of deferred outflows of resources OPEB expense and \$0 of deferred outflow of 2017 employer contributions related to the OPEB.		125,455
Deferred inflows of resources related to OPEB activity.		<u>(4,379)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,836,653</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(With Summarized Comparative Data for the Year Ended December 31, 2016)**

	General Fund	Impact Fees Fund	Nonmajor Governmental Funds		Totals	
			2017	2016 *	2017	2016 *
<b>REVENUES</b>						
Taxes:						
Property taxes	\$ 413,552	\$ -0-	\$ -0-	\$ -0-	\$ 413,552	\$ 403,502
Transfer taxes	322,192	-0-	-0-	-0-	322,192	260,626
Public safety taxes	20,930	-0-	-0-	-0-	20,930	21,380
Special assessment/impact fees	-0-	270,000	-0-	-0-	270,000	174,000
Charges for services	413,384	-0-	-0-	-0-	413,384	389,483
Intergovernmental	276,000	-0-	48,317	-0-	324,317	408,544
Licenses and fees	8,786	-0-	-0-	-0-	8,786	8,643
Fines and forfeits	65,718	-0-	-0-	-0-	65,718	64,110
Franchise fees	53,844	-0-	-0-	-0-	53,844	50,160
Investment income	14,182	-0-	-0-	-0-	14,182	11,326
Miscellaneous	210	-0-	-0-	-0-	210	771
<b>TOTAL REVENUES</b>	<u>1,588,798</u>	<u>270,000</u>	<u>48,317</u>	<u>48,317</u>	<u>1,907,115</u>	<u>1,792,545</u>
<b>EXPENDITURES</b>						
Current:						
General government	498,867	-0-	-0-	-0-	498,867	534,819
Public safety	1,103,420	-0-	3,675	-0-	1,107,095	1,004,587
Public works	431,247	7,058	20,363	-0-	458,668	435,838
Licensing and inspection	46,193	-0-	-0-	-0-	46,193	38,894
Debt Service:						
Principal	43,116	-0-	-0-	-0-	43,116	35,040
Interest	2,948	-0-	-0-	-0-	2,948	129
Capital outlays	424,990	404,141	19,834	-0-	848,965	132,503
<b>TOTAL EXPENDITURES</b>	<u>2,550,781</u>	<u>411,199</u>	<u>43,872</u>	<u>43,872</u>	<u>3,005,852</u>	<u>2,181,610</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(961,983)</u>	<u>(141,199)</u>	<u>4,445</u>	<u>4,445</u>	<u>(1,098,737)</u>	<u>(389,065)</u>
<b>OTHER FINANCING SOURCES</b>						
Proceeds from sale of capital assets	3,101	-0-	-0-	-0-	3,101	-0-
Loan proceeds	48,017	-0-	-0-	-0-	48,017	-0-
Transfers in	952,826	-0-	-0-	-0-	952,826	1,061,951
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>1,003,944</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,003,944</u>	<u>1,061,951</u>
<b>NET CHANGES IN FUND BALANCES</b>	41,961	(141,199)	4,445	4,445	(94,793)	672,886
<b>FUND BALANCES, BEGINNING OF YEAR</b>	765,969	2,723,747	40,981	40,981	3,530,697	2,857,811
<b>PRIOR PERIOD ADJUSTMENT (See Note 12)</b>	81,505	-0-	-0-	-0-	81,505	-0-
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 889,435</u>	<u>\$ 2,582,548</u>	<u>\$ 45,426</u>	<u>\$ 45,426</u>	<u>\$ 3,517,409</u>	<u>\$ 3,530,697</u>

\* Restated for comparative purposes.  
The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$	(94,793)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$848,965) exceeds depreciation (\$127,373).</p>		721,592
<p>Because some property taxes will not be collected for several months after the Town's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.</p>		(3,111)
<p>The issuance of long-term debt (e.g. loans payable) provide 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, however, has any effect on net position.</p>		(4,901)
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for the transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, assets are not recognized in governmental funds unless they represent current financial resources but are recognized in the statement of activities as they accrue. The following differences, therefore, occurred between the statement of activities and the governmental funds.</p>		
Compensated absences	\$ (6,757)	(6,757)
<p>In the statement of activities, pension expense reflects the change in the net pension liability, net of related deferred inflows and outflows of resources. In the governmental funds, however, pension expenditures reflect payments made to fund the pension plan. This is the amount by which the change in the net pension liability and related deferrals exceeded pension contributions.</p>		(7,554)
<p>In the statement of activities, OPEB expense reflects the change in the net post-employment benefits liability, net of related deferred inflows and outflows of resources. In the governmental funds, however, OPEB expenditures reflect payments made to fund the OPEB plan. This is the amount by which the change in the post-employment benefits liability and related deferrals exceeded OPEB contributions.</p>		<u>(183,764)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>420,712</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**DECEMBER 31, 2017**  
**(With Summarized Comparative Data for December 31, 2016)**

	Electric Fund	Water And Sewer Fund	Totals	
			2017	2016 *
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 558,589	\$ 2	\$ 558,591	\$ 693,569
Accounts receivable	110,805	27,143	137,948	137,640
Inventory	68,137	20,716	88,853	54,577
Prepaid expenses	1,666	3,333	4,999	4,738
Due from other funds	6,374	-0-	6,374	6,705
Total Current Assets	<u>745,571</u>	<u>51,194</u>	<u>796,765</u>	<u>897,229</u>
Noncurrent Assets:				
Capital assets, net	<u>1,106,751</u>	<u>1,788,186</u>	<u>2,894,937</u>	<u>2,840,416</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,852,322</u></b>	<b>\$ <u>1,839,380</u></b>	<b>\$ <u>3,691,702</u></b>	<b>\$ <u>3,737,645</u></b>
<b>LIABILITIES AND NET POSITION</b>				
Current Liabilities:				
Accounts payable	\$ 153,994	\$ 60,857	\$ 214,851	\$ 211,326
Accrued salaries and benefits	3,471	6,941	10,412	9,229
Accrued interest	-0-	5,881	5,881	6,376
Loan payable	-0-	41,425	41,425	40,321
Accrued compensated absences	6,895	13,790	20,685	16,572
Utility deposits	151,790	-0-	151,790	147,085
Total Current Liabilities	<u>316,150</u>	<u>128,894</u>	<u>445,044</u>	<u>430,909</u>
Noncurrent Liabilities:				
Accrued compensated absences	10,342	20,685	31,027	24,858
Post-employment benefits	-0-	-0-	-0-	81,505
Loan payable	-0-	482,064	482,064	523,489
Total Noncurrent Liabilities	<u>10,342</u>	<u>502,749</u>	<u>513,091</u>	<u>629,852</u>
<b>TOTAL LIABILITIES</b>	<b><u>326,492</u></b>	<b><u>631,643</u></b>	<b><u>958,135</u></b>	<b><u>1,060,761</u></b>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	1,106,751	1,264,697	2,371,448	2,276,606
Unrestricted (Deficit)	<u>419,079</u>	<u>(56,960)</u>	<u>362,119</u>	<u>400,278</u>
<b>TOTAL NET POSITION</b>	<b><u>1,525,830</u></b>	<b><u>1,207,737</u></b>	<b><u>2,733,567</u></b>	<b><u>2,676,884</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ <u>1,852,322</u></b>	<b>\$ <u>1,839,380</u></b>	<b>\$ <u>3,691,702</u></b>	<b>\$ <u>3,737,645</u></b>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(With Summarized Comparative Data for the Year Ended December 31, 2016)**

