

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

**CITY OF CLAY, ALABAMA
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SEPTEMBER 30, 2022**

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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

Opinions

We have audited the accompanying financial statements of the governmental activities of the City of Clay, Alabama (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, each major fund and the remaining fund information of the City of Clay, Alabama as of September 30, 2022 and the changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Certified Public Accountants
2100 Southbridge Parkway, Suite 530
Birmingham, AL 35209

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules 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 method 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, LLC

Birmingham, Alabama
March 21, 2023



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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Clay, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Clay, Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Clay, Alabama's basic financial statements, and have issued our report thereon dated March 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Clay, Alabama's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Clay, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Clay, Alabama's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

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

Purpose of This Report

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

Cork, Hill & Company, LLC

Birmingham, Alabama
March 21, 2023

**CITY OF CLAY, ALABAMA
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

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
SEPTEMBER 30, 2022**

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
SEPTEMBER 30, 2022**

Condensed Financial Information

Condensed Statement of Net Position

The City's total net position increased between year-end September 30, 2021 and September 30, 2022 by \$1,768,739.

The City's net position is composed of three components. The City has investments of \$7,573,058 in capital assets (buildings, vehicles, etc.) net of the debt associated with it. Restricted net position of \$2,149,017 which consists principally of cash restricted for specific uses by law and unrestricted net position of \$3,873,604.

The following presents the City's condensed statement of net position as of September 30, 2022 and 2021, derived from the government-wide Statement of Net Position shown on page 11 of this report.

Condensed Statement of Net Position (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2022	2021	2022	2021	Variance
Current and other assets	\$ 8,173,633	\$ 6,216,787	\$ 8,173,633	\$ 6,216,787	\$1,956,846
Capital assets	11,238,967	11,111,867	11,238,967	11,111,867	127,100
Total assets	\$ 19,412,600	\$ 17,328,654	\$ 19,412,600	\$ 17,328,654	\$2,083,946
Current liabilities	\$ 666,048	\$ 657,537	\$ 666,048	\$ 657,537	\$ 8,511
Non-current liabilities	5,150,873	4,844,177	5,150,873	4,844,177	306,696
Total liabilities	5,816,921	5,501,714	5,816,921	5,501,714	315,207
Net Position					
Invested in capital assets,	7,573,058	7,098,692	7,573,058	7,098,692	474,366
Restricted	2,149,017	2,272,028	2,149,017	2,272,028	(123,011)
Unrestricted	3,873,604	2,456,220	3,873,604	2,456,220	1,417,384
Total fund balance (deficit)	13,595,679	11,826,940	13,595,679	11,826,940	1,768,739
	\$ 19,412,600	\$ 17,328,654	\$ 19,412,600	\$ 17,328,654	\$2,083,946

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

Condensed Statement of Activities

The following presents the City's condensed statement of activities for the fiscal year ended September 30, 2022 and September 30, 2021, as derived from the government-wide Statement of Activities shown on page 12 of this report. The City's total revenues increased by \$675,732. Fifty-five 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 increased \$579,200. Total revenues exceeded all City expenses by \$1,768,739.

Condensed Statement of Activities (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2022	2021	2022	2021	Variance
Revenues					
Program revenues					
Fines and fees	\$ 4,101	\$ 3,820	\$ 4,101	\$ 3,820	\$ 281
Operating grants and contributions	578,736	118,607	578,736	118,607	460,129
Charges for services	121,285	90,977	121,285	90,977	30,308
Total program revenues	704,122	213,404	704,122	213,404	490,718
General revenues and payments					
Sales and use tax	3,351,962	3,279,777	3,351,962	3,279,777	72,185
Ad valorem	418,407	395,092	418,407	395,092	23,315
Licenses and permits	1,114,379	1,040,339	1,114,379	1,040,339	74,040
Intergovernmental	356,853	346,795	356,853	346,795	10,058
Other taxes	115,928	99,097	115,928	99,097	16,831
Miscellaneous	27,205	38,620	27,205	38,620	(11,415)
Total general revenues and payments	5,384,734	5,199,720	5,384,734	5,199,720	185,014
Total revenues	6,088,856	5,413,124	6,088,856	5,413,124	675,732
Program expenditures					
General government	1,967,559	1,513,499	1,967,559	1,513,499	454,060
Public safety	579,455	593,686	579,455	593,686	(14,231)
Parks and recreation	511,578	508,661	511,578	508,661	2,917
Streets and public works	797,426	614,547	797,426	614,547	182,879
Senior citizens	117,740	103,655	117,740	103,655	14,085
Library	176,892	200,835	176,892	200,835	(23,943)
Interest	169,467	206,034	169,467	206,034	(36,567)
Total program expenditures	4,320,117	3,740,917	4,320,117	3,740,917	579,200
Change in net assets from activities	1,768,739	1,672,207	1,768,739	1,672,207	96,532
Beginning net position	11,826,940	10,154,733	11,826,940	10,154,733	1,672,207
Ending net position	\$13,595,679	\$11,826,940	\$13,595,679	\$ 11,826,940	\$1,768,739

