

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge and Commissioner's Comprising the
Commissioners' Court of Clay County
Henrietta, Texas

We have audited the accompanying financial statements of the governmental activities, discrete component unit, each major fund, and the aggregate remaining fund information of Clay County, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Clay County Memorial Hospital, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to Clay County Memorial Hospital, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Clay County, Texas, as of September 30, 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.

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 5–12 and 44–51 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 and other auditors 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.

Change in Accounting Principle

As discussed in Note IV. G. to the financial statements, in 2017 the County adopted new accounting guidance, GASB Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County, Texas' basic financial statements. The combining and individual nonmajor fund financial statements, and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Antledge Cain & Company, PC

April 30, 2017

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

As management of Clay County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found in the footnotes to the financial statements.

Financial Highlights

The assets and deferred resources of the County exceeded its liabilities at the close of the fiscal year ended September 30, 2017, by \$8,425,656 (net position). Of this amount, \$3,526,177 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The County's total net position decreased by \$772,242. The majority of this decrease is attributed to less capital contributions of infrastructure from state grants for repairs to County's roads. In 2016 the County had severe rain fall that caused a lot of major damage to the roads that we did not have in 2017. The lease/purchase of new equipment with little equity and depreciation also attributes to the decrease of net position.

The County's governmental funds reported combined ending fund balances of \$3,680,142 a decrease of \$390,831 in comparison to the previous year. The decrease was primarily the result of decrease of pass through grants.

The unreserved portion of the General Fund Balance at the end of the year was \$1,706,550 or 31 % of total General Fund expenditures and transfers out.

Clay County has no bonded indebtedness at the current time.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) fiduciary financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of Clay County's finances. This is done in a manner similar to a private-sector business. Two statements, the Statement of Net Position and the Statement of Activities, are utilized to provide this financial overview.

The Statement of Net Position presents information on all of the County'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 County is improving or deteriorating.

The Statement of Activities presents information showing how the government'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 the cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

The County, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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. All of the funds of the County can be categorized as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains thirteen individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Road & Bridge Number One, Road & Bridge Number Two, Road & Bridge Number Three, Road & Bridge Number Four, and the Sheriff's Department Forfeiture Fund, all of which are considered to be major funds. Data from the other seven funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in the report.

Fiduciary Funds. The County maintains funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support County programs.

Notes to Financial Statements. The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide, fund financial statements and fiduciary fund statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents other required supplementary information. Required supplementary information can be found after the notes to the financial statements. The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

Government-wide Financial Analysis

At the end of fiscal year 2017, the County's net position (assets and deferred resource outflows, exceeding liabilities and deferred resource inflows) totaled \$8,425,656. This analysis focuses on the net position (Table 1) and changes in net position (Table 2).

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Net Position. The largest portion of the County's net position, \$4,899,479 or 58.5 %, reflects its investment in capital assets (land and improvements, building, infrastructure, machinery and equipment), less depreciation and any related debt used to acquire those assets that is still outstanding. The County uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County reports its capital assets net of related debt, 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.

The remaining balance of unrestricted net position, \$3,526,177 or 41.5 %, may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1
Condensed Statement of Net Position

	Governmental Activities		Component Unit	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
ASSETS				
Current and other assets	\$ 4,663,906	\$ 5,062,516	\$ 5,804,910	\$ 4,237,989
Capital assets	7,157,141	7,272,700	2,863,248	3,049,913
Total assets	<u>11,821,047</u>	<u>12,335,216</u>	<u>8,668,158</u>	<u>7,287,902</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges	<u>1,122,450</u>	<u>1,308,847</u>	-	-
LIABILITIES				
Long-term liabilities	3,483,206	3,860,626	390,474	114,777
Other liabilities	894,537	339,309	267,721	291,130
Total liabilities	<u>4,377,743</u>	<u>4,199,935</u>	<u>658,195</u>	<u>405,907</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	<u>140,098</u>	<u>246,230</u>	-	-
NET POSITION				
Net Investment in capital assets	4,899,479	5,140,057	2,472,774	2,935,136
Unrestricted	3,526,177	4,057,841	5,537,189	3,946,859
	<u>\$ 8,425,656</u>	<u>\$ 9,197,898</u>	<u>\$ 8,009,963</u>	<u>\$ 6,881,995</u>

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Changes in Net Position. The net position of the County decreased by \$772,242 for the fiscal year ended September 30, 2017.

