

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

**CITY OF CLAY, ALABAMA
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SEPTEMBER 30, 2020**

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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, 2020, 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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P. 205.879.3292
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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, 2020, 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.

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

Birmingham, Alabama
February 17, 2021

CITY OF CLAY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020

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 DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2020**

Major Features of the Basic Financial Statements

	Government-wide Financial Statements	Governmental Funds	Fund Financial Statements	
			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 DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2020

Condensed Financial Information

Condensed Statement of Net Position

The City's total net position increased between year-end September 30, 2019 and September 30, 2020 by \$1,988,991.

The City's net position is composed of three components. The City has investments of \$6,634,595 in capital assets (buildings, vehicles, etc.) net of the debt associated with it. Restricted net position of \$762,186 which consists principally of cash restricted for specific uses by law and unrestricted net position of \$2,757,951.

The following presents the City's condensed statement of net position as of September 30, 2020 and 2019, derived from the government-wide Statement of Net Position.

Condensed Statement of Net Position (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2020	2019	2020	2019	Variance
Current and other assets	\$ 4,027,132	\$ 2,989,776	\$ 4,027,132	\$ 2,989,776	\$1,037,356
Capital assets	10,960,699	10,106,298	10,960,699	10,106,298	854,401
Total assets	14,987,831	13,096,074	14,987,831	13,096,074	1,891,757
Current liabilities	837,423	603,811	837,423	603,811	233,612
Non-current liabilities	3,995,675	4,326,521	3,995,675	4,326,521	(330,846)
Total liabilities	4,833,098	4,930,332	4,833,098	4,930,332	(97,234)
Net Position					
Invested in capital assets,	6,634,595	5,459,866	6,634,595	5,459,866	1,174,729
Restricted	762,186	340,380	762,186	340,380	421,806
Unrestricted	2,757,951	2,365,496	2,757,951	2,365,496	392,455
Total fund balance (deficit)	10,154,733	8,165,742	10,154,733	8,165,742	1,988,991
	\$ 14,987,831	\$ 13,096,074	\$ 14,987,831	\$ 13,096,074	\$ 1,891,757

CITY OF CLAY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS – CONTINUED
SEPTEMBER 30, 2020

Condensed Statement of Activities

The following presents the City’s condensed statement of activities for the fiscal year ended September 30, 2020 and September 30, 2019, as derived from the government-wide Statement of Activities. The City’s total revenues increased by \$662,885. Fifty-six 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 two percent. Total revenues exceeded all City expenses by \$1,988,991.

Condensed Statement of Activities (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2020	2019	2020	2019	Variance
Revenues					
Program revenues					
Fines and fees	\$ 3,024	\$ 2,497	\$ 3,024	\$ 2,497	\$ 527
Operating grants and contributions	52,499	270,586	52,499	270,586	(218,087)
Charges for services	30,684	117,016	30,684	117,016	(86,332)
Total program revenues	86,207	390,099	86,207	390,099	(303,892)
General revenues and payments					
Sales and use tax	3,056,167	2,569,625	3,056,167	2,569,625	486,542
AdValorem	402,142	367,347	402,142	367,347	34,795
Licenses and permits	1,135,124	904,608	1,135,124	904,608	230,516
Intergovernmental	327,597	329,844	327,597	329,844	(2,247)
Other taxes	65,113	193,403	65,113	193,403	(128,290)
Miscellaneous	367,679	20,910	367,679	20,910	346,769
Interest	317	1,624	317	1,624	(1,307)
Total general revenues and payments	5,354,138	4,387,361	5,354,138	4,387,361	966,777
Total revenues	5,440,345	4,777,460	5,440,345	4,777,460	662,885
Program expenditures					
General government	1,362,843	1,496,784	1,362,843	1,496,784	(133,941)
Public safety	601,232	575,429	601,232	575,429	25,803
Parks and recreation	467,257	541,306	467,257	541,306	(74,049)
Streets and Public works	538,119	365,454	538,119	365,454	172,665
Senior citizens	107,056	148,938	107,056	148,938	(41,882)
Library	179,268	218,386	179,268	218,386	(39,118)
Interest	195,579	175,706	195,579	175,706	19,873
Total program expenditures	3,451,354	3,522,003	3,451,354	3,522,003	(70,649)
Change in net assets from activities	1,988,991	1,255,457	1,988,991	1,255,457	733,534
Beginning net position	8,165,742	6,910,285	8,165,742	6,910,285	1,255,457
Ending net position	\$10,154,733	\$8,165,742	\$10,154,733	\$8,165,742	\$1,988,991