	Electric Fund	Water and Sewer Fund	Totals	
			2017	2016 *
<b>OPERATING REVENUES</b>				
User service charges	\$ 2,735,582	\$ 866,259	\$ 3,601,841	\$ 3,742,946
Other operating revenue	87,540	40,455	127,995	118,195
Total Operating Revenue	<u>2,823,122</u>	<u>906,714</u>	<u>3,729,836</u>	<u>3,861,141</u>
<b>OPERATING EXPENSES</b>				
Electric purchased	1,600,034	-0-	1,600,034	1,713,737
Utility tax	8,056	-0-	8,056	8,489
Sewer charges	-0-	276,445	276,445	278,509
System upgrades and maintenance	31,533	161,160	192,693	253,765
Salaries and wages	92,144	184,287	276,431	253,149
Employee benefits	29,279	58,558	87,837	72,950
Depreciation	54,142	87,372	141,514	136,219
Supplies	9,152	48,043	57,195	51,190
Administration expenses	3,902	6,062	9,964	11,537
Professional services	52,488	3,101	55,589	40,878
Total Operating Expenses	<u>1,880,730</u>	<u>825,028</u>	<u>2,705,758</u>	<u>2,820,423</u>
<b>OPERATING INCOME</b>	<u>942,392</u>	<u>81,686</u>	<u>1,024,078</u>	<u>1,040,718</u>
<b>NONOPERATING EXPENSES</b>				
Interest expense	-0-	(14,569)	(14,569)	(15,739)
Total Nonoperating Expenses	<u>-0-</u>	<u>(14,569)</u>	<u>(14,569)</u>	<u>(15,739)</u>
<b>INCOME BEFORE TRANSFERS AND CONTRIBUTIONS</b>	942,392	67,117	1,009,509	1,024,979
Transfers in (out)	<u>(1,008,145)</u>	<u>55,319</u>	<u>(952,826)</u>	<u>(1,061,951)</u>
<b>CHANGE IN NET POSITION</b>	(65,753)	122,436	56,683	(36,972)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,591,583</u>	<u>1,085,301</u>	<u>2,676,884</u>	<u>2,713,856</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,525,830</u>	<u>\$ 1,207,737</u>	<u>\$ 2,733,567</u>	<u>\$ 2,676,884</u>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(With Summarized Comparative Data for the Year Ended December 31, 2016)**

	Electric Fund	Water and Sewer Fund	Totals	
			2017	2016 *
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Received from customers	\$ 2,828,028	\$ 906,205	\$ 3,734,233	\$ 3,840,326
Paid to suppliers for goods and services	(1,728,825)	(501,902)	(2,230,727)	(2,336,372)
Paid to employees for services	(144,856)	(289,713)	(434,569)	(309,327)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>954,347</u>	<u>114,590</u>	<u>1,068,937</u>	<u>1,194,627</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Due from other funds	331	-0-	331	33,138
Transfers in (out)	(1,008,145)	55,319	(952,826)	(1,061,951)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(1,007,814)</u>	<u>55,319</u>	<u>(952,495)</u>	<u>(1,028,813)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(81,511)	(114,523)	(196,034)	(158,709)
Loan payment	-0-	(40,321)	(40,321)	(39,246)
Interest paid	-0-	(15,065)	(15,065)	(16,139)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(81,511)</u>	<u>(169,909)</u>	<u>(251,420)</u>	<u>(214,094)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(134,978)</u>	<u>-0-</u>	<u>(134,978)</u>	<u>(48,280)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>693,567</u>	<u>2</u>	<u>693,569</u>	<u>741,849</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 558,589</u>	<u>\$ 2</u>	<u>\$ 558,591</u>	<u>\$ 693,569</u>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS, CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(With Summarized Comparative Data for the Year Ended December 31, 2016)**

	Electric Fund	Water and Sewer Fund	Totals	
			2017	2016 *
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income	\$ 942,392	\$ 81,686	\$ 1,024,078	\$ 1,040,718
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	54,142	87,372	141,514	136,219
Changes in assets and liabilities:				
(Increase) Decrease in accounts receivable	201	(509)	(308)	(26,600)
(Increase) Decrease in inventory	(29,128)	(5,148)	(34,276)	8,994
(Increase) Decrease in prepaid expenses	(87)	(174)	(261)	(316)
Increase (Decrease) in accounts payable	5,468	(1,943)	3,525	12,739
Increase (Decrease) in accrued salaries and benefits	395	788	1,183	1,768
Increase (Decrease) in compensated absences	3,427	6,855	10,282	145
Increase (Decrease) in utility deposits	4,705	-0-	4,705	5,785
Increase (Decrease) in post-employment benefits	(27,168)	(54,337)	(81,505)	15,175
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 954,347</b>	<b>\$ 114,590</b>	<b>\$ 1,068,937</b>	<b>\$ 1,194,627</b>

\* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Clayton complies with generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The Town of Clayton, Delaware (the "Town") was incorporated in 1887 under the provisions of the State of Delaware. The Town operates under a Council form of government and provides the following services as authorized by its charter: public safety, public works, utilities, licensing and inspection, and general government.

The Government Accounting Standards Board established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. GASB Statement No. 61, "The Financial Reporting Entity: Omnibus," established the treatment of component units within the financial statements. The criteria used in determining whether such organizations should be included in the Town's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships.

The Town has determined that no other outside agency meets the above criteria and; therefore, no other agency has been included as a component unit in the Town's financial statements. In addition, the Town is not aware of any entity which would exercise such oversight which would result in the Town being considered a component unit of the entity.

Entity-Wide And Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis Of Accounting And Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net position in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net position are reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consist of net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for 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.

