

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2012

**CITY OF CLAY, ALABAMA
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DECEMBER 31, 2012**

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CORK, HILL & COMPANY, L.L.C

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council of
The City of Clay, Alabama

We have audited the accompanying general purpose financial statements of the City of Clay, Alabama (the City), as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Clay, Alabama as of December 31, 2012, and the changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 1 through 7) 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.

Cork, Hill & Company, L.L.C.

Birmingham, Alabama
April 16, 2013

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
DECEMBER 31, 2012**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Clay (the City)'s general purpose financial statements include Management's Discussion and Analysis (MD&A), Basic Financial Statements and Required Supplementary Information (RSI). The MD&A, a component of RSI, introduces the basic financial statements and provides an analytical overview of the City's financial activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of the following elements:

Government-wide Financial Statements

Government-wide financial statements provide both long-term and short-term information about the City's overall financial condition. Changes in the City's financial position may be measured over time by increases and decreases in the Statement of Net Assets. Information on how the City's net assets changed during the fiscal year is presented in the Statement of Activities.

Fund Financial Statements

Fund financial statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide financial statements. The City only has governmental type funds.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012**

Major Features of the Basic Financial Statements

	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government	Activities of the City that are not proprietary or fiduciary	None	None
Required financial statements	Statement of net assets; Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances		
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus		
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included		
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year Expenditures when goods or services have been received and payment is due during the year or soon thereafter		

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012**

Condensed Financial Information

Condensed Statement of Net Assets

The City's total assets increased between years 2011 and 2012. However, net assets decreased by \$346,746.

The City's net assets is composed of three components. The City has net assets of \$8,922,762 invested in capital assets (buildings, vehicles, etc...) net of the debt associated with it. The second component of net assets is \$446,748 which is restricted for capital projects. The third component of the City's net assets is \$503,619 in unrestricted net assets.

The following presents the City's condensed statement of net assets as of December 31, 2012 and 2011, derived from the government-wide Statement of Net Assets.

**Condensed Statement of Net Assets (as adjusted)
As of December 31,**

	Governmental Activities		Total Primary Government		Total Change
	2012	2011	2012	2011	2011 - 2012
Current and other assets	\$ 1,168,337	\$1,071,347	\$ 1,168,337	\$1,071,347	\$ 96,990
Capital assets	8,922,762	8,511,288	8,922,762	8,511,288	411,474
Total assets	<u>10,091,099</u>	<u>9,582,635</u>	<u>10,091,099</u>	<u>9,582,635</u>	<u>508,464</u>
Current liabilities	395,377	242,932	395,377	242,932	152,445
Noncurrent liabilities	<u>6,314,581</u>	<u>5,611,816</u>	<u>6,314,581</u>	<u>5,611,816</u>	<u>702,765</u>
Total liabilities	<u>6,709,958</u>	<u>5,854,748</u>	<u>6,709,958</u>	<u>5,854,748</u>	<u>855,210</u>
Net Assets:					
Invested in capital assets, net of related debt	2,430,774	2,813,786	2,430,774	2,813,786	(383,012)
Restricted for capital projects, net of debt	446,748	760,608	446,748	760,608	(313,860)
Unrestricted	<u>503,619</u>	<u>153,493</u>	<u>503,619</u>	<u>153,493</u>	<u>350,126</u>
Total net assets	<u>3,381,141</u>	<u>3,727,887</u>	<u>3,381,141</u>	<u>3,727,887</u>	<u>(346,746)</u>
Total liabilities and net assets	<u>\$10,091,099</u>	<u>\$9,582,635</u>	<u>\$10,091,099</u>	<u>\$9,582,635</u>	<u>\$ 508,464</u>

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012

Condensed Statement of Activities

The following presents the City's condensed statement of activities for the fiscal year ended December 31, 2012 and 2011, as derived from the government-wide Statement of Activities. The City's total revenues increased by \$91,882. Fifty-nine percent of the City's revenue is from sales tax. The remainder is from charges for services, donations and federal and state money.

The City program expenses increased 15 percent. Program revenues exceeded all City revenues by \$21,596.