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

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, 2022**

City Program	Program Expenditures 2022	Less Program Revenue, Grants and Donations 2022	Net Program Costs		Program Revenues as a Percentage of Program Expenditures	
			2022	2021	2022	2021
General government	\$ 1,967,559	\$ 578,736	\$ 1,388,823	\$ 1,394,892	29.4%	7.8%
Public safety	579,455	4,101	575,354	589,866	0.7%	0.6%
Public works	797,426	-	797,426	614,547	0.0%	0.0%
Parks and recreation	511,578	101,338	410,240	435,071	19.8%	14.5%
Library	176,892	11,800	165,092	186,799	6.7%	7.0%
Senior citizens	117,740	8,147	109,593	100,304	6.9%	3.2%
Interest	169,467	-	169,467	206,034	0.0%	0.0%
	<u>\$ 4,320,117</u>	<u>\$ 704,122</u>	<u>\$ 3,615,995</u>	<u>\$ 3,527,513</u>	<u>16.3%</u>	<u>2.5%</u>

OVERALL GOVERNMENTAL FUNDS BASIS ANALYSIS

The City's assets exceed its liabilities by \$6,056,078. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance increased \$1,394,039 during the year due to increased revenues. The capital improvement fund balance decreased \$77,289 due to increased capital outlays and the gas tax funds decreased \$20,166 due to an increase in road repairs during the current year.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$6,056,078. Ending fund balance is \$1,296,584 more than the previous year balance.

**CITY OF CLAY, ALABAMA
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At September 30, 2022, the City reported \$11,238,967 in capital assets. Refer to Note 5 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 \$3,665,909. Refer to Note 8 of the financial statements for additional information on long-term debt.

ECONOMIC CONDITIONS AND OUTLOOK

The City of Clay considered many factors in preparing the budget and presenting it to the Mayor and City Council. 2022 property tax, sales tax, and franchise fees increased approximately \$155,000 over the last 36 months; however, the City’s expenses are also rising due to inflation. To assist residents in combatting inflation, the City Council adopted a two-year sales tax decrease on SNAP eligible items. This temporary tax decrease is in effect from November 1, 2022, until October 31, 2024. A new fast-food restaurant is anticipated to open in the City during the 2023-2024 fiscal year. Projected employment additions would be in the Public Works Department as well as Parks and Recreation. Temporary employees are typically hired in the summer: 1-2 part time at the library, 1-2 full time in public works, 1 full time and 3 part time at the splash pad. 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. The cost for this contract increased by approximately \$100,000 annually beginning October 2021. All invoiced expenses continue to be paid within 14 days of receipt. Employees contribute over \$32,000 to their retirement plan annually, which is matched by the City. Total employee contributions since implementation of this plan are greater than \$260,000.

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, 2022**

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current Assets - Unrestricted		
Cash and cash equivalents	\$ 5,670,032	\$ 5,670,032
Receivables	348,109	348,109
Prepays	6,475	6,475
Total Current Assets - Unrestricted	<u>6,024,616</u>	<u>6,024,616</u>
Current Assets - Restricted		
Restricted cash	<u>2,149,017</u>	<u>2,149,017</u>
Total Current Assets - Restricted	<u>2,149,017</u>	<u>2,149,017</u>
Total Current Assets	8,173,633	8,173,633
Capital assets:		
Non-depreciable	1,978,236	1,978,236
Depreciable, net of accumulated depreciation	<u>9,260,731</u>	<u>9,260,731</u>
Total Capital Assets	<u>11,238,967</u>	<u>11,238,967</u>
TOTAL ASSETS	<u><u>\$ 19,412,600</u></u>	<u><u>\$ 19,412,600</u></u>
LIABILITIES		
Accounts payable and accrued expenses		
Current maturities of long-term debt	\$ 301,874	\$ 301,874
Total Current Liabilities	<u>666,048</u>	<u>666,048</u>
Non-current liabilities		
General obligation bonds	3,301,735	3,301,735
Deferred revenues	<u>1,849,138</u>	<u>1,849,138</u>
Total Long-Term Liabilities	5,150,873	5,150,873
Total Liabilities	5,816,921	5,816,921
NET POSITION		
Invested in capital assets	7,937,232	7,937,232
Restricted net assets	2,149,017	2,149,017
Unrestricted net assets	<u>3,509,430</u>	<u>3,509,430</u>
	<u>13,595,679</u>	<u>13,595,679</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 19,412,600</u></u>	<u><u>\$ 19,412,600</u></u>