The Town reports the following major governmental funds:

**General Fund** – This fund is used to account for the general operating activities of the Town. General government, public safety, public works, and licensing and inspections are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental and other revenue.

**Impact Fees Fund** – This fund is used to account for impact fees until they are transferred to the appropriate fund for specific, eligible projects.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Nonmajor Governmental Funds** – In addition to the aforementioned major governmental funds, the Town includes the Municipal Street Aid, S.A.L.L.E., E.I.D.E., and seized asset illegal drug enforcement funds in its financial statements.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Town's proprietary funds are electric and water/sewer charges. Operating expenses for the Town's proprietary funds include salaries, employee benefits, production costs, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

**Electric Fund** – Used to account for the operation of an electric distribution system.

**Water And Sewer Fund** – Used to account for the operation of a water supply and sewage collection system.

**Cash And Cash Equivalents**

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Allowance For Doubtful Accounts**

The Town of Clayton's water, sewer and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts has not been established by the Town for its proprietary funds.

**Inventories And Prepaid Expenses**

Inventories of business-type activities and proprietary fund types are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, including property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. During the year ended December 31, 2007, the Town adopted a capitalization threshold of \$5,000 with an estimated life in excess of one year. Capital assets placed in service prior to January 1, 2007, with a cost of less than \$5,000 will continue to be depreciated until the asset is fully depreciated or disposed. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive on ancillary costs.

GASB Statement No. 34 permits Phase III local governments to elect not to report infrastructure retroactively and report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the Town's infrastructure retroactively.

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	7-40 years
Vehicles	5-10 years
Land improvements	20 years
Machinery and equipment	7-10 years
Infrastructure	5-50 years

Compensated Absences

Regular, full-time employees are allowed sick leave on the basis of 10 days per year. Each January, employees have the option to continue accruing sick leave or be paid for unused sick leave from the previous year. Upon termination or retirement, an employee shall be paid a maximum of 45 days of accrued unused sick leave.

Regular, full-time employees accrue vacation leave on the basis of two weeks per year after completion of one year of continuous service. After three years of continuous service, two weeks vacation will be accrued. After six years of continuous service, three weeks vacation will be accrued. After 14 years of continuous service, four weeks vacation will be accrued. If an employee resigns or is terminated for any reason including dismissal or dies with unused annual leave credit, the employee, or in the case of his/her death, his/her estate, shall be paid for unused vacation time. Employees leaving the Town's employment on or before the 15<sup>th</sup> of a month will not receive credit for that month. Those employees departing the Town's employment after the 15<sup>th</sup> of a month will receive full credit for that month.

Accumulated vacation and sick leave is accrued when incurred in the entity-wide financial statements and proprietary fund types. A liability is reported in the governmental funds only if it is expendable from available financial resources. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental fund activities. Compensated absences associated with proprietary funds are liquidated from the fund in which the liability was generated.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The proprietary funds report the same three components of net position as do the entity-wide financial statements. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

The Town follows the provisions of GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which addresses a change in the classification of fund balance. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the resources reported in governmental funds.

Fund balance will be displayed in the following classification depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned fund balance* – amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed interest at one percent per month after the due date. The Town bills and collects its own property taxes. Town property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible; therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2017 was 0.75 cents per \$100 of assessed value.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use Of Estimates In The Preparation Of Financial Statements

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 those estimates.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Town's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Restricted Assets

Certain assets are classified as restricted at the entity-wide level because they are maintained in separate bank accounts and their use is limited.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Town Council adopts legal annual budgets for the General Fund and Proprietary Funds. The Town Council also adopts legal project length budgets for its Impact Fees Fund and certain nonmajor governmental funds. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the combined Impact Fees Fund and certain nonmajor governmental funds would not be meaningful and has not been presented in the accompanying financial statements.
- c. Management is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2017 there were no revisions to any legally adopted budgets.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

Excess Of Expenditures Over Appropriations

For the year ended December 31, 2017, the General Fund incurred expenditures in excess of appropriations in the following functions:

Public safety	\$ 37,010
Debt service	\$ 22,064
Capital outlays	\$374,990

All excess of expenditures over appropriations were funded by higher than anticipated revenues, transfers from other funds and the use of existing fund balances.

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Town of Clayton as a depositor and an investor generally requires full and continuous collateralization based upon fair value in the form of:

- Obligations of or guaranteed by the United States of America, or
- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority or an agency or instrumentality of the United States of America, or
- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities or any agency or instrumentality of the State of Delaware.

As an investor, the Town of Clayton may invest in any of the above cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

The Town maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net position as cash and cash equivalents. Deposits and investments of governmental and proprietary funds are reported at fair value.

***Deposits***

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Town does not have a policy regarding custodial credit risk for deposits. At December 31, 2017, the carrying amount of the Town's deposits was \$4,069,565 and the bank balance was \$4,088,965. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$3,838,965 was uninsured and collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

**Investments**

As of December 31, 2017, the Town had the following investments:

U.S. Treasury bills	\$ 6,608
Exchange traded funds	60,460
Mutual funds	<u>78,781</u>
	<u>\$145,849</u>

U.S. Treasury bills are securities of agencies of the U.S. Government that have an implied but not explicit guarantee. Investments in external investment pools, such as those in mutual funds and exchange traded funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

The Town's investments are stated at fair value in the balance sheet at December 31, 2017 and 2016.

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	December 31, 2017 Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	December 31, 2016 Total
Investments:				
U.S. Treasury bills	\$ 6,608	\$ 6,608	\$ 5,853	\$ 5,853
Exchange traded funds	60,460	60,460	54,147	54,147
Mutual funds	<u>78,781</u>	<u>78,781</u>	<u>71,667</u>	<u>71,667</u>
 Total Assets At Fair Value	 <u>\$ 145,849</u>	 <u>\$ 145,849</u>	 <u>\$ 131,667</u>	 <u>\$ 131,667</u>

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels defined below:

**Level 1:** Inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2:** Inputs consist of quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3:** Inputs are unobservable and have the lowest priority.

