

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

**CITY OF CLAY, ALABAMA
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SEPTEMBER 30, 2019**

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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, 2019, 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. 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 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.

Certified Public Accountants

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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, 2019, and the changes in its 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 3 through 8) and the budgetary comparison schedule (page 24) 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
February 11, 2020

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

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 has only 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, 2019

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, 2019

Condensed Financial Information

Condensed Statement of Net Position

The City's total net position increased between year end September 30, 2018 and September 30, 2019 by \$1,255,457.

The City's net position is composed of three components. The City has investments of \$5,459,866 in capital assets (buildings, vehicles, etc.) net of the debt associated with it. Restricted net position of \$340,380 which consists principally of cash restricted for specific uses by law and unrestricted net position of \$2,365,496.

The following presents the City's condensed statement of net position as of September 30, 2019 and 2018, derived from the government-wide Statement of Net Position.

Condensed Statement of Net Position (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2019	2018	2019	2018	2018 - 2019
Current and other assets	\$ 2,989,776	\$ 2,680,485	\$ 2,989,776	\$ 2,680,485	\$ 309,291
Capital assets	10,106,298	9,504,545	10,106,298	9,504,545	601,753
Total assets	<u>\$13,096,074</u>	<u>\$12,185,030</u>	<u>\$13,096,074</u>	<u>\$12,185,030</u>	<u>\$ 911,044</u>
Current liabilities	603,811	626,647	603,811	626,647	(22,836)
Noncurrent liabilities	4,326,521	4,648,098	4,326,521	4,648,098	(321,577)
Total liabilities	<u>4,930,332</u>	<u>5,274,745</u>	<u>4,930,332</u>	<u>5,274,745</u>	<u>(344,413)</u>
Net Position:					
Net investment in capital assets	5,459,866	4,549,487	5,459,866	4,549,487	910,379
Restricted	340,380	358,304	340,380	358,304	(17,924)
Unrestricted	2,365,496	2,002,494	2,365,496	2,002,494	363,002
Total net position	<u>8,165,742</u>	<u>6,910,285</u>	<u>8,165,742</u>	<u>6,910,285</u>	<u>1,255,457</u>
Total liabilities and net position	<u>\$13,096,074</u>	<u>\$12,185,030</u>	<u>\$13,096,074</u>	<u>\$12,185,030</u>	<u>\$ 911,044</u>

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2019

Condensed Statement of Activities

The following presents the City's condensed statement of activities for the fiscal year ended September 30, 2019 and September 30, 2018, as derived from the government-wide Statement of Activities. The City's total revenues increased by \$583,915. Fifty-four percent of the City's revenue is from sales tax. The remainder is from charges for licenses, other taxes, services and donations. The City's program expenses decreased five percent. Total revenues exceeded all City expenses by \$1,255,457.

Condensed Statement of Activities (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2019	2018	2019	2018	2018- 2019
Revenues					
Program revenues:					
Fines and fees	\$ 2,497	\$ 4,730	\$ 2,497	\$ 4,730	\$ (2,233)
Operating grants and contributions	270,586	-	270,586	-	270,586
Charges for services	117,016	127,696	117,016	127,696	(10,680)
	<u>390,099</u>	<u>132,426</u>	<u>390,099</u>	<u>132,426</u>	<u>257,673</u>
General revenues and payments					
Sales and other taxes	2,569,625	2,231,513	2,569,625	2,231,513	338,112
Advalorem tax	367,347	377,711	367,347	377,711	(10,364)
License and permits	904,608	816,798	904,608	816,798	87,810
Intergovernmental	329,844	242,571	329,844	242,571	87,273
Other taxes	193,403	294,914	193,403	294,914	(101,511)
Miscellaneous	20,910	95,190	20,910	95,190	(74,280)
Interest	1,624	2,422	1,624	2,422	(798)
Total general revenues and payments	<u>4,387,361</u>	<u>4,061,119</u>	<u>4,387,361</u>	<u>4,061,119</u>	<u>326,242</u>
Total revenues	<u>4,777,460</u>	<u>4,193,545</u>	<u>4,777,460</u>	<u>4,193,545</u>	<u>583,915</u>
Program expenses					
General government	1,496,784	1,401,954	1,496,784	1,401,954	94,830
Public safety	575,429	597,553	575,429	597,553	(22,124)
Parks and recreation	541,306	619,093	541,306	619,093	(77,787)
Streets and public works	365,454	589,124	365,454	589,124	(223,670)
Senior citizens	148,938	116,839	148,938	116,839	32,099
Library	218,386	186,341	218,386	186,341	32,045
Interest and finance charges	175,706	198,884	175,706	198,884	(23,178)
Total program expenses	<u>3,522,003</u>	<u>3,709,788</u>	<u>3,522,003</u>	<u>3,709,788</u>	<u>(187,785)</u>
Change in net position from activities	1,255,457	483,757	1,255,457	483,757	771,700
Beginning net position	6,910,285	6,426,528	6,910,285	6,426,528	483,757
Prior period adjustment	-	-	-	-	-
Ending net position	<u>\$ 8,165,742</u>	<u>\$ 6,910,285</u>	<u>\$ 8,165,742</u>	<u>\$ 6,910,285</u>	<u>\$ 1,255,457</u>