See Independent Auditors' Report and Notes to the Financial Statements

**CITY OF CLAY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Government Activities	Total
Function/Program Activities						
Primary Government:						
Government Activities:						
General government	\$ 1,967,559	\$ -	\$ 578,736	\$ -	\$ (1,388,823)	\$ (1,388,823)
Public safety	579,455	4,101	-	-	(575,354)	(575,354)
Public works	797,426	-	-	-	(797,426)	(797,426)
Parks and recreation	511,578	101,338	-	-	(410,240)	(410,240)
Library	176,892	11,800	-	-	(165,092)	(165,092)
Senior citizens	117,740	8,147	-	-	(109,593)	(109,593)
Interest	169,467	-	-	-	(169,467)	(169,467)
Total governmental activities	\$ 4,320,117	\$ 125,386	\$ 578,736	\$ -	(3,615,995)	(3,615,995)
 General Revenues:						
Taxes:						
Sales tax					3,351,962	3,351,962
Ad valorem taxes					418,407	418,407
Other taxes					115,928	115,928
License and permits					1,114,379	1,114,379
Intergovernmental					356,853	356,853
Miscellaneous					27,205	27,205
Total general revenues					5,384,734	5,384,734
 Change in net position for current year					1,768,739	1,768,739
 Net position, beginning of year					11,826,940	11,826,940
 Net position, end of year					\$ 13,595,679	\$ 13,595,679

See Independent Auditors' Report and Notes to the Financial Statements

CITY OF CLAY, ALABAMA
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,670,032	\$ -	\$ -	\$ 5,670,032
Restricted cash	70,683	1,654,378	423,956	2,149,017
Receivables				
Taxes	296,070	-	22,595	318,665
Other	29,444	-	-	29,444
Prepaid expenses	6,475	-	-	6,475
Total assets	\$ 6,072,704	\$ 1,654,378	\$ 446,551	\$ 8,173,633
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 268,417	\$ -	\$ -	\$ 268,417
Deferred revenues	670,870	1,178,268	-	1,849,138
Total liabilities	939,287	1,178,268	-	2,117,555
Fund balance:				
Non-spendable	6,475	-	-	6,475
Restricted	70,683	1,654,378	446,551	2,171,612
Committed	-	-	-	-
Unassigned	5,062,734	(1,178,268)	-	3,884,466
Total fund balance	5,133,417	476,110	446,551	6,056,078
Total liabilities and fund balances	\$ 6,072,704	\$ 1,654,378	\$ 446,551	\$ 8,173,633

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, 2022

Fund Balance - Total Governmental Funds	\$ 6,056,078
Amounts reported for governmental activities in the statement of Net Assets 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.	11,238,967
Long-Term Liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet	(3,665,909)
Accrued compensated absences are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet	(15,331)
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	<u>(18,126)</u>
Net Assets of Governmental Activities	<u><u>\$ 13,595,679</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, 2022

