

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

**CITY OF CLAY, ALABAMA
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SEPTEMBER 30, 2014**

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

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 September 30, 2014, 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.

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

Certified Public Accountants

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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 City'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 City'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 opinion.

Opinion

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the net position of the City of Clay, Alabama as of September 30, 2014, and the changes in net position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 2 through 7) and the budgetary comparison schedule (page 23) 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.

Cook, Hill & Company, L.L.C.

Birmingham, Alabama
January 20, 2015

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014**

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 Position. Information on how the City's net position 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
SEPTEMBER 30, 2014

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 Position; 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
SEPTEMBER 30, 2014

Condensed Financial Information

Condensed Statement of Net Position

The City's total net position increased between year end December 31, 2013 and September 30, 2014 by \$938,466.

The City's net position is composed of three components. The City has investments of \$2,818,285 in capital assets (buildings, vehicles, etc.) net of the debt associated with it. The second component of the City's net position is \$1,653,313 in unrestricted net position.

The following presents the City's condensed statement of net position as of September 30, 2014 and December 31, 2013, derived from the government-wide Statement of Net Position.

Condensed Statement of Net Position (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2014	2013	2014	2013	2013 - 2014
Current and other assets	\$ 1,922,386	\$1,474,580	\$ 1,922,386	\$ 1,474,580	\$ 447,806
Capital assets	8,892,912	8,637,108	8,892,912	8,637,108	255,804
Total assets	<u>10,815,298</u>	<u>10,111,688</u>	<u>10,815,298</u>	<u>10,111,688</u>	<u>703,610</u>
Current liabilities	527,134	492,078	527,134	492,078	35,056
Noncurrent liabilities	5,816,566	6,086,478	5,816,566	6,086,478	(269,912)
Total liabilities	<u>6,343,700</u>	<u>6,578,556</u>	<u>6,343,700</u>	<u>6,578,556</u>	<u>(234,856)</u>
Net Position:					
Net investment in capital assets	2,818,285	2,313,117	2,818,285	2,313,117	505,168
Unrestricted	1,653,313	1,220,015	1,653,313	1,220,015	433,298
Total net position	<u>4,471,598</u>	<u>3,533,132</u>	<u>4,471,598</u>	<u>3,533,132</u>	<u>938,466</u>
Total liabilities and net position	<u>\$10,815,298</u>	<u>\$ 10,111,688</u>	<u>\$10,815,298</u>	<u>\$ 10,111,688</u>	<u>\$ 703,610</u>

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2014

Condensed Statement of Activities

The following presents the City's condensed statement of activities for the fiscal year ended September 30, 2014 and December 31, 2013, as derived from the government-wide Statement of Activities. The City's total revenues increased by \$1,362,100. Fifty-two 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's program expenses decreased 29 percent. Total revenues exceeded all City expenses by \$968,553.

Condensed Statement of Activities (as adjusted)

	<u>Governmental Activities</u>		<u>Total Primary Government</u>		<u>Total Change</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2013 - 2014</u>
Revenues					
Program revenues	\$ 163,408	\$ 138,167	\$ 163,408	\$ 138,167	\$ 25,241
General revenues and payments					
Sales and other taxes	2,410,143	1,139,600	2,410,143	1,139,600	1,270,543
License and Permits	715,750	661,056	715,750	661,056	54,694
Intergovernmental	271,181	220,620	271,181	220,620	50,561
Miscellaneous	7,578	9,025	7,578	9,025	(1,447)
Interest	1,093	2,460	1,093	2,460	(1,367)
Gain/Loss on disposal of assets	(33,343)	2,782	(33,343)	2,782	(36,125)
Total general revenues and payments	<u>3,372,402</u>	<u>2,035,543</u>	<u>3,372,402</u>	<u>2,035,543</u>	<u>1,336,859</u>
Total revenues	3,535,810	2,173,710	3,535,810	2,173,710	1,362,100
Program expenses					
General government	1,625,451	1,224,472	1,625,451	1,224,472	400,979
Public safety	142,611	147,465	142,611	147,465	(4,854)
Culture and recreation	403,277	369,787	403,277	369,787	33,490
Public works	161,635	110,855	161,635	110,855	50,780
Interest and finance charges	234,283	169,140	234,283	169,140	65,143
Total program expenses	<u>2,567,257</u>	<u>2,021,719</u>	<u>2,567,257</u>	<u>2,021,719</u>	<u>545,538</u>
Change in net position from activities	968,553	151,991	968,553	151,991	816,562
Beginning net position	3,533,132	3,381,141	3,533,132	3,381,141	151,991
Prior period adjustment	<u>(30,087)</u>	<u>-</u>	<u>(30,087)</u>	<u>-</u>	<u>(30,087)</u>
Ending net position	<u>\$4,471,598</u>	<u>\$3,533,132</u>	<u>\$4,471,598</u>	<u>\$3,533,132</u>	<u>\$ 938,466</u>

