

CITY OF CLAY, ALABAMA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

**CITY OF CLAY, ALABAMA
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SEPTEMBER 30, 2013**

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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 nine months ended September 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Certified Public Accountants

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Clay, Alabama as of September 30, 2013, and the changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 2 through 8) 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
December 31, 2013

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS
SEPTEMBER 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

Fund Financial Statements

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

Notes to the Financial Statements

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

CHANGE OF FISCAL YEAR END

The financial year end of the City was changed from December 31, to September 30.

Accordingly, the comparative figures for the Condensed Statement of Net Position, Condensed Statement of Activities, Net Costs of Governmental Activities and the related discussion and analysis are for nine months from January 1, 2013 to September 30, 2013.

**CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
SEPTEMBER 30, 2013**

Major Features of the Basic Financial Statements

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

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
SEPTEMBER 30, 2013

Condensed Financial Information

Condensed Statement of Net Position

The City's total net position increased between year end December 31, 2012 and September 30, 2013 by \$151,991.

The City's net position are composed of three components. The City has investments of \$2,313,117 in capital assets (buildings, vehicles, etc.) net of the debt associated with it. The second component of net position is \$388,376 which is restricted for capital projects. The third component of the City's net position is \$831,639 in unrestricted net position.

The following presents the City's condensed statement of net position as of September 30, 2013 and December 31, 2012, derived from the government-wide Statement of Net Position.

Condensed Statement of Net Position (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2013	2012	2013	2012	2012 - 2013
Current and other assets	\$ 1,474,580	\$ 1,168,337	\$ 1,474,580	\$ 1,168,337	\$ 306,243
Capital assets	<u>8,637,108</u>	<u>8,922,762</u>	<u>8,637,108</u>	<u>8,922,762</u>	<u>(285,654)</u>
Total assets	<u>10,111,688</u>	<u>10,091,099</u>	<u>10,111,688</u>	<u>10,091,099</u>	<u>20,589</u>
Current liabilities	492,078	395,377	492,078	395,377	96,701
Noncurrent liabilities	<u>6,086,478</u>	<u>6,314,581</u>	<u>6,086,478</u>	<u>6,314,581</u>	<u>(228,103)</u>
Total liabilities	<u>6,578,556</u>	<u>6,709,958</u>	<u>6,578,556</u>	<u>6,709,958</u>	<u>(131,402)</u>
Net Position:					
Net investment in capital assets	2,313,117	2,430,774	2,313,117	2,430,774	(117,657)
Restricted for capital projects, net of debt	388,376	446,748	388,376	446,748	(58,372)
Unrestricted	<u>831,639</u>	<u>503,619</u>	<u>831,639</u>	<u>503,619</u>	<u>328,020</u>
Total net position	<u>3,533,132</u>	<u>3,381,141</u>	<u>3,533,132</u>	<u>3,381,141</u>	<u>151,991</u>
Total liabilities and net position	<u>\$10,111,688</u>	<u>\$ 10,091,099</u>	<u>\$10,111,688</u>	<u>\$ 10,091,099</u>	<u>\$ 20,589</u>

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
SEPTEMBER 30, 2013

Condensed Statement of Activities

The following presents the City's condensed statement of activities for the fiscal year ended September 30, 2013 and December 31, 2012, as derived from the government-wide Statement of Activities. The City's total revenues decreased by \$320,753. Fifty-two percent of the City's revenue is from sales tax. The remainder is from charges for services, donations and federal and state money.

The City's program expenses decreased 29 percent. Total revenues exceeded all City expenses by \$151,991.

Condensed Statement of Activities (as adjusted)

	Governmental Activities		Total Primary Government		Total Change
	2013	2012	2013	2012	2012 - 2013
Revenues					
Program revenues	\$ 138,167	\$ 35,549	\$ 138,167	\$ 35,549	\$ 102,618
General revenues and payments					
Sales and other taxes	1,139,600	1,219,317	1,139,600	1,219,317	(79,717)
License and Permits	661,056	869,062	661,056	869,062	(208,006)
Intergovernmental	220,620	345,443	220,620	345,443	(124,823)
Miscellaneous	9,025	27,498	9,025	27,498	(18,473)
Interest	2,460	474	2,460	474	1,986
Gain/Loss on disposal of assets	2,782	(2,880)	2,782	(2,880)	5,662
Total general revenues and payments	<u>2,035,543</u>	<u>2,458,914</u>	<u>2,035,543</u>	<u>2,458,914</u>	<u>(423,371)</u>
Total revenues	2,173,710	2,494,463	2,173,710	2,494,463	(320,753)
Program expenses					
General government	1,224,472	1,803,044	1,224,472	1,803,044	(578,572)
Public safety	147,465	133,299	147,465	133,299	14,166
Culture and recreation	369,787	454,237	369,787	454,237	(84,450)
Public works	110,855	206,966	110,855	206,966	(96,111)
Interest and finance charges	169,140	243,663	169,140	243,663	(74,523)
Total program expenses	<u>2,021,719</u>	<u>2,841,209</u>	<u>2,021,719</u>	<u>2,841,209</u>	<u>(819,490)</u>
Change in net position from activities	151,991	(346,746)	151,991	(346,746)	498,737
Beginning net position	<u>3,381,141</u>	<u>3,727,887</u>	<u>3,381,141</u>	<u>3,727,887</u>	<u>(346,746)</u>
Ending net position	<u>\$3,533,132</u>	<u>\$3,381,141</u>	<u>\$3,533,132</u>	<u>\$3,381,141</u>	<u>\$ 151,991</u>