	Governmental Activities		Total Primary Government		Total Change
	2012	2011	2012	2011	2011 to 2012
Revenues					
Program revenues	\$ 35,549	\$ -	\$ 35,549	\$ -	\$ 35,549
General revenues and payments					
Sales and other taxes	1,219,317	1,398,390	1,219,317	1,398,390	(179,073)
License and Permits	869,062	754,736	869,062	754,736	114,326
Intergovernmental	345,443	56,046	345,443	56,046	289,397
Miscellaneous	27,498	201,622	27,498	201,622	(174,124)
Interest	474	485	474	485	(11)
Gain/Loss on disposal of assets	(2,880)	(13,872)	(2,880)	(13,872)	10,992
Total general revenues and payments	2,458,914	2,397,407	2,458,914	2,397,407	61,507
Total revenues	2,494,463	2,397,407	2,494,463	2,397,407	97,056
Program expenses					
General government	1,803,044	1,007,729	1,803,044	1,007,729	795,315
Public safety	133,299	90,697	133,299	90,697	42,602
Culture and recreation	454,237	570,746	454,237	570,746	(116,509)
Public works	206,966	546,984	206,966	546,984	(340,018)
Interest and finance charges	243,663	258,273	243,663	258,273	(14,610)
Total program expenses	2,841,209	2,474,429	2,841,209	2,474,429	366,780
Change in net assets from activities	(346,746)	(77,022)	(346,746)	(77,022)	(269,724)
Beginning net assets	3,727,887	3,804,909	3,727,887	3,804,909	(77,022)
Ending net assets	\$ 3,381,141	\$ 3,727,887	\$ 3,381,141	\$ 3,727,887	\$ (346,746)

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012**

Program Expenses and Revenues for Governmental Activities

The following presents the net costs of governmental activities. Overall, program revenues were sufficient to cover program expenses for governmental activities. General revenues supported the net costs of governmental activities.

**Net Costs of Governmental Activities
for the Fiscal Year Ended December 31, 2012**

City Programs	Program Expenses 2012	Less Program Revenues 2012	Net Program Costs (a)		Program Revenues as a Percentage of Program Expenses	
			2012	2011	2012	2011
General government	\$1,803,044	\$ 10,225	\$1,792,819	\$1,007,729	0.6%	0.0%
Public safety	133,299	3,177	130,122	87,971	2.3%	0.3%
Culture and recreation	454,237	22,147	432,090	570,746	4.9%	0.0%
Public works	206,966	-	206,966	546,984	0.0%	0.0%
Interest	243,663	-	243,663	258,273	0.0%	0.0%
Totals	<u>\$2,841,209</u>	<u>\$ 35,549</u>	<u>\$2,805,660</u>	<u>\$2,471,703</u>	<u>1.3%</u>	<u>0.1%</u>

(a) Net program costs are mainly supported by taxes.

OVERALL GOVERNMENTAL FUNDS BASIS ANALYSIS

The City's assets exceed its liabilities by \$1,042,666. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance decreased \$210,950 during the year due to expenditures exceeding revenues. The Capital improvement balance increased \$206,191 and the gas tax fund increased \$32,170.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,042,666. Ending fund balance is \$27,411 more than the previous year's balance.

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At December 31, 2012, the City reported \$8,922,762 in capital assets. Refer to Note 3 to the financial statements for additional information on capital assets.

Long-term Debt Activity

Long-term debt is made up of three general obligation warrants that were used to purchase the new city hall and for Cosby Lake improvements. Total amount of long term debt at year end was \$6,523,669. Refer to Note 5 to the financial statements for additional information on long-term debt.

ECONOMIC CONDITIONS AND OUTLOOK

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011-2012 budget, tax rates, and fees. The new City hall facility has been completed an entire year and a full year of expenses were used in budgeting expenditures such as utilities and maintenance. We anticipate the purchase of a new fire engine to be financed through additional debt. Consideration will be given in regard to the 9% cut in salaries passed in the 2010-2011 budget and determine if a continuation of the salary cut is still needed in 2012.

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
DECEMBER 31, 2012**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact:

Charles Webster, Mayor
2441 Old Springville Road
Clay, AL 35215
(205) 680-1223

Ronnie Dixon, City Manager
2441 Old Springville Road
Clay, AL 35215
(205) 680-1223

**CITY OF CLAY, ALABAMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2012**

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 995,085	\$ 995,085
Receivables	108,420	108,420
Prepaid expenses	33,151	33,151
Total current assets	1,136,656	1,136,656
Other Assets:		
Unamortized bond issuance costs	31,681	31,681
Capital Assets:		
Land	1,985,059	1,985,059
Other capital assets, net of accumulated depreciation	6,937,703	6,937,703
Total capital assets	8,922,762	8,922,762
Total assets	\$ 10,091,099	\$ 10,091,099
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 155,699	\$ 155,699
Current portion of long-term debt	239,678	239,678
Total current liabilities	395,377	395,377
Long-Term Liabilities:		
Long-term debt, net of current maturities	6,314,581	6,314,581
Total long-term liabilities	6,314,581	6,314,581
Total liabilities	6,709,958	6,709,958
NET ASSETS		
Invested in capital assets, net of related debt	2,430,774	2,430,774
Restricted for capital projects, net of related debt	446,748	446,748
Unrestricted	503,619	503,619
Total net assets	3,381,141	3,381,141
Total liabilities and net assets	\$ 10,091,099	\$ 10,091,099

See Independent Auditors' Report and Notes to the Financial Statements.