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2019**

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, 2019**

City Programs	Program Expenses	Less Program Revenues	Net Program Costs (a)		Program Revenues as a Percentage of Program Expenses	
			2019	2018	2019	2018
General government	\$ 1,496,784	\$ -	\$ 1,496,784	\$ 1,401,954	0.0%	0.0%
Public safety	575,429	27,497	547,932	592,823	4.8%	0.8%
Streets and public works	365,454	-	365,454	589,124	0.0%	0.0%
Parks and recreation	541,306	343,642	197,664	514,247	63.5%	16.9%
Library	218,386	9,677	208,709	173,574	4.4%	6.9%
Senior citizens	148,938	9,283	139,655	106,756	6.2%	8.6%
Interest	175,706	-	175,706	198,884	0.0%	0.0%
Totals	<u>\$ 3,522,003</u>	<u>\$ 390,099</u>	<u>\$ 3,131,904</u>	<u>\$ 3,577,362</u>	<u>11.1%</u>	<u>3.6%</u>

(a) Net program costs are supported by taxes and other general revenues.

OVERALL GOVERNMENTAL FUNDS BASIS ANALYSIS

The City's assets exceed its liabilities by \$2,770,986. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance increased \$122,847 during the year due to decreased expenditures and grant revenue received to construct new tennis courts. The capital improvement fund balance and the gas tax fund increased \$185,160 and \$54,046 respectively, due to decreased expenditures and interfund transfers.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$2,770,986. Ending fund balance is \$362,053 more than the previous year's balance.

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2019

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At September 30, 2019, the City reported \$10,106,298 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 \$4,646,432. Refer to Note 7 of the financial statements for additional information on long-term debt.

ECONOMIC CONDITIONS AND OUTLOOK

The City Manager considered many factors in preparing the budget and presenting it to the Mayor and City Council. 2019 can best be described as stable. After receiving property tax, sales tax, and franchise fees at the same rate for three years the income base for the City is consistent. The expenses for the City continue to be well monitored and are also consistent over the 36-month period. Projected employment additions would be in the Public Works Department as well as Parks and Recreation. The new splash pad creates an anticipated need for one full time and three part time employees for the summer. Expected soft opening in April 2020. The City continues to contract with the Jefferson County Sheriff's Office for six deputies. That number has proven sufficient for the protection of the Citizens as well as ordinance enforcement issues and traffic control. All invoiced expenses continue to be paid within 14 days of receipt. Employees contribute over \$35,000 to their retirement plan annually, which is matched by the City. Total employee contributions since implementation of this plan are greater than \$150,000.

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, 2019

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,286,992	\$ 2,286,992
Receivables	355,526	355,526
Prepaid expenses	6,878	6,878
Total current assets	2,649,396	2,649,396
Restricted Assets:		
Cash	340,380	340,380
Capital Assets:		
Non-depreciable	2,542,520	2,542,520
Depreciable	7,563,778	7,563,778
Total capital assets	10,106,298	10,106,298
Total assets	\$ 13,096,074	\$ 13,096,074
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 283,900	\$ 283,900
Current portion of long-term debt	319,911	319,911
Total current liabilities	603,811	603,811
Long-Term Liabilities:		
General obligation bonds	4,646,432	4,646,432
Less current maturities	(319,911)	(319,911)
Total long-term liabilities	4,326,521	4,326,521
Total liabilities	4,930,332	4,930,332
NET POSITION		
Net investment in capital assets	5,459,866	5,459,866
Restricted	340,380	340,380
Unrestricted	2,365,496	2,365,496
Total net position	8,165,742	8,165,742
Total liabilities and net position	\$ 13,096,074	\$ 13,096,074