Interest Rate Risk

At December 31, 2017, the Town's investments in U.S. Treasury bills had maturity dates of less than one year.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town has no investments subject to custodial credit risk.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance*</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 433,916	\$ -0-	\$ -0-	\$ 433,916
<b>Total Capital Assets Not Being Depreciated</b>	<u>433,916</u>	<u>-0-</u>	<u>-0-</u>	<u>433,916</u>
Capital assets being depreciated:				
Buildings and infrastructure	679,460	750,701	-0-	1,430,161
Improvements	308,409	-0-	-0-	308,409
Vehicles	656,303	89,864	28,444	717,723
Machinery and equipment	390,455	8,400	11,867	386,988
<b>Total Capital Assets Being Depreciated</b>	<u>2,034,627</u>	<u>848,965</u>	<u>40,311</u>	<u>2,843,281</u>
Accumulated depreciation:				
Buildings and infrastructure	161,361	26,197	-0-	187,558
Improvements	97,023	13,565	-0-	110,588
Vehicles	532,448	65,953	28,444	569,957
Machinery and equipment	278,066	21,658	-0-	299,724
<b>Total Accumulated Depreciation</b>	<u>1,068,898</u>	<u>127,373</u>	<u>28,444</u>	<u>1,167,827</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>965,729</u>	<u>721,592</u>	<u>11,867</u>	<u>1,675,454</u>
<b>Governmental Activities Assets, Net</b>	<u>\$ 1,399,645</u>	<u>\$ 721,592</u>	<u>\$ 11,867</u>	<u>\$ 2,109,370</u>
<b>Business-Type Activities:</b>				
Capital assets being depreciated:				
Buildings and infrastructure	\$ 4,745,624	\$ 143,711	\$ -0-	\$ 4,889,335
Vehicles	217,918	41,599	-0-	259,517
Machinery and equipment	157,288	10,725	-0-	168,013
<b>Total Capital Assets Being Depreciated</b>	<u>5,120,830</u>	<u>196,035</u>	<u>-0-</u>	<u>5,316,865</u>
Accumulated depreciation:				
Buildings and improvements	2,002,953	113,751	-0-	2,116,704
Vehicles	177,412	10,224	-0-	187,636
Machinery and equipment	100,049	17,539	-0-	117,588
<b>Total Accumulated Depreciation</b>	<u>2,280,414</u>	<u>141,514</u>	<u>-0-</u>	<u>2,421,928</u>
<b>Business-Type Activities Assets, Net</b>	<u>\$ 2,840,416</u>	<u>\$ 54,521</u>	<u>\$ -0-</u>	<u>\$ 2,894,937</u>

\* Restated for comparative purposes.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the functions as follows:

Governmental Activities:		
General government	\$	35,660
Public safety		50,003
Public works		<u>41,710</u>
Total Depreciation Expense – Governmental Activities	\$	<u>127,373</u>
Business-Type Activities:		
Electric	\$	54,142
Water		<u>87,372</u>
Total Depreciation Expense – Business-Type Activities	\$	<u>141,514</u>

NOTE 5 CHANGES IN COMPENSATED ABSENCES

	<u>Beginning Balance*</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Accumulated compensated absences	\$ 121,112	\$ 19,216	\$ 8,861	\$ 131,467
Business-Type Activities:				
Accumulated compensated absences				
Electric	\$ 13,087	\$ 3,454	\$ 27	\$ 16,514
Sewer	<u>28,343</u>	<u>6,908</u>	<u>53</u>	<u>35,198</u>
	\$ 41,430	\$ 10,362	\$ 80	\$ 51,712

\* Restated for comparative purposes.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2017, is as follows:

<u>Due To</u>	<u>Amount</u>	<u>Due From</u>	<u>Amount</u>
Impact Fees Fund	\$ 232,106	General Fund	\$ 232,106
Electric Fund	6,374	General Fund	6,374
General Fund	2,050	E.I.D.E. Fund	2,050
General Fund	<u>700</u>	S.A.L.L.E. Fund	<u>700</u>
Total	\$ 241,230	Total	\$ 241,230

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (cont'd)

The composition of interfund transfers for the year ended December 31, 2017, was as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 952,826	\$ -0-
Electric Fund	-0-	1,008,145
Water and Sewer Fund	<u>55,319</u>	<u>-0-</u>
Total	<u>\$ 1,008,145</u>	<u>\$ 1,008,145</u>

Transfers from the electric fund and water and sewer funds to the impact fees fund and general fund were to subsidize those funds' operating activities.

NOTE 7 LONG-TERM DEBT

A change in the long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Loan payable – Ally Bank	\$ -0-	\$ 48,016	\$ 23,293	\$ 24,723
Loan payable – Software	<u>19,823</u>	<u>-0-</u>	<u>19,823</u>	<u>-0-</u>
	<u>\$ 19,823</u>	<u>\$ 48,016</u>	<u>\$ 43,116</u>	<u>\$ 24,723</u>

The loan payable between Ally Bank and the Town of Clayton Police Department is for two 2017 police vehicles. The loan was entered into on January 27, 2017, and bears interest at 6.14 percent payable in December in the amount of \$26,241. The loan matured in May 2017.

The loan payable between a software provider and the Town of Clayton is for a new computer and accounting system. This loan bears interest at 0.00%, payable in March of each year and was paid in full during March 2017.

The maturity of debt obligation, including interest, is as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 24,723	\$ 1,518	\$ 26,241
	<u>\$ 24,723</u>	<u>\$ 1,518</u>	<u>\$ 26,241</u>

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

A schedule of changes in the long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:			
Loan payable	\$ 563,810	\$ 40,321	\$ 523,489

The loan payable is issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to finance the arsenic removal project. The revolving loan converted to permanent financing on August 1, 2008, and bears interest at 2.72 percent payable on February 1 and August 1. The loan matures on August 1, 2028.

Maturities of debt obligations, including interest, are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 41,425	\$ 13,959	\$ 55,384
2019	42,560	12,824	55,384
2020	43,725	11,659	55,384
2021	44,923	10,461	55,384
2022	46,153	9,231	55,384
2023-2027	250,429	26,491	276,920
2028	54,274	1,110	55,384
	<u>\$ 523,489</u>	<u>\$ 85,735</u>	<u>\$ 609,224</u>

NOTE 8 PENSIONS

Delaware County And Municipal Police/Firefighter Pension Plan

**Delaware County And Municipal Police/Firefighter Pension Plan**

The Town's pension plan is part of the County & Municipal Police and Firefighters' Pension Plan (the Plan) which is a cost sharing multiple-employer defined benefit pension plan established in the Delaware Code. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending the Plan's provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board). The management of the Plan is the responsibility of the Board, which is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two exofficio members. The daily operation is the responsibility of the Delaware Office of Pensions. Although most of the assets of the Plan are commingled with other plans for investment purposes, the Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan. The following is a brief description of the Plan in effect at December 31, 2017. For a more complete description, refer to the Delaware Public Employee's Retirement System (DPERS) CAFR.