**CITY OF CLAY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue & Change in Net Assets</u>
		<u>Fines and Fees</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 1,803,044	\$ 5,445	\$ 4,780	\$ -	\$ (1,792,819)
Public safety	133,299	3,177	-	-	(130,122)
Culture and recreation	454,237	6,745	15,402	-	(432,090)
Public works	206,966	-	-	-	(206,966)
Interest	243,663	-	-	-	(243,663)
Total governmental activities	<u>\$ 2,841,209</u>	<u>\$ 15,367</u>	<u>\$ 20,182</u>	<u>\$ -</u>	<u>\$ (2,805,660)</u>
General Revenues:					
Taxes:					
					1,041,285
					178,032
					869,062
					345,443
					27,498
					474
					(2,880)
					<u>2,458,914</u>
					(346,746)
					<u>3,727,887</u>
					<u>\$ 3,381,141</u>

See Independent Auditors' Report and Notes to the Financial Statements.

CITY OF CLAY, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total - Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 307,240	\$ 457,848	\$ 229,997	\$ 995,085
Accounts receivable	93,462	-	14,958	108,420
Prepaid Expenses	33,151	-	-	33,151
Due from other funds	62,385	233,796	-	296,181
Total assets	<u>\$ 496,238</u>	<u>\$ 691,644</u>	<u>\$ 244,955</u>	<u>\$ 1,432,837</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 92,236	\$ 277	\$ 1,477	\$ 93,990
Due to other funds	233,796	62,385	-	296,181
Total liabilities	<u>326,032</u>	<u>62,662</u>	<u>1,477</u>	<u>390,171</u>
Fund balance:				
Nonspendable	33,151	-	-	33,151
Restricted	97,616	628,982	243,478	970,076
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	39,439	-	-	39,439
Total fund balance	<u>170,206</u>	<u>628,982</u>	<u>243,478</u>	<u>1,042,666</u>
Total liabilities and fund balances	<u>\$ 496,238</u>	<u>\$ 691,644</u>	<u>\$ 244,955</u>	<u>\$ 1,432,837</u>

See Independent Auditors' Report and Notes to the Financial Statements.

**CITY OF CLAY, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
DECEMBER 31, 2012**

Total *fund balances* for governmental funds \$ 1,042,666

Total *net assets* reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Assets, net of accumulated depreciation are: 8,922,762

The City issued bonds in the prior year and paid \$42,500 in bond issuance costs. These costs are recognized as an expenditure when paid in the funds but are capitalized in the statement of net assets and amortized to expense in the statement of activities over the remaining life of the debt. The unamortized balance at December 31, 2012 is reflected herein. 31,681

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.

Balances at December 31, 2012 are:

Accrued interest	\$ (59,049)	
Compensated absences	(33,250)	
Notes payable and capital leases	(6,523,669)	(6,615,968)

Total *net assets* of governmental activities \$ 3,381,141

See Independent Auditors' Report and Notes to the Financial Statements.

CITY OF CLAY, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 1,041,285	\$ -	\$ 177,896	\$ 1,219,181
Licenses and Permits	869,362	-	-	869,362
Intergovernmental	245,704	83,796	-	329,500
Grant	15,402	-	-	15,402
Interest	1	473	-	474
Other	57,038	1,212	-	58,250
Total revenues	<u>2,228,792</u>	<u>85,481</u>	<u>177,896</u>	<u>2,492,169</u>
Expenditures:				
Current operations:				
General government	1,367,429	-	61,893	1,429,322
Public safety	124,577	-	-	124,577
Streets and sanitation	497,809	223	83,833	581,865
Total current operations	<u>1,989,815</u>	<u>223</u>	<u>145,726</u>	<u>2,135,764</u>
Capital outlays	5,910	912,108	-	918,018
Debt service	432,976	-	-	432,976
Total expenditures	<u>2,428,701</u>	<u>912,331</u>	<u>145,726</u>	<u>3,486,758</u>
Excess (deficiency) of revenues over (under) expenditures	(199,909)	(826,850)	32,170	(994,589)
Other financing sources (uses):				
Debt proceeds	1,022,000	-	-	1,022,000
Operating transfers in	-	1,033,041	-	1,033,041
Operating transfers out	(1,033,041)	-	-	(1,033,041)
Total other financing sources (uses)	<u>(11,041)</u>	<u>1,033,041</u>	<u>-</u>	<u>1,022,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(210,950)	206,191	32,170	27,411
Fund balances, beginning	<u>381,156</u>	<u>422,791</u>	<u>211,308</u>	<u>1,015,255</u>
Fund balances, ending	<u>\$ 170,206</u>	<u>\$ 628,982</u>	<u>\$ 243,478</u>	<u>\$ 1,042,666</u>