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

**CITY OF CLAY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Function/Program	Expenses	Program Revenues			Net (Expense)/ Revenue & Change in Net Position
		Fines and Fees	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 1,496,784	\$ -	\$ -	\$ -	\$(1,496,784)
Public safety	575,429	2,497	25,000	-	(547,932)
Public works	365,454	-	-	-	(365,454)
Parks and recreation	541,306	98,056	245,586	-	(197,664)
Library	218,386	9,677	-	-	(208,709)
Senior citizens	148,938	9,283	-	-	(139,655)
Interest	175,706	-	-	-	(175,706)
Total governmental activities	<u>\$ 3,522,003</u>	<u>\$ 119,513</u>	<u>\$ 270,586</u>	<u>\$ -</u>	<u>\$(3,131,904)</u>
General Revenues					
Taxes:					
Advalorem taxes					367,347
Sales taxes					2,569,625
Other taxes					193,403
License and permits					904,608
Intergovernmental					329,844
Investment earnings					1,624
Miscellaneous					20,910
Total General Revenues					<u>4,387,361</u>
Change in net assets from governmental activities					1,255,457
Net Position - beginning of year					<u>6,910,285</u>
Net Position - end of year					<u>\$ 8,165,742</u>

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

**CITY OF CLAY, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total - Governmental Funds</u>
Assets				
Cash and cash equivalents	\$2,286,992	\$ 254,607	\$ 85,777	\$ 2,627,376
Accounts receivable				
Taxes	235,141	-	18,067	253,208
Other	12,916	89,402	-	102,318
Prepaid expenses	6,878	-	-	6,878
Total assets	<u>\$2,541,927</u>	<u>\$ 344,009</u>	<u>\$ 103,844</u>	<u>\$ 2,989,780</u>
 Liabilities, equity and other credits				
Liabilities				
Accounts payable	\$ 210,787	\$ 7,027	\$ 980	\$ 218,794
Total liabilities	<u>210,787</u>	<u>7,027</u>	<u>980</u>	<u>218,794</u>
 Equity and other credits				
Restricted	-	336,982	102,864	439,846
Committed	1,356,847	-	-	1,356,847
Non-spendable	6,878	-	-	6,878
Assigned	698,617	-	-	698,617
Unreserved, undesignated	268,798	-	-	268,798
Total fund balance	<u>2,331,140</u>	<u>336,982</u>	<u>102,864</u>	<u>2,770,986</u>
 Total liabilities, equity and other credits	 <u>\$2,541,927</u>	 <u>\$ 344,009</u>	 <u>\$ 103,844</u>	 <u>\$ 2,989,780</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, 2019**

Total fund balances for governmental funds	\$ 2,770,986
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	10,106,298
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	(29,603)
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	(35,507)
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>(4,646,432)</u>
Total net position of governmental activities	<u><u>\$ 8,165,742</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, 2019

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 2,936,972	\$ -	\$ 193,403	\$ 3,130,375
Licenses and permits	901,590	-	3,018	904,608
Intergovernmental	240,442	89,402	-	329,844
Parks and recreation	97,378	-	-	97,378
Interest	1,624	-	-	1,624
Library	9,677	-	-	9,677
Senior citizens	9,283	-	-	9,283
Other	294,671	2,700	-	297,371
Total revenues	<u>4,491,637</u>	<u>92,102</u>	<u>196,421</u>	<u>4,780,160</u>
Expenditures				
Current operations:				
General government	1,343,633	36	75	1,343,744
Public safety	540,248	-	-	540,248
Streets and sanitation	321,226	-	7,200	328,426
Parks and recreation	349,859	-	-	349,859
Library	177,545	-	-	177,545
Senior citizens	137,878	-	-	137,878
Total current operations	<u>2,870,389</u>	<u>36</u>	<u>7,275</u>	<u>2,877,700</u>
Capital outlays	610,070	249,016	160,616	1,019,702
Principal	308,626	-	-	308,626
Interest and fiscal charges	212,079	-	-	212,079
Total expenditures	<u>4,001,164</u>	<u>249,052</u>	<u>167,891</u>	<u>4,418,107</u>
Excess (deficiency) of revenues over (under) expenditures	490,473	(156,950)	28,530	362,053
Other financing sources (uses):				
Operating transfers in	-	342,110	25,516	367,626
Operating transfers out	(367,626)	-	-	(367,626)
Total other financing sources (uses)	<u>(367,626)</u>	<u>342,110</u>	<u>25,516</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ 122,847	\$ 185,160	\$ 54,046	\$ 362,053
Fund balances, beginning	<u>2,208,293</u>	<u>151,822</u>	<u>48,818</u>	<u>2,408,933</u>
Fund balances, ending	<u>\$ 2,331,140</u>	<u>\$ 336,982</u>	<u>\$ 102,864</u>	<u>\$ 2,770,986</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, 2019