Separately issued financial statements for DPERS are available from the Delaware Office of Pensions at: McArdel Building, Suite 1; 860 Silver Lake Boulevard; Dover, DE 19904.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Delaware County And Municipal Police/Firefighter Pension Plan (cont'd)

General Information About The Plan

**Plan Description And Eligibility:** The County & Municipal Police and Firefighters' Pension Plan covers police officers and firefighters employed by a county or municipality of the State that have joined the Plan.

**Service Benefits:** 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For the Plan, final average monthly compensation is the monthly average of the highest three periods of consecutive years of compensation.

**Vesting:** 5 years of credited service.

**Retirement:** Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

**Disability Benefits:** Based on the following categories:

***Duty – Total Disability*** – 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.

***Duty – Partial Disability*** – Calculated the same as Service Benefits subject to minimum 50% of final average compensation.

***NonDuty*** – Same as Service Benefits, total disability subject to a minimum 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.

**Survivor Benefits:** If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at 62. If the member is killed in the line of duty, the eligible survivor receives 75% of the member's compensation.

**Contributions:**

- Employer: Determined by the Board. Employer contributions were 13.8% and 13.9% of earnings for fiscal years 2017 and 2016, respectively.
- Member: 7% of compensation.

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions

At December 31, 2017, the Town reported a pension liability (asset) of \$67,481 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability (asset) was based on a projection of the Town's long-term share of contributions to the pension plan relative to the total projected contributions of the State that have joined, actuarially determined. At June 30, 2017, the Town's proportion was 0.6694 percent, which was an increase of 0.0138 percent from its proportion measured as of June 30, 2016.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Delaware County And Municipal Police/Firefighter Pension Plan (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

As a result of its requirement to contribute to DPERS, the Town recognized pension expense of \$77,745 for the year ended December 31, 2017. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to DPERS:

Description	Deferred Resources	
	Outflows	Inflows
Difference between expected and actual experience	\$ 16,148	\$ 41,153
Changes of assumptions	56,972	24,865
Net difference between projected and actual earnings on pension plan investments	34,395	-0-
Contributions subsequent to measurement date	33,555	-0-
Change in proportion and differences between Town contributions and proportionate share of contributions	483	1,160
Totals	<u>\$ 141,553</u>	<u>\$ 67,178</u>

The \$33,555 reported as deferred outflows of resources related to the pension resulting from Town contributions subsequent to the measurement date will be recognized as a reduction (increase) of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

2018	\$ 2,015
2019	30,295
2020	17,507
2021	(13,988)
2022	358
Thereafter	4,633
	<u>\$ 40,820</u>

**Actuarial Assumptions:** The total pension liability (asset) in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Description	Percentages
Inflation	2.5%
Projected salary increases	2.5% + merit, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation rate of 2.5%
Cost-of-living adjustments	0.0%

Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected Plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate Of Return</u>	<u>Asset Allocation</u>
Domestic equity	5.7%	33.5%
International equity	5.7%	13.7%
Fixed income	2.0%	26.6%
Alternative investments	7.8%	22.7%
Cash and equivalents	0.0%	3.5%

**Discount Rate:** The discount rate for the Plan used to measure the total pension liability was 7.0%. The change in the discount rate assumption to 7.0% from 7.2% was due to an adoption by the Board of Trustees in Fiscal Year 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, as well as what the Town's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>Plan</u>	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Municipal Police of Clayton	\$ 426,717	\$ 67,481	\$ (225,019)

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

**State Employees' Pension Plan**

The Town's pension plan is part of the County & Municipal Other Employees' Pension Plan (the Plan) which is a cost sharing multiple-employer defined benefit pension plan established in the Delaware Code. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending the Plan's provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board). The management of the Plan is the responsibility of the Board, which is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two exofficio members. The daily operation is the responsibility of the Delaware Office of Pensions. Although most of the assets of the Plan are commingled with other plans for investment purposes, the Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan. The following is a brief description of the Plan in effect at December 31, 2017. For a more complete description, refer to the Delaware Public Employee's Retirement System (DPERS) CAFR.

Separately issued financial statements for DPERS are available from the Delaware Office of Pensions at: McArdel Building, Suite 1; 860 Silver Lake Boulevard; Dover, DE 19904.

General Information About The Plan

**Plan Description and Eligibility:** The County & Municipal Other Employees' Pension Plan covers employees of counties or municipalities that have joined the Plan.

**Service Benefits:** 1/60<sup>th</sup> of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

**Vesting:** 5 years of credited service.

**Retirement:** Age 62 with 5 years of service; age 60 with 15 years of credited service; or after 30 years of credited service.

**Disability Benefits:** Same as Service Benefits. The employee must have 5 years of credited service.

**Survivor Benefits:** If employee is receiving a pension, then eligible survivor receives 75% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at 62.

**Contributions:**

- Employer: Determined by the Board. Employer contributions were 6.8% and 6.2% of earnings for fiscal years 2017 and 2016, respectively.
- Member: 3% of earnings in excess of \$6,000.

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

General Information About The Plan (cont'd)

At December 31, 2017, the Town reported a pension liability (asset) of \$85,765 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability (asset) was based on a projection of the Town's long-term share of contributions to the pension plan relative to the total projected contributions of participating counties or municipalities, actuarially determined. At June 30, 2017, the Town's proportion was 1.3237 percent, which was a decrease of 0.0776 percent from its proportion measured as of June 30, 2016.

As a result of its requirement to contribute to DPERS, the Town recognized pension expense of \$43,450 for the year ended December 31, 2017. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to DPERS:

<u>Description</u>	<u>Deferred Resources</u>	
	<u>Outflows</u>	<u>Inflows</u>
Difference between expected and actual experience	\$ 23,296	\$ 5,780
Changes of assumptions	27,393	-0-
Net difference between projected and actual earnings on pension plan investments	9,756	-0-
Contributions subsequent to measurement date	19,082	-0-
Change in proportion and differences between Town contributions and proportionate share of contributions	-0-	6,108
<b>Totals</b>	<b>\$ 79,527</b>	<b>\$ 11,888</b>

The \$19,082 reported as deferred outflows of resources related to the pension resulting from Town contributions subsequent to the measurement date will be recognized as a reduction (increase) of the net pension liability (asset) in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

2018	\$ 4,590
2019	13,812
2020	9,475
2021	(1)
2022	5,093
Thereafter	15,588
	<u>\$ 48,557</u>

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

**Actuarial Assumptions:** The total pension liability (asset) in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Description	Percentages
Inflation	2.5%
Projected salary increases	2.5% + merit, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation rate of 2.5%
Cost-of-living adjustments	0.0%

Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected Plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

Asset Class	Long-Term Expected Real Rate Of Return	Asset Allocation
Domestic equity	5.7%	33.5%
International equity	5.7%	13.7%
Fixed income	2.0%	26.6%
Alternative investments	7.8%	22.7%
Cash and equivalents	0.0%	3.5%

**Discount Rate:** The discount rate for the Plan used to measure the total pension liability was 7.0%. The change in the discount rate assumption to 7.0% from 7.2% was due to an adoption by the Board of Trustees in Fiscal Year 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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.