**CITY OF CLAY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2020**

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, 2020**

City Program	Program Expenditures 2020	Less Program Revenue, Grants and Donations 2020	Net Program Costs		Program Revenues as a Percentage of Program Expenditure	
			2020	219	2020	2019
General government	\$ 1,362,843	\$ 35,466	\$ 1,327,377	\$ 1,401,954	2.6%	0.0%
Public Safety	601,232	2,558	598,674	592,823	0.4%	0.8%
Public works	538,119		538,119	589,124	0.0%	0.0%
Parks and recreation	467,257	23,688	443,568	514,247	5.1%	16.9%
Library	179,268	10,827	168,441	173,574	6.0%	6.9%
Senior citizens	107,056	13,667	93,390	106,756	12.8%	8.6%
Interest	195,579		195,579	198,884	0.0%	0.0%
	<u>\$ 3,451,354</u>	<u>\$ 86,207</u>	<u>\$ 3,365,147</u>	<u>\$ 3,577,362</u>	<u>2.5%</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 \$3,223,749. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance increased \$318,265 during the year due to increased revenues. The capital improvement fund balance decreased \$70,692 due to increased capital outlays and the gas tax fund increased \$205,190 due to decreased expenditures and increased revenue.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,223,749. Ending fund balance is \$452,763 more than the previous year balance.

**CITY OF CLAY, ALABAMA
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
SEPTEMBER 30, 2020**

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At September 30, 2020, the City reported \$10,960,699 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 \$4,326,104. 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. 2020 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 May 2021. 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 \$195,000.

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, 2020

	<u>Primary Government</u>	
	Governmental	
	<u>Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 2,511,074	\$ 2,511,074
Receivables	681,649	681,649
Prepays	72,223	72,223
Total current assets	<u>3,264,946</u>	<u>3,264,946</u>
Restricted assets		
Cash	762,186	762,186
Capital assets:		
Non-depreciable	3,055,487	3,055,487
Depreciable	7,905,212	7,905,212
Total capital assets	<u>10,960,699</u>	<u>10,960,699</u>
TOTAL ASSETS	<u><u>\$14,987,831</u></u>	<u><u>\$ 14,987,831</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 506,994	\$ 506,994
Current maturities of long-term debt	330,429	330,429
Total Current Liabilities	<u>837,423</u>	<u>837,423</u>
Non-current liabilities		
General obligation bonds	4,326,104	4,326,104
Less current maturities	(330,429)	(330,429)
Total Long-Term Liabilities	<u>3,995,675</u>	<u>3,995,675</u>
Total Liabilities	4,833,098	4,833,098
NET ASSETS		
Invested in capital assets	6,634,595	6,634,595
Restricted net assets	762,186	762,186
Unrestricted net assets	2,757,951	2,757,951
	<u>10,154,733</u>	<u>10,154,733</u>
	<u><u>\$14,987,831</u></u>	<u><u>\$ 14,987,831</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, 2020**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Government Activities</u>	<u>Total</u>
Function/Program Activities						
Primary Government:						
Government Activities:						
General government	\$ 1,362,843	\$ 466	\$ 35,000	\$ -	\$ (1,327,377)	\$ (1,327,377)
Public Safety	601,232	2,558	-		(598,674)	(598,674)
Public works	538,119				(538,119)	(538,119)
Parks and recreation	467,257	23,688	-		(443,568)	(443,568)
Library	179,268	3,328	7,499		(168,441)	(168,441)
Senior citizens	107,056	3,667	10,000		(93,390)	(93,390)
Interest	195,579				(195,579)	(195,579)
Total governmental activities	<u>\$ 3,451,354</u>	<u>\$ 33,708</u>	<u>\$ 52,499</u>	<u>\$ -</u>	<u>\$ (3,365,147)</u>	<u>\$ (3,365,147)</u>
General Revenues:						
Taxes:						
Sales Tax					3,056,167	3,056,167
Ad valorem taxes					402,142	402,142
Other taxes					65,113	65,113
License and permits					1,135,124	1,135,124
Intergovernmental					327,597	327,597
Investment earnings					317	317
Miscellaneous					367,678	367,678
Total general revenues					<u>5,354,138</u>	<u>5,354,138</u>
Change in net position for current year					1,988,991	1,988,991
Net position, beginning of year					<u>8,165,742</u>	<u>8,165,742</u>
Net position, end of year					<u>\$ 10,154,733</u>	<u>\$ 10,154,733</u>