Table 2
Changes in Net Position

	Governmental Activities		Component Unit	
	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2016</u>
Program Revenues:				
Charges for services	\$ 1,730,186	\$ 2,422,929	\$ 8,190,910	\$ 6,649,064
Operating grants and contributions	144,313	120,307	22,306	5,970
Capital grant and contributions	250,664	915,683	152,758	170,486
General Revenues				
Taxes	4,969,979	4,892,870	-	-
Miscellaneous	226,817	837	1,935,521	2,320,421
Unrestricted Investment Earnings	21,108	10,981	163,460	76,063
Gain (loss) on sale of capital assets	132,824	165,810	-	-
Total Revenues	<u>7,475,891</u>	<u>8,529,417</u>	<u>10,464,955</u>	<u>9,222,004</u>
Expenses:				
General Administration	702,969	706,156	-	-
Judicial	562,032	617,763	-	-
Legal	176,190	186,723	-	-
Financial Administration	218,076	234,127	-	-
Public Facilities	137,270	154,097	-	-
Public Safety	2,257,324	2,185,082	-	-
Public Transportation	2,675,888	2,807,221	-	-
Health and Welfare	178,888	182,013	-	-
Conservation	104,850	106,782	-	-
Nondepartmental	1,200,373	2,019,457	-	-
Debt Service	34,273	263	-	-
Hospital operations	-	-	-	-
Total Expenses	<u>8,248,133</u>	<u>9,199,684</u>	<u>9,336,987</u>	<u>8,570,227</u>
Increase/Decrease in net position	(772,242)	(670,267)	1,127,968	651,777
Net position-October 1	9,197,898	9,868,165	6,881,995	6,230,218
Net position-September 30	<u>\$ 8,425,656</u>	<u>\$ 9,197,898</u>	<u>\$ 8,009,963</u>	<u>\$ 6,881,995</u>

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Clay County's net position decreased by \$772,242. Key elements of this decrease are as follows:

The decrease was mainly attributed to indirect federal & state grants that passed through the county.

The other Primary Government Departments under the General Fund all decreased their expenses except the Public Safety and this was due to new positions being created for more protection for the County citizens.

Financial Analysis of the Government's Funds

Government funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the governments net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$3,680,142.

The General Fund is the main operating fund of the County. At the end of the current fiscal year, the General Fund unassigned fund balance was \$1,706,550. The fund balance increased \$34,615 during the current fiscal year. A key factor of the increase was departments spending less in their budgets and more Fines received.

General Fund Budgetary Highlights. Each year the County performs periodic reviews of the budget. State law prohibits increasing total budgeted expenditures except during an emergency, however, an amount budgeted for one line item can be transferred to another budgeted item without authorizing an emergency expenditure.

There was no significant change in the total appropriations for the final amended budget compared to the original budget.

During the year there was a \$1,102,855 positive variance in appropriations between the final amended budget and actual. Following are the main components of the increase:

\$96,747 - General Government –less election expenses and computer equipment purchased than anticipated.

\$127,915- Judicial –District Court had less court cost and purchased very little computer and programs. The Justice of Peace opted out of healthcare benefits saving the County money.

\$164,530 - Public safety-sheriff employee costs were down and there was less foster care and treatment in the Juvenile Department.

\$54,513 - Health and Welfare - Indigent health care cost down

\$210,978 - Nondepartmental – maintenance, property renovation and Repairs was less than anticipated and the Emergency Reserve did not have to be used due to no major occurrences in the budget year.

There was no change in the estimated revenues for the final amended budget compared to the original budget.

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Capital Assets and Debt Administration

Capital Assets. The County's investment in capital assets for its governmental activities as of September 30, 2017, amounts to 7,157,141 (Net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, and infrastructure.

Table 3
Capital Assets at Year End
Net of Accumulated Depreciation

	Governmental Activities		Component Unit	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Land	\$ 140,695	\$ 140,695	\$ 378,730	\$ 361,951
Construction in progress	-	-	-	510,514
Buildings	2,444,510	2,512,293	1,277,656	884,006
Machinery and equipment	3,332,481	3,343,949	1,206,862	1,293,442
Infrastructure	1,239,455	1,275,763	-	-
	<u>\$ 7,157,141</u>	<u>\$ 7,272,700</u>	<u>\$ 2,863,248</u>	<u>\$ 3,049,913</u>

Additional information on the County's capital assets can be found in the foot notes to the financial statements.