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS (cont'd)

Pension Liabilities, Pension Expense, Deferred Outflows Of Resources, And Deferred Inflows Of Resources Related To Pensions (cont'd)

**Sensitivity Of The Town's Proportionate Share Of The Net Pension Liability (Asset) To Changes In The Discount Rate:** The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, as well as what the Town's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>Plan</u>	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
County & Municipal Other Employees of Clayton	<u>\$ 192,975</u>	<u>\$ 85,765</u>	<u>\$ (2,409)</u>

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS

**Plan Description And Eligibility:** The Town's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical, dental, and pharmacy benefits to eligible retirees. The Mayor and Council have the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Participant data consisted of the following at January 1, 2014, the date of the latest actuarial valuation.

<u>Participants</u>	
Active	<u>18</u>
Retired	<u>1</u>
Total	<u>19</u>

Retirement from active service after the completion of 20 years of service.

**Contributions:** The contribution requirements of plan members are established and may be amended by the Town Council. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Town Council. For December 31 2017, the Town contributed \$20,000 to the plan for current and future premiums.

Post-employment retirement benefits paid for the year ended December 31, 2017, totaled \$4,252, or approximately 85 percent of total premiums. Plan members receiving benefits contributed \$1,251, or approximately 15 percent of total premiums, through their required monthly contributions. The Annual OPEB Cost (AOC) was \$106,457 for the year ended December 31, 2017.

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

OPEB Liabilities, OPEB Expense, And Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To OPEB

At December 31, 2017, the Town reported a liability of \$1,670,703 for its net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017.

For the year ended December 31, 2017, the Town recognized OPEB expense of \$187,629. At December 31, 2017, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

Description	Deferred Resources	
	Outflows	Inflows
Difference between expected and actual experience	\$ (973)	\$ -0-
Changes of assumptions	-0-	125,455
Net difference between projected and actual earnings on OPEB plan investments	(3,406)	-0-
Contributions subsequent to measurement date	-0-	-0-
Totals	<u>\$ (4,379)</u>	<u>\$ 125,455</u>

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2018	\$ 11,597
2019	11,597
2020	11,597
2021	11,595
2022	12,448
Thereafter	<u>62,242</u>
	<u>\$ 121,076</u>

**Actuarial Assumptions:** The total OPEB liability in the January 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Timing	Full actuarial valuations are performed biennially as of January 1 with interim valuations reflecting asset performance and any significant events performed in the "other" years.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Amortization: The amortization period is 30 years on an open basis.
Asset Valuation Method	Market Value
Salary Increases	3.00% per year
Investment Rate Of Return	4.00%
Other Assumptions	See Appendices to this report.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

OPEB Liabilities, OPEB Expense, And Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To OPEB (cont'd)

Due to the size of the Town, no formal experience study has been conducted. As such, various actuarial assumptions are based on the assumptions used in the Delaware County & Municipal Employees' Pension Plan as of June 30, 2016, Delaware County & Municipal Police/Firefighters Pension Plan as of June 30, 2016, and Postretirement Health Plan Actuarial Valuation as of July 1, 2016, adjusted to reflect the Town's anticipated experience based on the actuary's judgment.

**Discount Rate:** 3.78% per annum as of January 1, 2017, and 3.45% per annum as of December 31, 2017, reflecting blend of long-term rate of return on investments and the applicable Bond Buyer General Obligation 20-Bond Municipal Bond Index of 3.78% per annum as of January 1, 2017, and 3.44% per annum as of December 31, 2017.

**Expected Long-Term Rate Of Return On Investments:** 4.0% per year.

**Salary Scale:** 3.0% per year.

**Expected Inflation Rate:** 2.3% per year.

**Health Cost Trend:** The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2017 utilizing the baseline assumptions included in the model. Adjustments are applied based on percentage of costs associated with administrative expenses, aging factors, potential excise taxes due to healthcare reform, and other healthcare reform provisions. The health cost trend assumption for medical and prescription benefits at sample years is as follows:

Valuation Year	Pre-65 Trend %	Post-65 Trend %
2017	7.0	5.5
2018	6.3	4.7
2019	5.7	4.9
2020	5.1	5.1
2025	5.9	4.9
2030	5.8	4.9
2035	5.7	5.0
2040	5.7	5.0
2050	5.2	5.6
2060	5.0	5.3
2070	4.4	4.6

The health cost trend assumption for dental benefits and premiums is assumed to be 3.0% per year.

For purposes of applying the Entry Age Normal cost method, the healthcare trend prior to the valuation date is based on the ultimate rate, which is 4.0% for costs prior to 65 and 4.1% of costs at age 65 and later.

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

OPEB Liabilities, OPEB Expense, And Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To OPEB (cont'd)

**Monthly Per Capita Claims Cost:** Age adjustments are required for valuing healthcare benefits due to a change in actuarial standards. Age adjustments reflect that health costs are typically higher for retirees under age 65 than an average active population and, upon reaching Medicare. Expected claim costs vary by age and gender. The claim costs shown below are from the State of Delaware Postretirement Health Plan Actuarial Valuation Report as of July 1, 2016, plus a provision for administrative expenses due to Risk Fee and Contract Charge applied to local municipalities.

Representative Ages	Male Members	Female Members	Admin. Load	Male Total	Female Total
40	\$ 413	\$ 741	\$ 42	\$ 455	\$ 783
45	515	780	42	557	822
50	681	919	42	723	961
55	893	1,090	42	935	1,132
60	1,162	1,298	42	1,204	1,340
64	1,433	1,495	42	1,475	1,537
65	313	333	26	339	359
70	369	369	26	395	395
75	414	399	26	440	425
80	441	413	26	467	439
85	448	409	26	474	435

The member costs shown in the above table include both medical and prescription costs. Amounts are interpolated for other ages. For the dental PPO plan, premiums are used as the claim costs.

**Coverage Election Rates:** All current active members are assumed to elect coverage if age and service requirements are met at retirement. Actual elections for current retirees are used.