	General	Capital	Other	Total
	Fund	Improvement	Governmental	Governmental
	Fund	Fund	Funds	Funds
Revenues:				
Taxes	\$ 3,357,095	\$ -	\$ -	\$ 3,357,095
Licenses and permits	914,919	-	-	914,919
Intergovernmental	721,975	96,177	267,401	1,085,553
Parks and recreation	97,763	-	-	97,763
Library	11,500	-	-	11,500
Senior citizens	11,722	-	-	11,722
Other	610,302	-	-	610,302
	<u>5,725,276</u>	<u>96,177</u>	<u>267,401</u>	<u>6,088,854</u>
Expenditures				
Current operations:				
General government	1,869,634	36	108	1,869,778
Public safety	540,240	-	-	540,240
Streets and sanitation	422,484	-	314,959	737,443
Parks and recreation	238,483	-	-	238,483
Library	136,922	-	-	136,922
Senior citizens	104,879	-	-	104,879
Total current operations	<u>3,312,642</u>	<u>36</u>	<u>315,067</u>	<u>3,627,745</u>
Capital outlays	471,302	173,430	-	644,732
Debt service:				
Principal	347,266	-	-	347,266
Interest and fiscal charges	172,527	-	-	172,527
Total expenditures	<u>4,303,737</u>	<u>173,466</u>	<u>315,067</u>	<u>4,792,270</u>
Excess (deficiency) of revenues over (under) expenditures	1,421,539	(77,289)	(47,666)	1,296,584
Other financial sources (uses):				
Operating transfers in	-	-	27,500	27,500
Operating transfers out	(27,500)	-	-	(27,500)
Total other financing sources (uses)	<u>(27,500)</u>	<u>-</u>	<u>27,500</u>	<u>-</u>
Excess / (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	1,394,039	(77,289)	(20,166)	1,296,584
Fund balance, beginning	<u>3,739,378</u>	<u>553,399</u>	<u>466,717</u>	<u>4,759,494</u>
Fund balance, ending	<u>\$ 5,133,417</u>	<u>\$ 476,110</u>	<u>\$ 446,551</u>	<u>\$ 6,056,078</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, 2022

Net change in fund balances - total governmental funds \$ 1,296,584

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

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, 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. 644,732

The issuance of debt provides current financial resources to governmental funds while the repayment of debt principal consumes the governmental funds current financial resources. Neither of these transactions has any effect on the net assets in the statement of net position. These transactions are as follows:

Repayment of notes and bond 347,266

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. (517,632)

Accrued compensated absences are 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 statements. (5,272)

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 any expenditure in the Governmental Funds financial statements. 3,061

Change in net position of governmental activities \$ 1,768,739

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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 2022 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 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
SEPTEMBER 30, 2022

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 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 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

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 received.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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 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
SEPTEMBER 30, 2022

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:

Non-spendable 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
SEPTEMBER 30, 2022

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 non-spendable, 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
SEPTEMBER 30, 2022

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 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 \$39,539. These funds are invested by a bank trust department in US government securities and are not subject to collateralization requirements.

NOTE 3 - RECEIVABLES

	General Fund	Capital Improvement Fund	Gas Tax Fund	Total Governmental Funds	Entity Wide
Taxes:					
Sales and use tax	\$ 266,287	\$ -	\$ -	\$ 266,287	\$266,287
Intergovernmental					
Property tax	9,181	-		9,181	9,181
Gasoline taxes	4,535	-	22,595	27,130	27,130
Other taxes	16,067	-		16,067	16,067
Franchise fees	29,444	-		29,444	29,444
Total receivables	<u>\$ 325,514</u>	<u>\$ -</u>	<u>\$ 22,595</u>	<u>\$ 348,109</u>	<u>\$348,109</u>

The gas tax fund receivables are restricted for road construction and repair. These receivables are included in the entity-wide receivables

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no interfund receivables or payables at September 30, 2022. The general fund transferred \$27,500 to the gas tax fund to reimburse road repairs with funds received from the County.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended September 30, 2022 was as follows:

	Balance 9-30-2021	Additions	Retirements	Balance 9-30-2022
Governmental Activities				
Assets not being depreciated				
Land	\$ 1,978,236	\$ -	\$ -	\$ 1,978,236
Construction in process	-	-	-	-
	<u>1,978,236</u>	<u>-</u>	<u>-</u>	<u>1,978,236</u>
Other capital assets:				
Buildings and land improvements	3,510,503	68,664	-	3,579,167
Equipment	1,082,660	7,458	-	1,090,118
Vehicles	289,597	76,626	-	366,223
Infrastructure	11,605,997	491,984	-	12,097,981
	<u>16,488,757</u>	<u>644,732</u>	<u>-</u>	<u>17,133,489</u>
Accumulated depreciation	<u>7,355,126</u>	<u>517,632</u>	<u>-</u>	<u>7,872,758</u>
	<u>9,133,631</u>	<u>127,100</u>	<u>-</u>	<u>9,260,731</u>
Net capital assets	<u>\$ 11,111,867</u>	<u>\$ 127,100</u>	<u>\$ -</u>	<u>\$ 11,238,967</u>

Depreciation was charged to functions as follows:

Governmental activities	
Parks	\$ 273,094
General	97,250
Streets and public works	58,473
Public safety	39,215
Seniors	11,168
Library	<u>38,432</u>
Total	<u>\$ 517,632</u>

NOTE 6 - 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, 2022 was \$15,331.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 7 – 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 full-time 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 2022, contributions of each employee are limited to the lesser of \$20,500 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 \$32,476 and employer matching contributions were \$30,856. Any forfeitures under 401(a) plan revert back to the City of Clay general fund.