Net Change in Fund Balance - Total Governmental Funds \$ 362,053

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. 1,019,702

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. Repayment of long-term debt in 2018 was 308,626

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. (19,936)

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. (417,949)

Accrued interest expense is recorded in the government-wide statement of activities and changes in net position but do not require the use of current financial resources. Therefore, the change in this liability is not Reflected as an expenditure in the governmental funds financial statement. 2,961

Change in Net Position - Governmental Activities \$1,255,457

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

**CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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 2019 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, 2019

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 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 statement reports 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, 2019

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.

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.

Long-term Obligations

Long-term debt and other long-term obligations are reported in the governmental activities on the statement of net position in the government-wide financial statements.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position and Fund Balance

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt associated with the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Position - This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted - This represents the net position of the City that is not restricted for any project or other purpose by third parties.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. These categories are as follows:

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).

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 line item in total and not by department and by estimated resources by source.

Appropriation control (City Council appropriated budget) is by line item within the general fund. The budget may be amended to transfer amounts among line items. 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.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2019

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 \$44,202. These funds are invested by a bank trust department in US government securities and are not subject to collateralization requirements.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended September 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Governmental activities:				
Non depreciable:				
Land	\$ 1,916,709	\$ -	\$ -	\$ 1,916,709
Construction in process	24,411	601,400	-	625,811
	<u>1,941,120</u>	<u>601,400</u>	<u>-</u>	<u>2,542,520</u>
Other capital assets:				
Buildings	3,251,189	171,510	-	3,422,699
Equipment	926,791	12,214	(41,466)	897,539
Infrastructure	293,048	25,688	-	318,736
Vehicles	9,254,659	208,890	-	9,463,549
	<u>13,725,687</u>	<u>418,302</u>	<u>(41,466)</u>	<u>14,102,523</u>
Accumulated depreciation	<u>6,162,262</u>	<u>417,949</u>	<u>(41,466)</u>	<u>6,538,745</u>
Net depreciable assets	<u>7,563,425</u>	<u>353</u>	<u>-</u>	<u>7,563,778</u>
Net capital assets	<u>\$ 9,504,545</u>	<u>\$ 601,753</u>	<u>\$ -</u>	<u>\$10,106,298</u>

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

Governmental Activities	
Parks and Recreation	192,530
General	110,559
Public safety	31,091
Streets and public works	35,181
Senior Citizens	8,456
Library	40,132
	<u>\$ 417,949</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2019

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, 2019 was \$35,507.

NOTE 5 - RECEIVABLES

	General Fund	Capital Improvement s	Gas Tax Fund	Total Governmental Funds	Entity Wide
Taxes:					
Sales and use tax	\$ 179,947	\$ -	\$ -	\$ 179,947	\$ 179,947
Intergovernmental					
Gasoline taxes	4,624	-	18,067	22,691	22,691
Other taxes	28,274	89,402	-	117,676	117,676
Franchise fees	22,296	-	-	22,296	22,296
Other	12,916	-	-	12,916	12,916
Net capital assets	<u>\$ 248,057</u>	<u>\$ 89,402</u>	<u>\$ 18,067</u>	<u>\$ 355,526</u>	<u>\$ 355,526</u>