**Mortality:** RPH-2014 Total Dataset Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward on a generational basis (based on recommendation of Society of Actuaries' Retirement Plans Experience Committee), with employee rates before benefit commencement and healthy annuitant rates after benefit commencement, and reflecting mortality improvements both before and after the valuation date.

**Sensitivity Analysis**

The following presents the net OPEB liability of the Town, calculated using the discount rate of 3.45%, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.45%) or 1 percentage point higher (4.45%) than the current rate.

	1% 1% Decrease 2.45%	Current Discount Rate 3.45%	1% 1% Increase 4.45%
Total OPEB liability	\$ 2,568,000	\$ 2,067,000	\$ 1,684,000
Fiduciary net position	275,221	275,221	275,221
Net OPEB liability	\$ 2,292,779	\$ 1,791,779	\$ 1,408,779

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

OPEB Liabilities, OPEB Expense, And Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To OPEB (cont'd)

The following presents the net OPEB liability of the Town, calculated using the current healthcare cost trend rates as well as what the Town's net OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,609,000	\$ 2,067,000	\$ 2,694,000
Fiduciary net position	275,221	275,221	275,221
Net OPEB liability	<u>\$ 1,333,779</u>	<u>\$ 1,791,779</u>	<u>\$ 2,418,779</u>

NOTE 10 COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

The Town participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Town is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Delaware Municipal Electric Corporation

The Town is a member of the Delaware Municipal Electric Corporation ("DEMEC"). DEMEC is a public corporation constituted as a joint action agency and a wholesale electric utility. DEMEC was established in 1979 and represents nine municipal electric distribution utilities located in the State of Delaware. DEMEC provides full requirements wholesale electric power supply service to seven of the nine members, including the Town, through the operation of owned generation assets and various contractual wholesale supply contracts with external parties.

Participating members purchase 100 percent of their electric supply requirements from DEMEC under a long-term full requirements service contracts that became effective January 1, 2004, and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the participating members to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this agreement.

Participating members have entered into a separate power sales agreement effective May 1, 2001, to purchase an interest in the capacity produced by Unit No. 1 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. The Town is entitled to a percentage of all power supply and ancillary products generated from the existing nominal 45 MW natural gas fired combustion turbine generator for the useful life of the facility.

Participating members have entered into separate power sales agreements effective May 1, 2011, to purchase an interest in the capacity produced by Unit #2 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Unit #2 went into commercial operation June 1, 2012. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the Unit #2 nominal 50 MW natural gas fired combustion turbine generator for the useful life of the facility.

TOWN OF CLAYTON  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS AND CONTINGENCIES (cont'd)

Delaware Municipal Electric Corporation (cont'd)

Under the terms of the various agreements, DEMEC is authorized to act as agent for the Town in all matters relating to the acquisition and delivery of its wholesale power supply and management of energy cost risk on behalf of the Town in the deregulated energy markets.

NOTE 11 RISK MANAGEMENT

The Town maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials and crime. There have been no significant changes in coverage, and there have been no losses above insurance limits during the past year.

NOTE 12 RESTATEMENT OF BEGINNING NET POSITION

The net position of the Town has been decreased by \$1,078,134 resulting from the implementation of GASB Statement No. 75 (refer to Note 13).

The net position of the Town in the Governmental Funds Statements increased by \$81,505 due to classifying the OPEB Liability entirely under governmental funds.

NOTE 13 GASB STATEMENT IMPLEMENTATION

The Town has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Implementation is required for periods beginning after June 15, 2017, with earlier application encouraged. The primary objective of the Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Implementation resulted in a reduction of net position by \$1,078,134 at December 31, 2016.

NOTE 14 SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through October 3, 2018, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF CLAYTON  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 395,500	\$ 413,552	\$ 18,052
Transfer taxes	150,000	322,192	172,192
Public safety taxes	21,380	20,930	(450)
Charges for services	360,098	413,384	53,286
Intergovernmental	133,200	276,000	142,800
Licenses and fees	6,500	8,786	2,286
Fines and forfeits	92,000	65,718	(26,282)
Franchise fees	46,600	53,844	7,244
Investment income	-0-	14,182	14,182
Miscellaneous	50	210	160
<b>TOTAL REVENUES</b>	<u>1,205,328</u>	<u>1,588,798</u>	<u>383,470</u>
<b>EXPENDITURES</b>			
Current:			
General government	632,888	498,867	134,021
Public safety	1,066,410	1,103,420	(37,010)
Public works	453,431	431,247	22,184
Licensing and inspection	103,417	46,193	57,224
Debt service:			
Principal	24,000	43,116	(19,116)
Interest	-0-	2,948	(2,948)
Capital outlay	50,000	424,990	(374,990)
<b>TOTAL EXPENDITURES</b>	<u>2,330,146</u>	<u>2,550,781</u>	<u>(220,635)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,124,818)</u>	<u>(961,983)</u>	<u>162,835</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from sale of capital assets	2,000	3,101	1,101
Loan proceeds	-0-	48,017	48,017
Transfers in	952,826	952,826	-0-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>954,826</u>	<u>1,003,944</u>	<u>49,118</u>
<b>NET CHANGE IN FUND BALANCE</b>	(169,992)	41,961	211,953
<b>FUND BALANCE, BEGINNING OF YEAR</b>	765,969	765,969	-0-
<b>PRIOR PERIOD ADJUSTMENT (See Note 12)</b>	81,505	81,505	-0-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 677,482</u>	<u>\$ 889,435</u>	<u>\$ 211,953</u>

**TOWN OF CLAYTON**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

For The Year-Ended December 31	Actuarial Valuation Date	Portion Of Collective Net Pension Liability	Proportion Of Total Pension Liability (Asset)	Town's Covered-Employee Payroll	Net Pension Liability (Asset) As A Percentage Of		Plan's Fiduciary Net Position As A Percentage Of Total Pension Liability
					Payroll	Payroll	
County & Municipal Police and Firefighters	2017	0.6694%	\$ 67,481	\$ 548,775	12.30%	97.00%	
	2016	0.6556%	\$ 104,207	\$ 513,043	20.31%	94.70%	
	2015	0.6542%	\$ (34,476)	\$ 477,927	( 7.21%)	101.97%	
	2014	0.6785%	\$ (73,403)	\$ 450,155	(16.31%)	104.47%	
	2013	0.6804%	\$ 68,765	\$ 398,676	17.25%	95.30%	
County & Municipal Other Employees	2017	1.3237%	\$ 85,765	\$ 489,382	17.53%	87.62%	
	2016	1.4013%	\$ 86,822	\$ 503,968	17.23%	86.38%	
	2015	1.5428%	\$ 658	\$ 459,923	0.14%	99.89%	
	2014	1.6400%	\$ (6,037)	\$ 445,758	( 1.36%)	101.07%	
	2013	1.8170%	\$ 46,322	\$ 428,515	10.81%	91.58%	

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accountant's report.