See Independent Auditors' Report and Notes to the Financial Statements.

**CITY OF CLAY, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in Fund Balances - Total Governmental Funds \$ 27,411

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

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 disposition of assets (\$2,880) and depreciation (\$503,953) were exceeded by capital outlay (\$918,018). 411,185

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. The City's debt was reduced by principal payments made to bondholders and other creditors

Debt Issued: Line of credit	(1,022,000)	
Repayments: To bond and noteholders	195,833	(826,167)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable 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, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of three balances.

Compensated absences	(49,905)	
Accrued interest	59,049	
Amortization of bond issuance costs	31,681	
Combined adjustment		40,825

Change in net assets - Governmental Activities \$ (346,746)

See Independent Auditors' Report and Notes to the Financial Statements.

**CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of the City of Clay, Alabama (the City) are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The City is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to exercise significant influence. Significant influence is based primarily upon operational and financial relationships with the City. There are no component units for the 2012 year.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's governmental funds are classified into three generic fund types for financial statement presentation purposes. The City's governmental funds include the general, special revenue, and capital projects funds.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset 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. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted assets first then unrestricted assets as needed.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, taxes and investment earnings are deemed both measurable and available if collected within the current year or within 60 days of year-end.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Interfund Receivables/Payables

During the normal course of operations, the City has numerous transactions between funds to provide services, construct assets, service debt, etc. These receivables and payables are classified as "due to/from other funds" if short-term in nature and as "advances to/from other funds" if they are considered noncurrent. These amounts have been eliminated on the government-wide financial statements.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Fund accounting reports capital outlays as expenditures and does not recognize capital assets and depreciation. Under the government-wide accrual basis of reporting, general capital assets are long-lived assets of the City as a whole. When purchased, assets are capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Donated capital assets are recorded at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings - 40 to 60 years; improvements/infrastructure - 5 to 40 years; equipment - 5 to 20 years.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-term Obligations

Long-term debt and other long-term obligations are reported in the governmental activities on the statement of net assets in the government-wide financial statements. Bond premium and issuance costs, when applicable, are deferred and amortized over the life of the bond.

Fund Balance

On January 1, 2011, the City implemented Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued by the Governmental Accounting Standards Board (GASB). This statement establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures. In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances:

Nonspendable Fund Balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.

Restricted Fund Balance - includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance - includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council of the City of Clay. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance - includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Council and Mayor have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all remaining amounts (except negative amounts) in governmental funds, other than the General Fund, that are not classified as nonspendable, restricted or committed.

Unassigned Fund Balance - the residual classification for the General Fund and to report negative fund balances in the other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned - in order as needed..

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budget Requirements, Accounting, and Reporting Requirements for all funds:

Annual budgets are adopted for the City's general fund. The budget is based on expected expenditures by program within a fund and estimated resources by source for the funds.

Appropriation control (City Council appropriated budget) is by department and line item within the general fund. The budget may be amended to transfer amounts among line items or departments. The budget was not amended during the year.

Accumulated Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of accumulated vacation and unpaid, accumulated sick leave balances. The liability is based on the sick leave accumulated at year-end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments.