NOTE 8 – LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2022 was as follows:

	Balance			Balance
	Sept 30, 2021	Increases	Repayments	Sept 30, 2022
General Obligation Warrant payable to US Bank. Interest rate varies from 3.07% to 5.10%, matures April 1, 2023	\$ 145,000	\$ -	\$ 70,000	\$ 75,000
General Obligation Warrant Series 2006A. Interest rate is 3.67%, matures November 20, 2032	3,211,667	-	228,334	2,983,333
General Obligation Warrant Series 2012A. Interest rate is 3.90%, matures March 1, 2029.	656,508	-	48,932	607,576
Total Long-Term Debt	4,013,175	<u>\$ -</u>	<u>\$ 347,266</u>	3,665,909
Amounts due within one year	<u>347,266</u>			<u>364,174</u>
Long-term maturities	<u>\$ 3,665,909</u>			<u>\$ 3,301,735</u>

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 8 – LONG-TERM DEBT - continued

Annual requirements to retire general long-term debt as of September 30, 2022, for the next five years and in five-year increments thereafter are shown below.

Years Ended	Principal	Interest	Total
September 30,			
2023	\$ 364,174	\$ 134,807	\$ 498,981
2024	301,157	120,160	421,317
2025	316,967	108,883	425,850
2026	330,357	97,029	427,386
2027	343,206	84,682	427,888
2027-2031	1,927,965	239,204	2,167,169
2032-2033	82,083	2,183	84,266
	\$3,665,909	\$ 786,948	\$ 4,452,857

NOTE 9 – 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 10 - 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 11 – DEFERRED REVENUE

As of September 30, 2022, the City has received federal funds from the American Rescue Plan Act (ARPA) in the amount of \$2,358,974. These funds are to be used by the City to cover allowable costs under the Act through December 31, 2024. \$509,836 was expended in the year ended September 30, 2022 to cover the costs of the law enforcement contract in place with Jefferson County. The amount of deferred revenue at year end is \$1,849,138.

NOTE 12 - SUBSEQUENT EVENTS

Management has performed a review of subsequent events through March 21, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF CLAY, ALABAMA
BUDGETARY COMPARISON – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 3,580,000	\$ 3,580,000	\$ 3,357,095	\$ (222,905)
Licenses and permits	785,000	785,000	914,919	129,919
Intergovernmental	460,000	460,000	721,975	261,975
Parks and recreation	60,000	60,000	97,763	37,763
Charges for services				
Library	-	-	11,500	11,500
Senior citizens	16,000	16,000	11,722	(4,278)
Other	560,000	560,000	610,302	50,302
Total revenues	<u>5,461,000</u>	<u>5,461,000</u>	<u>5,725,276</u>	<u>264,276</u>
Expenditures				
Current operations:				
Government administration	2,719,050	2,719,050	1,869,634	849,416
Public safety	650,000	650,000	540,240	109,760
Streets and sanitation	322,500	322,500	422,484	(99,984)
Parks and recreation	255,000	255,000	238,483	16,517
Library	38,500	38,500	136,922	(98,422)
Senior citizens	63,500	63,500	104,879	(41,379)
	<u>4,048,550</u>	<u>4,048,550</u>	<u>3,312,642</u>	<u>735,908</u>
Capital outlays	430,000	430,000	471,302	(41,302)
Debt service	420,000	420,000	519,793	(99,793)
Total expenditures	<u>4,898,550</u>	<u>4,898,550</u>	<u>4,303,737</u>	<u>594,813</u>
Excess (deficiency) of revenues over (under) expenditures	562,450	562,450	1,421,539	859,089
Other financing sources (uses):				
Operating transfers out	-	-	(27,500)	(27,500)
	<u>-</u>	<u>-</u>	<u>(27,500)</u>	<u>(27,500)</u>
Excess / (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ 562,450</u>	<u>\$ 562,450</u>	1,394,039	<u>\$ 831,589</u>
Fund balance, beginning			3,739,378	
Fund balance, ending			<u>\$ 5,133,417</u>	