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

**CITY OF CLAY, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020**

	General	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets and other debits				
Assets:				
Cash and cash equivalents	\$2,478,441	\$ -	\$ -	\$ 2,478,441
Unrestricted cash				
Restricted cash	72,736	431,890	290,193	794,819
Receivables				-
Taxes	320,253	-	21,460	341,713
Other				-
Due from other funds	-			-
Prepaid expenses	72,223			72,223
Total assets and other debits	\$2,943,653	\$ 431,890	\$ 311,654	\$ 3,687,196
Liabilities, equity and other credits				
Liabilities:				
Accounts payable and accrued liabilities	\$ 294,248	\$ 165,599	\$ 3,600	\$ 463,448
Due to other funds		-	-	-
Total liabilities	294,248	165,599	3,600	463,448
Equity and other credits:				
Fund balances:				
Restricted	647,080			647,080
Committed				-
Non-spendable	72,223			72,223
Assigned				-
Unreserved, undesignated	1,930,102	266,290	308,054	2,504,446
Total equity and other credits	2,649,405	266,290	308,054	3,223,749
	\$2,943,653	\$ 431,889	\$ 311,654	\$ 3,687,196

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

**CITY OF CLAY, ALABAMA
RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Fund Balance - Total Governmental Funds \$ 3,223,749

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. Assets net of accumulated depreciation
are. 10,960,699

Long-Term Liabilities are not due and payable in the current period and therefore,
they are not reported in the Governmental Funds Balance Sheet (4,326,104)

Account receivable recognized in entity wide accounting but not in governmental
funds method because collection was made after the sixty day cut-off
date required for including in modified accrual accounting 339,936

Accrued compensated absences are not due and payable in the current period
and therefore they are not reported in the Governmental Funds Balance Sheet (19,177)

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 (24,370)

Net Assets of Governmental Activities \$ 10,154,733

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, 2020

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,059,872	\$ -	\$ -	\$ 3,059,872
Licenses and permits	925,997			925,997
Intergovernmental	672,940	95,840	231,505	1,000,284
Parks and Recreation	23,738			23,738
Interest	317			317
Library	10,827			10,827
Senior Citizens	14,300			14,300
Other	65,073			65,073
	<u>4,773,065</u>	<u>95,840</u>	<u>231,505</u>	<u>5,100,409</u>
Expenditures				
Current operations:				
General government	1,299,418	36	102	1,299,556
Public safety	563,094			563,094
Streets and sanitation	485,163		26,213	511,376
Parks and Recreation	275,529			275,529
Library	140,367			140,367
Senior citizens	100,589			100,589
Total current operations	<u>2,864,159</u>	<u>36</u>	<u>26,315</u>	<u>2,890,510</u>
Capital outlays	641,006	594,991	-	1,235,997
Debt service:				
Principal	320,328			320,328
Interest and fiscal charges	200,811			200,811
Total expenditures	<u>4,026,304</u>	<u>595,027</u>	<u>26,315</u>	<u>4,647,646</u>
Excess (deficiency) of revenues over (under) expenditures	746,761	(499,188)	205,190	452,763
Other financial sources (uses):				
Operating transfers in		428,496		428,496
Operating transfers out	(428,496)			(428,496)
Proceeds from debt				
Total other financing sources (uses)	<u>(428,496)</u>	<u>428,496</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	318,265	(70,692)	205,190	452,763
Fund balance, beginning	<u>2,331,140</u>	<u>336,982</u>	<u>102,864</u>	<u>2,770,986</u>
Fund balance, ending	<u>\$ 2,649,405</u>	<u>\$ 266,290</u>	<u>\$ 308,054</u>	<u>\$ 3,223,749</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, 2020

Net change in fund balances - total governmental funds \$ 452,763

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. 1,282,812

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	320,328
Current year borrowing	-

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. (428,413)

Revenue from account receivable recognized in entity wide accounting but not in governmental funds method because collection was made after the sixty day cut-off date required for including in modified accrual accounting. 339,936

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. 16,332

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. 5,233

Change in net assets of governmental activities	\$ 1,988,991
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See Independent Auditors' Report and Notes to the Financial Statements.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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 2020 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, 2020

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

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 received.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2020

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 - Continued
SEPTEMBER 30, 2020

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 - Continued
SEPTEMBER 30, 2020

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 - Continued
SEPTEMBER 30, 2020

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 \$44,202. 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	\$ 243,346	\$ -	\$ -	\$ 243,346	\$ 243,346
Intergovernmental					
Property tax	9,283			9,283	9,283
Gasoline taxes	4,936		21,460	26,396	26,396
Other taxes	19,725			19,725	19,725
Franchise fees	27,320			27,320	27,320
Federal Stimulus Reimbursements due from Jefferson County, AL	15,643	-		15,643	355,579
Total receivables	\$ 320,253	\$ -	\$ 21,460	\$ 341,713	\$ 681,649

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 and payables at September 30, 2020. The general fund transferred \$428,496 to capital improvements fund to help pay for capital expenditures during the year.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2020

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended September 30, 2020 was as follows:

	Balance 9-30-19	Additions	Retirements	Balance 9-30-20
Governmental Activities				
Assets not being depreciated				
Land	\$ 1,978,236	\$ -	\$ -	\$ 1,978,236
Construction in process	625,811	1,120,605	669,165	1,077,251
	<u>2,604,047</u>	<u>1,120,605</u>	<u>669,165</u>	<u>3,055,487</u>
Other capital assets:				
Buildings and land improvements	3,361,172	118,916	-	3,480,088
Equipment	897,539	43,291	11,080	929,750
Vehicles	318,738		35,140	283,598
Infrastructure	9,463,549	669,165	-	10,132,714
	<u>14,040,998</u>	<u>831,372</u>	<u>46,220</u>	<u>14,826,150</u>
Accumulated depreciation	6,538,745	428,413	46,220	6,920,938
	<u>7,502,253</u>	<u>-</u>	<u>-</u>	<u>7,905,212</u>
Net capital assets	<u>\$ 10,106,300</u>	<u>\$ 1,120,605</u>	<u>\$ 669,165</u>	<u>\$ 10,960,699</u>

Depreciation was charged to functions as follows:

Governmental activities	
Parks	\$ 212,214
General	98,457
Streets and public works	30,491
Public safety	38,138
Seniors	9,806
Library	<u>39,307</u>
Total	<u>\$ 428,413</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, 2020 was \$35,507.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2020

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 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 2020, 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.

NOTE 8- LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2020 was as follows:

	Balance			Balance
	Sept 30, 2019	Increases	Repayments	Sept 30, 2020
General Obligation Warrant payable to US Bank. Interest rate varies from 3.07% to 5.10% and matures April 1, 2023	\$ 275,000	\$ -	\$ 65,000	\$ 210,000
General Obligation Warrant Series 2006A. Interest rate is 3.67% and the bond matures November 20, 2032	3,622,500		210,000	3,412,500
General Obligation Warrant Series 2012A. Interest rate is 3.9% and the bonds mature March 1, 2029.	748,932		45,328	703,604
Total Long-Term Debt	4,646,432	-	<u>\$ 320,328</u>	4,326,104
Amounts due within one year	<u>319,911</u>			<u>330,429</u>
Long-term maturities	<u>\$ 4,326,521</u>			<u>\$ 3,995,675</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2020

All 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, 2020, for the next five years and in five-year increments thereafter are shown below.

Years Ended	Principal	Interest	Total
September 30,			
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	316,967	108,883	425,850
2025-2029	1,793,869	376,355	2,170,224
2030-2033	872,242	46,743	918,985
	\$4,326,104	\$ 1,127,718	\$ 5,453,822

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 - SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. Multiple jurisdictions in the U. S, including the state of Alabama, have declared a state of emergency. It is anticipated that these impacts will continue for some time. While there has been no significant impact to the City's operations and services, the potential exists for future disruptions or reductions of City services due to the outbreak.

Management has performed a review of subsequent events through February 17, 2021 which is the date the financial statements were available to be issued and has concluded there were no events or transactions during this subsequent period that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CLAY, ALABAMA
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Original Budget	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$2,599,000	\$2,599,000	\$3,059,872	\$ 460,872
Licenses and permits	740,000	740,000	925,997	185,997
Intergovernmental	640,000	640,000	672,940	32,940
Parks and recreation			23,738	23,738
Charges for services				
Library			10,827	10,827
Senior citizens	16,000	16,000	14,300	(1,700)
Interest			317	317
Other	250,000	250,000	65,073	(184,928)
Total revenues	<u>4,245,000</u>	<u>4,245,000</u>	<u>4,773,065</u>	<u>528,065</u>
Expenditures				
Current operations:				
Government administration	2,675,000	2,675,000	1,299,418	(1,375,582)
Public safety	525,000	525,000	563,094	38,094
Streets and sanitation			485,163	485,163
Parks and recreation	95,000	95,000	275,529	180,529
Library			140,367	140,367
Senior citizens	35,000	35,000	100,589	65,589
	<u>3,330,000</u>	<u>3,330,000</u>	<u>2,864,159</u>	<u>465,841</u>
Capital outlays	605,000	605,000	641,006	(36,006)
Debt Service	420,000	420,000	521,139	(101,139)
Total expenditures	<u>4,355,000</u>	<u>4,355,000</u>	<u>4,026,304</u>	<u>328,696</u>
Excess (deficiency) of revenues over (under) expenditures	(110,000)	(110,000)	746,761	856,761
Other financing sources (uses):				
Operating transfers out	-	-	(428,496)	(428,496)
	<u>-</u>	<u>-</u>	<u>(428,496)</u>	<u>(428,496)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (110,000)</u>	<u>\$ (110,000)</u>	318,265	<u>\$ 428,265</u>
Fund balance, beginning			2,331,140	
Fund balance, ending			<u>\$2,649,405</u>	