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
SEPTEMBER 30, 2013

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, 2013

City Programs	Program Expenses	Less Program Revenues	Net Program Costs (a)		Program Revenues as a Percentage of Program Expenses	
			2013	2012	2013	2012
General government	\$1,224,472	\$ 10,585	\$1,213,887	\$1,792,819	0.9%	0.6%
Public safety	147,465	-	147,465	130,122	0.0%	2.4%
Culture and recreation	369,787	127,582	242,205	432,090	34.5%	4.9%
Public works	110,855	-	110,855	206,966	0.0%	0.0%
Interest	169,140	-	169,140	243,663	0.0%	0.0%
Totals	\$2,021,719	\$ 138,167	\$1,883,552	\$2,805,660	35.4%	7.8%

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

OVERALL GOVERNMENTAL FUNDS BASIS ANALYSIS

The City's assets exceed its liabilities by \$1,238,604. This represents assets accumulated through the years by having excess revenues.

FUND ANALYSIS

The general fund balance decreased \$89,601 during the year due to expenditures exceeding revenues. The Capital improvement balance increased \$172,903 and the gas tax fund increased \$112,636.

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,238,604. Ending fund balance is \$195,938 more than the previous year's balance.

CITY OF CLAY, ALABAMA
MANAGEMENT'S DISCUSSION and ANALYSIS - CONTINUED
SEPTEMBER 30, 2013

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Asset Activity

At September 30, 2013, the City reported \$8,637,108 in capital assets. Refer to Note 3 to the financial statements for additional information on capital assets.

Long-term Debt Activity

Long-term debt is made up of three general obligation warrants that were used to purchase the new city hall and for Cosby Lake improvements. The total amount of long term debt at year end was \$6,333,249. Refer to Note 6 to the financial statements for additional information on long-term debt.

ECONOMIC CONDITIONS AND OUTLOOK

The City Manager considered many factors when preparing the fiscal year 2013-2014 budget for presentation to the Mayor and City Council. The City receives its income from sales tax, franchise fees, and gasoline taxes. The City receives no ad valorem property tax income. The sales tax rate was increased from \$0.02 to \$0.04 in 2013. A full year of expenses under this administration was considered in budgeting. The Mayor and City Council have indicated that no future indebtedness is anticipated. The City Manager suggests no immediate need for additional employees in any City department. All salary increases as indicated by the personnel policy will be adhered too in the budget year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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

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

CITY OF CLAY, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Governmental Activities	Total
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,329,475	\$ 1,329,475
Receivables	109,513	109,513
Prepaid expenses	5,505	5,505
Total current assets	1,444,493	1,444,493
Other Assets:		
Unamortized bond issuance cost	30,087	30,087
Capital Assets:		
Land	1,985,059	1,985,059
Other capital assets, net of accumulated depreciation	6,652,049	6,652,049
Total capital assets	8,637,108	8,637,108
Total assets	\$ 10,111,688	\$ 10,111,688
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 245,307	\$ 245,307
Current portion of long-term debt	246,771	246,771
Total current liabilities	492,078	492,078
Long-term Liabilities:		
Long-term debt, net of current maturities	6,086,478	6,086,478
Total long-term liabilities	6,086,478	6,086,478
Total liabilities	6,578,556	6,578,556
NET POSITION		
Net investment in capital assets	2,313,117	2,313,117
Restricted for capital projects, net of related debt	388,376	388,376
Unrestricted	831,639	831,639
Total net position	3,533,132	3,533,132
Total liabilities and net position	\$ 10,111,688	\$ 10,111,688

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

**CITY OF CLAY, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)/ Revenue & Change in Net Position</u>
		<u>Fines and Fees</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 1,224,472	\$ 1,238	\$ 9,347	\$ -	\$(1,213,887)
Public safety	147,465	-	-	-	(147,465)
Culture and recreation	369,787	120,582	7,000	-	(242,205)
Public works	110,855	-	-	-	(110,855)
Interest	169,140	-	-	-	(169,140)
Total governmental activities	<u>\$ 2,021,719</u>	<u>\$ 121,820</u>	<u>\$ 16,347</u>	<u>\$ -</u>	<u>\$(1,883,552)</u>