**TOWN OF CLAYTON**  
**SCHEDULE OF PENSION CONTRIBUTIONS**

	For The Year-Ended December 31	Actuarial Valuation Date	Required Employer Contributions	Contributions Recognized In Relation To The Required Employer Contribution	Contributions Deficiency/(Excess)	Covered Employee Payroll	Contributions As A Percentage Of Covered Payroll
County & Municipal Police and Firefighters	2017	6/30/2017	\$ 75,731	\$ 75,731	\$ -0-	\$ 548,775	13.80%
	2016	6/30/2017	\$ 71,313	\$ 71,313	\$ -0-	\$ 513,043	13.90%
	2015	6/30/2016	\$ 66,193	\$ 66,193	\$ -0-	\$ 477,927	13.85%
	2014	6/30/2014	\$ 69,774	\$ 69,774	\$ -0-	\$ 450,155	15.50%
	2013	6/30/2013	\$ 59,004	\$ 59,004	\$ -0-	\$ 398,676	14.80%
County & Municipal Other Employees	2017	6/30/2017	\$ 33,278	\$ 33,278	\$ -0-	\$ 489,382	6.80%
	2016	6/30/2017	\$ 31,246	\$ 31,246	\$ -0-	\$ 503,968	6.20%
	2015	6/30/2016	\$ 29,895	\$ 29,895	\$ -0-	\$ 459,923	6.50%
	2014	6/30/2014	\$ 29,354	\$ 29,354	\$ -0-	\$ 444,758	6.60%
	2013	6/30/2013	\$ 29,139	\$ 29,139	\$ -0-	\$ 428,515	6.30%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accountant's report.

**TOWN OF CLAYTON  
SCHEDULE OF NET OPEB LIABILITY**

For The Year-Ended December 31	Actuarial Valuation Date	OPEB Net Liability	Total OPEB Liability (Asset)	Town's Covered-Employee Payroll	Net OPEB Liability (Asset) As A Percentage Of Covered-Employee Payroll	Fiduciary Net Position As A Percentage Of Total OPEB Liability
2017	1/1/2017	\$ 1,791,779	\$ 2,067,000	\$ 971,825	184.37%	13.31%
2016	1/1/2016	\$ 1,498,805	\$ 1,744,096	\$ 971,825	154.23%	14.06%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accountant's report.

**TOWN OF CLAYTON  
SCHEDULE OF OPEB CONTRIBUTIONS**

For The Year-Ended December 31	Actuarial Valuation Date	Required Employer Contributions	Contributions Recognized In Relation To The Required Employer Contribution	Contributions Deficiency/(Excess)	Covered Employee Payroll	Contributions As A Percentage Of Covered Payroll
2017	1/1/2017	\$ 199,135	\$ 20,000	\$ 179,135	\$ 971,825	2.06%
2016	1/1/2016	\$ 111,708	\$ 20,000	\$ 91,708	N/A	N/A
2015	1/1/2015	\$ 115,723	\$ 220,230	\$ (104,507)	N/A	N/A

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accountant's report.

**TOWN OF CLAYTON**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**(IN 1,000'S)**

	For The Year-Ended December 31
	2017
<b>Total OPEB Liability</b>	
Service cost	\$ 120
Interest on total OPEB liability	70
Changes of benefit terms	-0-
Effect of economic/demographic (gains) or losses	(1)
Effect of assumption changes or inputs	138
Benefit payments	(4)
Net change in total OPEB liability	323
Total OPEB liability, beginning	1,744
Total OPEB liability, ending (a)	2,067
<b>Fiduciary Net Position</b>	
Employer contributions	20
Net investment income	14
Benefit payments	(4)
Administrative expenses	-0-
Net change in plan fiduciary net position	30
Fiduciary net position, beginning	245
Fiduciary net position, ending (b)	275
Net OPEB liability, ending = (a) – (b)	\$ 1,792
Fiduciary net position as a % of total OPEB liability	13.31%
Covered payroll	\$ 972
Net OPEB liability as a % of covered payroll	184.37%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accountant's report.

**COMBINING NONMAJOR FUND STATEMENTS**

**TOWN OF CLAYTON  
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,946	\$ 5,309	\$ 5,921	\$ 48,176
<b>TOTAL ASSETS</b>	<b>36,946</b>	<b>5,309</b>	<b>5,921</b>	<b>48,176</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	-0-	700	2,050	2,750
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>700</b>	<b>2,050</b>	<b>2,750</b>
<b>FUND BALANCES</b>				
Reserved, designated for:				
Police expenditures	-0-	4,609	3,871	8,480
Public works expenditures	36,946	-0-	-0-	36,946
<b>TOTAL FUND BALANCES</b>	<b>\$ 36,946</b>	<b>\$ 4,609</b>	<b>\$ 3,871</b>	<b>\$ 45,426</b>

**TOWN OF CLAYTON  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Total
<b>REVENUES</b>				
Intergovernmental	\$ 40,701	\$ 4,129	\$ 3,487	\$ 48,317
<b>TOTAL REVENUES</b>	<u>40,701</u>	<u>4,129</u>	<u>3,487</u>	<u>48,317</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	-0-	-0-	3,675	3,675
Public works	20,363	-0-	-0-	20,363
Capital outlays	19,834	-0-	-0-	19,834
<b>TOTAL EXPENDITURES</b>	<u>40,197</u>	<u>-0-</u>	<u>3,675</u>	<u>43,872</u>
<b>CHANGE IN FUND BALANCES</b>	504	4,129	(188)	4,445
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>36,442</u>	<u>480</u>	<u>4,059</u>	<u>40,981</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 36,946</u>	<u>\$ 4,609</u>	<u>\$ 3,871</u>	<u>\$ 45,426</u>

**OTHER REPORTS**

INDEPENDENT AUDITOR'S 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

October 3, 2018

To the Honorable Mayor and Town Council  
Town of Clayton  
Clayton, Delaware

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Clayton, Delaware, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Clayton, Delaware's basic financial statements, and have issued our report thereon dated October 3, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Clayton, Delaware'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, Delaware's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Clayton, Delaware'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.

To the Honorable Mayor and Town Council  
Town of Clayton  
October 3, 2018

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Clayton, Delaware's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Papaleo, Rosen & Chelf, P.A.*

PAPALEO, ROSEN & CHELF, PA