NOTE 6- RETIREMENT PLAN

On May 1, 2015, the City established the City of Clay 457(B) Retirement Plan and the City of Clay 401(a) Retirement Plan. These plans are defined contribution retirement plans, the 457(B) plan was set up to accept employee contributions and the 401(a) plan accepts contributions from the City. The plans are administered by PlanTech, LLP and funded through John Hancock. The plans cover all employees. Employees may make contributions to the 457(B) plan which are tax deferred or at their option, ROTH contributions which are not tax deferred. All contributions into the 457(B) go into an account established for the benefit of the person making the contribution. For year 2019, contributions of each employee are limited to the lesser of \$18,500 or 100% of the participants compensation. Plan distributions are made at the employee's termination or at age 70-1/2 whichever is later. Employee accounts are adjusted daily for plan earnings and are 100% vested when the contribution is made. The City makes matching monthly contributions equal to 7% of the employees compensation into the 401(a) plan. These contributions vest over a five year period in equal increments and are available for distribution in the same manner as the 457(B) plan. Contribution rates for both plans are established and may be amended only by the City Council of the City of Clay. Employee contributions for the current year were \$35,338 and employer matching contributions were \$35,338. Any forfeitures under 401(a) plan revert back to the City of Clay general fund.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2018

NOTE 7- LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2019 was as follows:

	Balance December 31, 2018	Increases	Decreases	Balance September 30, 2019
US Bank - General Obligation Warrant - 2003. Bearing interest from 3.07-5.10%; Matures 4/1/23	\$ 335,000	\$ -	\$ 60,000	\$ 275,000
Bank of New York (AmFund) - General Obligation Warrant - 2006A; Interest at 3.67%. Matures 11/20/32	3,827,500	-	205,000	3,622,500
BBT - General Obligation Warrant - 2012A. 3.9% Interest. Matures 3/1/29	792,558	-	43,626	748,932
Total long-term obligations	\$ 4,955,058	-	\$ 308,626	\$ 4,646,432
Amounts due within one year	306,960			319,911
	<u>\$ 4,648,098</u>			<u>\$ 4,326,521</u>

All of the above debt is direct placement in nature and contains provisions for immediate payment in the event of default.

Annual requirements to retire general long-term debt as of September 30, 2019, for the next five years and in five year increments thereafter are shown below.

Years Ended September 30,	Principal	Interest	Total
2020	319,911	174,875	494,786
2021	330,429	184,513	514,942
2022	347,266	156,257	503,523
2023	364,174	134,807	498,981
2024	301,157	120,160	421,317
2025-2029	1,735,137	516,404	2,251,541
2030-2033	1,248,358	91,208	1,339,566
	<u>\$ 4,646,432</u>	<u>\$ 1,378,224</u>	<u>\$ 6,024,656</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2019

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 \$509,836 for this service.

NOTE 10 - SUBSEQUENT EVENTS

Management has performed a review of subsequent events through February 11, 2020 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, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 2,646,500	\$ 2,646,500	\$ 2,936,972	\$ 290,472
Licenses and Permits	970,350	970,350	901,590	(68,760)
Intergovernmental	249,450	249,450	240,442	(9,008)
Parks and recreation	91,950	91,950	97,378	5,428
Charges for services				
Library	10,750	10,750	9,677	(1,073)
Senior citizens	6,000	6,000	9,283	3,283
Interest	-	-	1,624	1,624
Other	30,000	30,000	294,671	264,671
Total revenues	<u>4,005,000</u>	<u>4,005,000</u>	<u>4,491,637</u>	<u>486,637</u>
Expenditures				
Current operations:				
Government administration	1,703,075	1,703,075	1,343,633	359,442
Public safety	529,500	529,500	540,248	(10,748)
Streets and sanitation	370,000	370,000	321,226	48,774
Parks and recreation	374,300	374,300	349,859	24,441
Library	176,725	176,725	177,545	(820)
Senior citizens	161,400	161,400	137,878	23,522
Total current operations	<u>3,315,000</u>	<u>3,315,000</u>	<u>2,870,389</u>	<u>444,611</u>
Capital outlays	200,000	200,000	610,070	(410,070)
Debt services	460,000	460,000	520,705	(60,705)
Total expenditures	<u>3,975,000</u>	<u>3,975,000</u>	<u>4,001,164</u>	<u>(26,164)</u>
Excess (deficiency) of revenues over (under) expenditures	30,000	30,000	490,473	460,473
Other financing sources (uses):				
Operating transfers out	-	-	(367,626)	(367,626)
	<u>-</u>	<u>-</u>	<u>(367,626)</u>	<u>(367,626)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 30,000</u>	<u>\$ 30,000</u>	122,847	<u>\$ 92,847</u>
Fund balances, beginning			<u>2,208,293</u>	
Fund balances, ending			<u>\$ 2,331,140</u>	