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2014**

Program Expenses and Revenues for Governmental Activities

The following presents the net costs of governmental activities. Overall, program revenues were not 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 September 30, 2014**

<u>City Programs</u>	<u>Program Expenses 2014</u>	<u>Less Program Revenues 2014</u>	<u>Net Program Costs (a)</u>		<u>Program Revenues as a Percentage of Program Expenses</u>	
			<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General government	\$1,625,451	\$ 2,164	\$1,623,287	\$1,213,887	0.1%	0.6%
Public safety	142,611	2,406	140,205	147,465	1.7%	2.4%
Culture and recreation	403,277	158,838	244,439	242,205	39.4%	4.9%
Public works	161,635	-	161,635	110,855	0.0%	0.0%
Interest	234,283	-	234,283	169,140	0.0%	0.0%
Totals	<u>\$2,567,257</u>	<u>\$ 163,408</u>	<u>\$2,403,849</u>	<u>\$1,883,552</u>	<u>6.4%</u>	<u>6.8%</u>

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

OVERALL GOVERNMENTAL FUNDS BASIS ANALYSIS

The City's assets exceed its liabilities by \$1,704,963. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance increased \$787,849 during the year due to revenues exceeding expenditures. The Capital improvement balance decreased \$259,288 and the gas tax fund decreased \$62,202.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,704,963. Ending fund balance is \$466,359 more than the previous year's balance.

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2014**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At September 30, 2014, the City reported \$8,892,912 in capital assets. Refer to Note 3 of 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. The total amount of long term debt at year end was \$6,074,625. Refer to Note 6 of the financial statements for additional information on long-term debt.

ECONOMIC CONDITIONS AND OUTLOOK

The City Manager considered many factors when preparing the fiscal year 2014-2015 budget for presentation to the Mayor and City Council. The City receives its income from sales tax, franchise fees, and gasoline taxes. The City receives no ad valorem property tax income. The sales tax rate was increased from \$0.02 to \$0.04 in 2014. A full year of expenses under this administration was considered in budgeting. The Mayor and City Council have indicated that no future indebtedness is anticipated. The City Manager suggests no immediate need for additional employees in any City department. All salary increases as indicated by the personnel policy will be adhered to in the budget year.

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 POSITION
SEPTEMBER 30, 2014

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,687,473	\$ 1,687,473
Receivables	229,387	229,387
Prepaid expenses	5,526	5,526
Total current assets	1,922,386	1,922,386
Capital Assets:		
Land	1,916,709	1,916,709
Other capital assets, net of accumulated depreciation	6,976,203	6,976,203
Total capital assets	8,892,912	8,892,912
Total assets	\$ 10,815,298	\$ 10,815,298
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 269,073	\$ 269,073
Current portion of long-term debt	258,061	258,061
Total current liabilities	527,134	527,134
Long-term Liabilities:		
Long-term debt, net of current maturities	5,816,566	5,816,566
Total long-term liabilities	5,816,566	5,816,566
Total liabilities	6,343,700	6,343,700
NET POSITION		
Net investment in capital assets, net of related debt	2,818,285	2,818,285
Unrestricted	1,653,313	1,653,313
Total net position	4,471,598	4,471,598
Total liabilities and net position	\$ 10,815,298	\$ 10,815,298