General Revenues:

Taxes:

Sales taxes	787,645
Other taxes	219,675
Gas taxes	132,280
License and permits	661,056
Intergovernmental	220,620
Miscellaneous	9,025
Interest	2,460
Gain on disposition of assets	2,782
Total General Revenues	<u>2,035,543</u>

Change in net assets from governmental activities	151,991
Net Position- beginning of year	<u>3,381,141</u>
Net Position - end of year	<u>\$ 3,533,132</u>

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

CITY OF CLAY, ALABAMA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total - Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 428,907	\$ 560,701	\$ 339,867	\$ 1,329,475
Accounts receivable	93,134	-	16,380	109,514
Prepaid Expenses	5,505	-	-	5,505
Due from other funds	62,517	303,568	-	366,085
Total assets	<u>\$ 590,063</u>	<u>\$ 864,269</u>	<u>\$ 356,247</u>	<u>\$ 1,810,579</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 205,890	\$ -	\$ -	\$ 205,890
Due to other funds	303,568	62,384	133	366,085
Total liabilities	<u>509,458</u>	<u>62,384</u>	<u>133</u>	<u>571,975</u>
Fund balance:				
Nonspendable	5,505	-	-	5,505
Restricted	62,517	801,885	356,114	1,220,516
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	12,583	-	-	12,583
Total fund balance	<u>80,605</u>	<u>801,885</u>	<u>356,114</u>	<u>1,238,604</u>
Total liabilities and fund balances	<u>\$ 590,063</u>	<u>\$ 864,269</u>	<u>\$ 356,247</u>	<u>\$ 1,810,579</u>

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

CITY OF CLAY, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Total <i>fund balances</i> for governmental funds	\$1,238,604
Total <i>net position</i> reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Assets, net of accumulated depreciation is:	8,637,108
The City issued bonds in the prior year and paid \$42,500 in bond issuance costs. These costs are recognized as an expenditure when paid in the funds but are capitalized in the statement of net position and amortized to expense in the statement of activities over the remaining life of the debt. The unamortized balance at September 30, 2013 is reflected herein.	30,087
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net position.	
Balances at September 30, 2013 are:	
Accrued interest	\$ (39,418)
Compensated absences	(9,258)
Notes payable and capital leases	<u>(6,323,991)</u>
	<u>(6,372,667)</u>
Total <i>net assets</i> of governmental activities	<u><u>\$ 3,533,132</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 NINE MONTHS ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Capital Improvement</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 787,342	\$ -	\$ 132,280	\$ 919,622
Licenses and Permits	678,357	-	-	678,357
Intergovernmental	195,348	220,620	-	415,968
Parks and Recreation	120,582	-	-	120,582
Grant	7,000	-	-	7,000
Interest	2,095	365	-	2,460
Other	31,836	100	-	31,936
Total revenues	<u>1,822,560</u>	<u>221,085</u>	<u>132,280</u>	<u>2,175,925</u>
Expenditures:				
Current operations:				
General government	1,008,558	-	16,644	1,025,202
Public safety	121,241	-	-	121,241
Streets and sanitation	231,568	-	-	231,568
Culture and recreation	133,847	-	-	133,847
Total current operations	<u>1,495,214</u>	<u>-</u>	<u>16,644</u>	<u>1,511,858</u>
Capital outlays	28,498	48,182	3,000	79,680
Debt service	388,449	-	-	388,449
Total expenditures	<u>1,912,161</u>	<u>48,182</u>	<u>19,644</u>	<u>1,979,987</u>
Excess (deficiency) of revenues over (under) expenditures	(89,601)	172,903	112,636	195,938
Fund balances, beginning	<u>170,206</u>	<u>628,982</u>	<u>243,478</u>	<u>1,042,666</u>
Fund balances, ending	<u>\$ 80,605</u>	<u>\$ 801,885</u>	<u>\$ 356,114</u>	<u>\$ 1,238,604</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 NINE MONTHS ENDED SEPTEMBER 30, 2013

Net change in Fund Balances - Total Governmental Funds \$ 195,938

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which disposition of assets (\$6,460) and depreciation (\$432,280) were reduced by capital outlay (\$153,086). (285,655)

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. The City's debt was reduced by principal payments made to bondholders and other creditors. 199,678

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of three balances.

Compensated absences	23,992	
Accrued interest	19,632	
Amortization of bond issuance costs	(1,594)	
Combined adjustment	42,030	42,030

Change in net assets - Governmental Activities \$ 151,991

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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 2013 year.

Basis of Presentation - Fund Accounting

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

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

Basis of Accounting - Government-wide Financial Statements

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

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their use. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted assets first then unrestricted assets as needed.