Debt Administration.

From time to time Clay County signs lease agreements to finance equipment purchases in the General Fund and Road and Bridge Funds. At September 30, 2017 the County had capital lease obligations of \$2,257,662.

Table 4
Outstanding Debt at Year End

Type of Debt	Governmental Activities		Component Unit	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Capital lease obligations	\$ 2,257,662	\$ 2,132,643	\$ 379,802	\$ 114,777
Net Pension Liability	1,651,825	1,624,232	-	-
Compensated Absences	98,026	103,751	-	-
Total	<u>\$ 4,007,513</u>	<u>\$ 3,860,626</u>	<u>\$ 379,802</u>	<u>\$ 114,777</u>

Clay County does not have a current bond rating from either Standard & Poor Corporation or Moody's Investor Service.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and rates

The County provides a full range of services authorized by statute. Such services include general government functions such as recording and licensing, maintaining the County and District Court system, ensuring public safety, maintaining public health and welfare, and maintaining county roads and bridges. The cost associated with these services are presented within the financial statement in detail.

Budget

The annual budget serves as the foundation for Clay County's financial planning and control. The objective of these controls are to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Commissioners Court. Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of expenditures cannot legally exceed the appropriated amount this control is established at the department level within each fund. All transfers of appropriations, either between departments or within an individual department's budget, require the approval of the Commissioners Court, except on the Sheriff's Department Forfeiture Account, the expenditures of the proceeds must be submitted to commissioner's court and clearly list and define the categories of expenditures, except the detail that would endanger the safety of the law enforcement. There is no requirement that commissioner's court approve the budget submitted on the Forfeiture account except for increase in salary, expense, or allowance. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Local Economy

The County's economy depends a lot on agribusiness and oil & gas, local businesses that include manufacturing, service, merchandising, hybrid, corporations, LLC's, cooperative, sole proprietorships and partnerships. We have established businesses that employ people and provide services to help keep the economy improving. Henrietta has had some new growth we have a newly completed apartment complex and soon to be finished truck stop that will also have two eating places inside. There is also another restaurant in Henrietta to be opened and land has been purchased to build another distillery. The school districts, state, city and County also have a significant economic presence employing people in Clay County.

The unemployment rate as of September 2017 for Clay County was 3.2% compared to the National Average of 4.2%.

Long Term Financial Planning

County strategies and plans are integrated into all departmental budgets to ensure unified efforts within County government to achieve the goals and objectives of the County. Texas county government operates under a balanced budget as required by law. This does not mean that estimated revenues must always be exactly equal to expenditures. As financial management practice, members of Commissioners Court should consistently emphasize maintaining sufficient unassigned fund balance levels to meet first quarter obligations of payroll and operating cost and furthermore, this assists in maintaining financial stability. When evaluating fund balance reserve, it is vitally important to maintain sufficient positive fund balance reserves in order to avoid borrowing to meet short term operating needs.

Finally, as a result of the trend of shifting of unfunded mandates by both federal and state levels to local government, it is anticipated that additional financial burden will continue to be experienced by the County and ultimately local taxpayers if other sources of funding are not identified. The County will be tasked with identifying new or additional revenue to counter these expenditures. At its discretion, the Court will probably continue to utilize some amount of fund balance not to exceed what is needed for the fund balance reserve. The Court must remain cautious in planning for the future budget in the absence of either continued cost containment initiatives or significant additional revenue enhancement efforts. It is imperative that County government continually strive to maintain steady increases in revenue while costs are on the rise.

Initiatives

The County focuses on improving services and improvements throughout the year that are needed to meet citizen's demands. Some of the services include but are not limited to, Internet access to view county records, in order to protect and preserve the history of Clay County various indexes and record books of the County have been restored and preserved.

CLAY COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

In order to protect the citizens of Clay County and the integrity of the deputies, the Sheriff's Department has improved their communication by purchasing new equipment to help provide better services for the citizens and better safety for the officers and staff. Commissioner's Court also allowed more money in the Sheriff's Budget to provide more staff, to better provide services by more man power.

Requests for Information

This financial report is designed to provide a general overview of Clay County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 214 North Main, Henrietta Texas, 76365.