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

CITY OF CLAY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue & Change in Net Position</u>
		<u>Fines and Fees</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 1,625,451	\$ -	\$ 2,164	\$ -	\$(1,623,287)
Public safety	142,611	2,406	-	-	(140,205)
Culture and recreation	354,043	129,390	-	-	(224,653)
Library	29,748	13,231	770	-	(15,747)
Senior Citizens	19,486	15,447	-	-	(4,039)
Public works	161,635	-	-	-	(161,635)
Interest	234,283	-	-	-	(234,283)
Total governmental activities	<u>\$ 2,567,257</u>	<u>\$ 160,474</u>	<u>\$ 2,934</u>	<u>\$ -</u>	<u>\$(2,403,849)</u>
General Revenues:					
Taxes:					
					2,113,354
					118,504
					178,285
					715,750
					271,181
					7,578
					1,093
					(33,343)
					<u>3,372,402</u>
					968,553
					3,533,132
					(30,087)
					<u>3,503,045</u>
					<u>\$ 4,471,598</u>

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

CITY OF CLAY, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total - Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 924,709	\$ 478,433	\$ 284,331	\$ 1,687,473
Accounts receivable	212,503	-	16,884	229,387
Prepaid expenses	5,526	-	-	5,526
Due from other funds	54,869	128,568	180	183,617
Total assets	<u>\$1,197,607</u>	<u>\$ 607,001</u>	<u>\$ 301,395</u>	<u>\$ 2,106,003</u>
 Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 200,405	\$ 9,668	\$ 7,350	\$ 217,423
Due to other funds	128,748	54,736	133	183,617
Total liabilities	<u>329,153</u>	<u>64,404</u>	<u>7,483</u>	<u>401,040</u>
 Fund balance:				
Nonspendable	5,526	-	-	5,526
Restricted	-	542,597	293,912	836,509
Assigned	350,000	-	-	350,000
Unassigned	512,928	-	-	512,928
Total fund balance	<u>868,454</u>	<u>542,597</u>	<u>293,912</u>	<u>1,704,963</u>
 Total liabilities and fund balances	 <u>\$1,197,607</u>	 <u>\$ 607,001</u>	 <u>\$ 301,395</u>	 <u>\$ 2,106,003</u>

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

CITY OF CLAY, ALABAMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balances for governmental funds	\$1,704,963
Amounts reported for governmental activities in the statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the Governmental Funds Balance Sheet. However, in the government wide statement of position, capital assets are reported and the cost of these assets is amortized over their useful life in the statement of activities. Capital assets reported in the statement of position are	8,892,912
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet	(37,646)
Compensated absences payable do not require current financial resources. Therefore, this liability is not reported in the Governmental Funds Balance Sheet. Compensated absences reported in the government wide statement of position are	(14,004)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet. These liabilities are reported in the government wide statement of position.	<u>(6,074,627)</u>
Total net position of governmental activities	<u><u>\$ 4,471,598</u></u>

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 SEPTEMBER 30, 2014

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 2,150,800	\$ -	\$ -	\$ 2,150,800
Licenses and Permits	743,809	-	-	743,809
Intergovernmental	242,374	84,707	179,762	506,843
Parks and Recreation	129,390	-	-	129,390
Grant	-	-	-	-
Interest	758	334	-	1,092
Other	38,694	-	-	38,694
Total revenues	<u>3,305,825</u>	<u>85,041</u>	<u>179,762</u>	<u>3,570,628</u>
Expenditures:				
Current operations:				
General government	1,301,270	38	-	1,301,308
Public safety	132,682	-	-	132,682
Streets and sanitation	342,120	-	241,964	584,084
Culture and recreation	160,355	-	-	160,355
Total current operations	<u>1,936,427</u>	<u>38</u>	<u>241,964</u>	<u>2,178,429</u>
Capital outlays	91,450	344,291	-	435,741
Debt service	490,099	-	-	490,099
Total expenditures	<u>2,517,976</u>	<u>344,329</u>	<u>241,964</u>	<u>3,104,269</u>
Excess (deficiency) of revenues over (under) expenditures	787,849	(259,288)	(62,202)	466,359
Fund balances, beginning	<u>80,605</u>	<u>801,885</u>	<u>356,114</u>	<u>1,238,604</u>
Fund balances, ending	<u>\$ 868,454</u>	<u>\$ 542,597</u>	<u>\$ 293,912</u>	<u>\$ 1,704,963</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 SEPTEMBER 30, 2014