Use of Estimates

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

State law requires all financial institutions accepting deposits of public funds to be a member of the state's "SAFE" program. The Security for Alabama Funds Enhancement (SAFE) program is a state-wide collateral pool for all public funds administered through the Alabama Treasurers Office. All of the City's funds are collateralized by FDIC insurance and this collateral pool except for capital project funds of \$446,748. These funds are invested by a bank trust department in US government securities and are not subject to collateralization requirements.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Governmental activities:				
Not being depreciated:				
Land	\$ 1,751,103	\$ 233,956	\$ -	\$ 1,985,059
	<u>1,751,103</u>	<u>233,956</u>	<u>-</u>	<u>1,985,059</u>
Other capital assets:				
Buildings	1,340,059	412,818	-	1,752,877
Equipment	654,640	195,221	(15,923)	833,938
Infrastructure	8,383,319	76,311	-	8,459,630
Vehicles	279,550	-	(43,700)	235,850
	<u>10,657,568</u>	<u>684,350</u>	<u>(59,623)</u>	<u>11,282,295</u>
Accumulated depreciation:				
Buildings	(144,114)	(37,611)	-	(181,725)
Equipment	(400,382)	(79,988)	13,043	(467,327)
Infrastructure	(3,170,713)	(359,678)	-	(3,530,391)
Vehicles	(182,173)	(26,676)	43,700	(165,149)
	<u>(3,897,382)</u>	<u>(503,953)</u>	<u>56,743</u>	<u>(4,344,592)</u>
 Net capital assets	 <u>\$ 8,511,289</u>	 <u>\$ 414,353</u>	 <u>\$ (2,880)</u>	 <u>\$ 8,922,762</u>

Depreciation expense was charged as a direct operating expense to the departments of the City as follows:

General Government	\$ 256,577
Public Safety	8,722
Culture and Recreation	177,934
Public Works	60,720
	<u>\$ 503,953</u>

NOTE 4 - ACCUMULATED COMPENSATED LEAVE

Employees accrue vacation and overtime leave in accordance with the city personnel policy. Such leave is considered fully vested rights of the employees and are recorded as an obligation of the city at year end. The cost of accumulated leave at December 31, 2012 is \$33,250.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

At DECEMBER 31, 2012, interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
<u>General Fund:</u>		
Due from Capital Improvement	\$ 62,385	\$ -
Due to Capital Improvement	-	233,796
 <u>Capital Improvement:</u>		
Due from General Fund	233,796	-
Due to General Fund	-	62,385
	<u>\$ 296,181</u>	<u>\$ 296,181</u>

NOTE 6 - LONG-TERM LIABILITIES

The City has the following long-term liabilities:

	<u>Balance December 31, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
US Bank - General Obligation Warrant - 2003. Bearing interest from 3.07-5.10%; Matures 4/1/23	\$ 695,000	\$ -	\$ 45,000	\$ 650,000	\$ 45,000
Bank of New York (Amfund) - General Obligation Warrant - 2006A; 3.67 % Interest. Matures 11/20/32	5,002,500	-	150,831	4,851,669	160,000
BBT - Gerner; Obligation Warrant - 2012A. 3.9% Interest. Matures 3/1/29	-	1,022,000	-	1,022,000	34,678
Compensated absences	82,156	-	48,906	33,250	2,660
Total long-term obligations	<u>\$5,779,656</u>	<u>\$1,022,000</u>	<u>\$ 244,737</u>	<u>\$6,556,919</u>	<u>\$ 242,338</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 6 - LONG-TERM LIABILITIES - Continued

Annual requirements to retire general long-term debt as of December 31, 2012, for the next five years and in five year increments thereafter are shown below.

<u>Years Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 239,678	\$ 244,201
2014	251,864	259,206
2015	258,269	251,639
2016	273,896	248,817
2017	281,246	240,679
2018-2022	1,611,138	1,143,067
2023-2027	1,669,820	605,019
2028-2032	1,937,758	224,677
	<u>\$ 6,523,669</u>	<u>\$3,217,305</u>

NOTE 7 - RESTATEMENT OF FUND BALANCES AND NET ASSETS

The City's December 31, 2012 fund balances and net asset balance has been restated in the financial statements to account for some corrections as detailed in the table below:

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Gas Tax Fund</u>	<u>Entity Wide Net Assets</u>
To reconcile due to/from accounts	\$ (134,672)	\$ 44,488	\$37,810	\$ -
To record additional bank accounts	(46,320)	-	-	-
To record bond issue costs	-	-	-	(11,531)
To record beginning accrued interest	-	-	-	30,529
	<u>\$ (180,992)</u>	<u>\$ 44,488</u>	<u>\$37,810</u>	<u>\$ 18,998</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2012

NOTE 8 - RISK MANAGEMENT

The City maintains commercial insurance policies to mitigate risk of significant losses. Management believes the amount of insurance maintained to be adequate.

NOTE 9 - CONTRACT FOR LAW ENFORCEMENT

The City is under contract with Jefferson County, Alabama Sheriff's Department to provide police services. During the current year the City paid \$89,668 for this service.

NOTE 10- SUBSEQUENT EVENTS

Management has performed a review of subsequent events through April 16, 2013, which is the date the financial statements were available to be issued.