Fund Financial Statements

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

Governmental Funds

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

Revenue Recognition

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

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition

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

Cash and Cash Equivalents

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

Interfund Receivables/Payables

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

Capital Assets and Depreciation

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

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

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-term Obligations

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

Fund Balance

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

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

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

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

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

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

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

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

Accumulated Compensated Absences

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

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Change in Fiscal Year End

On March 4, 2013, the City Council approved a resolution to change the fiscal year end to September 30. This change will facilitate management planning, financial consolidation, and the disclosure of management information, as well as generate greater group management efficiency.

The change will also facilitate the City's quarterly reporting system, and a more rapid financial close.

NOTE 2 - DEPOSITS AND INVESTMENTS

State of Alabama law requires all financial institutions accepting deposits of public funds to be a member of the state's "SAFE" program. The Security for Alabama Funds Enhancement (SAFE) program is a state-wide collateral pool for all public funds administered through the Alabama Treasurers Office. All of the City's funds are collateralized by FDIC insurance and this collateral pool except for capital project funds of \$388,376. These funds are invested by a bank trust department in US government securities and are not subject to collateralization requirements.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the nine months ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Governmental activities:				
Not being depreciated:				
Land	\$ 1,985,059	\$ -	\$ -	\$ 1,985,059
	<u>1,985,059</u>	<u>-</u>	<u>-</u>	<u>1,985,059</u>
Other capital assets:				
Buildings	1,752,877	25,544	-	1,778,421
Equipment	833,938	45,943	(8,000)	871,881
Infrastructure	8,459,630	45,907	-	8,505,537
Vehicles	235,850	35,692	(17,720)	253,822
	<u>11,282,295</u>	<u>153,086</u>	<u>(25,720)</u>	<u>11,409,661</u>
Accumulated depreciation	<u>(4,344,592)</u>	<u>(432,280)</u>	<u>19,260</u>	<u>(4,757,612)</u>
Net capital assets	<u>\$ 8,922,762</u>	<u>\$ (279,194)</u>	<u>\$ (6,460)</u>	<u>\$ 8,637,108</u>

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

General Government	\$ 192,665
Public Safety	8,623
Culture and Recreation	186,344
Public Works	44,648
	<u>\$ 432,280</u>

NOTE 4 - ACCUMULATED COMPENSATED LEAVE

Employees accrue vacation and overtime leave in accordance with the City personnel policy. Such leave is considered fully vested rights of the employees and is recorded as an obligation of the city at year end. The cost of accumulated leave at September 30, 2013 is \$9,258.

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

At September 30, 2013, interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
<u>General Fund:</u>		
Due from Capital Improvement	\$ 62,384	\$ -
Due from Other Funds	133	-
Due to Capital Improvement	-	303,568
 <u>Capital Improvement:</u>		
Due from General Fund	303,568	-
Due to General Fund	-	62,384
 <u>Other Governmental Funds:</u>		
Due to General Fund		133
	<u>\$ 366,085</u>	<u>\$ 366,085</u>

NOTE 6 - LONG-TERM LIABILITIES

The City has the following long-term liabilities:

	<u>Balance December 31, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
US Bank - General Obligation Warrant - 2003. Bearing interest from 3.07-5.10%; Matures 4/1/23	\$ 650,000	\$ -	\$ 45,000	\$ 605,000	\$ 50,000
Bank of New York (AmFund) - General Obligation Warrant - 2006A; 3.67 % Interest. Matures 11/20/32	4,851,669	-	120,000	4,731,669	160,000
BBT - General Obligation Warrant - 2012A. 3.9% Interest. Matures 3/1/29	1,022,000	-	34,678	987,322	36,030
Compensated absences	33,250	-	23,992	9,258	741
Total long-term obligations	<u>\$ 6,556,919</u>	<u>\$ -</u>	<u>\$ 223,670</u>	<u>\$ 6,333,249</u>	<u>\$ 246,771</u>

CITY OF CLAY, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2013

NOTE 6 - LONG-TERM LIABILITIES - Continued

Annual requirements to retire general long-term debt as of September 30, 2013, for the next five years and in five year increments thereafter are shown below.

<u>Years Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	250,406	240,723
2015	257,019	230,824
2016	271,604	220,653
2017	279,788	209,939
2018	295,322	198,884
2019-2023	1,668,740	837,632
2024-2028	1,650,538	497,555
2029-2033	1,650,574	154,587
	<u>\$ 6,323,991</u>	<u>\$2,590,797</u>

NOTE 7 - 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 8 - 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 \$70,811 for this service.

NOTE 9- SUBSEQUENT EVENTS

Management has performed a review of subsequent events through December 31, 2013, which is the date the financial statements were available to be issued.