Net Change in Fund Balance - Total Governmental Funds \$ 466,359

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of these assets are allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.

Cost of capital assets acquired during year	639,985	
Book value of assets disposed of	<u>(37,586)</u>	602,399

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. 249,364

Accrued compensated absences is recorded in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, accrued compensated absences are not recorded as an expenditure in governmental funds. (4,745)

Depreciation expense on capital assets is recorded in the government-wide statement of activities and changes in net position, but it does not require the use of current financial resources. Therefore, depreciation expense is not recorded as an expenditure in governmental funds. (346,595)

Accrued interest expense on long-term debt is recorded in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, accrued interest is not an expenditure in the governmental funds. 1,771

Change in Net Position - Governmental Activities \$ 968,553

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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 2014 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 position and the statement of activity 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
SEPTEMBER 30, 2014

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 position 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 position restricted for other purposes result from special revenue funds and the restrictions on their 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
SEPTEMBER 30, 2014

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
SEPTEMBER 30, 2014

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.

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
SEPTEMBER 30, 2014

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 personal leave balances. The liability is based on personal 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. Any personal leave not used by calendar year end is forfeited by the employee.

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 of Alabama 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 \$44,669. 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
SEPTEMBER 30, 2014

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended September 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Governmental activities:				
Non depreciable:				
Land	\$ 1,904,259	\$ 12,450	\$ -	\$ 1,916,709
	1,904,259	12,450	-	1,916,709
Other capital assets:				
Buildings	1,859,221	48,159	51,162	1,856,218
Equipment	871,882	79,244	129,996	821,130
Infrastructure	8,505,537	492,483	-	8,998,020
Vehicles	253,822	7,649	-	261,471
	11,490,462	627,535	181,158	11,936,839
Accumulated depreciation	(4,757,613)	346,595	143,572	(4,960,636)
Net depreciable assets	6,732,849	280,940	37,586	6,976,203
 Net capital assets	 <u>\$ 8,637,108</u>	 <u>\$ 293,390</u>	 <u>\$ 37,586</u>	 <u>\$ 8,892,912</u>

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

General Government	\$ 89,262
Public Safety	12,591
Parks and Recreation	178,645
Public Works	49,399
Library	8,830
Senior Citizens	7,868
	<u>\$ 346,595</u>

NOTE 4 - ACCUMULATED COMPENSATED LEAVE

Employees accrue personal leave time in accordance with the City personnel policy. Such leave is considered fully vested rights of the employees and is recorded as an obligation of the city at year end. The cost of accumulated leave at September 30, 2014 was \$14,004.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2014

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

At September 30, 2014, interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
<u>General Fund:</u>		
Due from Capital Improvement	\$ 54,735	\$ -
Due from Gas Fund	133	-
Due to Capital Improvement	-	128,569
Due to Gas Fund	-	180
 <u>Capital Improvement:</u>		
Due from General Fund	128,569	-
Due to General Fund	-	54,735
 <u>Gas Funds:</u>		
Due from General Fund	180	-
Due to General Fund	-	133
	<u>\$ 183,617</u>	<u>\$ 183,617</u>

NOTE 6 - LONG-TERM LIABILITIES

The City has the following long-term liabilities:

	<u>Balance December 31, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
US Bank - General Obligation Warrant - 2003. Bearing interest from 3.07-5.10%; Matures 4/1/23	\$ 605,000	\$ -	\$ 50,000	\$ 555,000	\$ 50,000
Bank of New York (AmFund) - General Obligation Warrant - 2006A; 3.67 % Interest. Matures 11/20/32	4,731,669	-	163,335	4,568,334	170,625
BBT - General Obligation Warrant - 2012A. 3.9% Interest. Matures 3/1/29	987,322	-	36,031	951,291	37,436
 Total long-term obligations	<u>\$ 6,323,991</u>	<u>\$ -</u>	<u>\$ 249,366</u>	<u>\$ 6,074,625</u>	<u>\$ 258,061</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2014

NOTE 6 - LONG-TERM LIABILITIES - Continued

Annual requirements to retire general long-term debt as of September 30, 2014, for the next five years and in five year increments thereafter are shown below.

<u>Years Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	258,061	230,824
2016	271,604	220,653
2017	279,788	209,940
2018	295,322	198,884
2019	306,960	187,180
2020-2024	1,662,937	770,612
2025-2029	1,721,674	440,773
2030-2033	1,278,279	91,208
	<u>\$ 6,074,625</u>	<u>\$2,350,074</u>

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPAL

In March 2012 the Governmental Accounting Standards Board (GASB) adopted GASB Statement 65, Items Previously Reported As Assets and Liabilities. GASB 65 is effective for years beginning after December 15, 2012 with earlier application encouraged. The City of Clay implemented GASB 65 for the year ended September 30, 2014 which makes the costs associated with the issuance of debt a current period expense. In previous years, this cost was recorded as an asset and amortized over the life of the debt. The current effect of this implementation is to charge the unamortized debt issue costs at September 30, 2013 to net position as a prior period adjustment in the Statement of Net Position as follows:

Prior period adjustment to recognize the write off of unamortized debt issuance costs at October 1, 2013	\$ 30,087
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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 \$77,892 for this service.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2014

NOTE 10 - SUBSEQUENT EVENTS

In January 2015, the contract for law enforcement with Jefferson County, Alabama was amended to provide four sheriff deputies for patrol duty. The contract is effective October 11, 2014 and provides for a monthly payment of \$28,324. Management has performed a review of subsequent events through January 20, 2015, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF CLAY, ALABAMA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 2,060,000	\$ 2,060,000	\$ 2,150,800	\$ 90,800
Licenses and Permits	816,750	816,750	743,809	(72,941)
Intergovernmental	233,000	233,000	242,374	9,374
Charges for services	9,500	9,500	129,390	119,890
Fines and forfeitures	-	-	11,679	11,679
Interest	-	-	758	758
Other	30,150	30,150	27,015	(3,135)
Total revenues	<u>3,149,400</u>	<u>3,149,400</u>	<u>3,305,825</u>	<u>156,425</u>
Expenditures:				
Current operations:				
Government administration	1,210,350	1,210,350	1,301,270	(90,920)
Public safety	645,810	645,810	132,682	513,128
Streets and sanitation	530,690	530,690	342,120	188,570
Parks and recreation	-	-	133,117	(133,117)
Library	15,000	15,000	18,594	(3,594)
Senior Citizens	5,050	5,050	8,644	(3,594)
Total current operations	<u>2,406,900</u>	<u>2,406,900</u>	<u>1,936,427</u>	<u>470,473</u>
Capital outlays	-	-	91,450	(91,450)
Total expenditures	<u>2,406,900</u>	<u>2,406,900</u>	<u>2,027,877</u>	<u>379,023</u>
Excess (deficiency) of revenues over (under) expenditures	742,500	742,500	1,277,948	535,448
Other financing sources (uses):				
Debt service payments	(740,000)	(740,000)	(490,099)	249,901
	<u>(740,000)</u>	<u>(740,000)</u>	<u>(490,099)</u>	<u>249,901</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 2,500</u>	<u>\$ 2,500</u>	787,849	<u>\$ 785,349</u>
Fund balances, beginning			<u>80,605</u>	
Fund balances, ending			<u>\$ 868,454</u>	