

**CITY OF CLAYTON
CLAYTON, GEORGIA**

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2011**

CITY OF CLAYTON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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December 13, 2011

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Commission
City of Clayton
Clayton, Georgia

I have audited the accompanying financial statements of the government activities, the business-type activities, each major fund and the remaining fund information of the City of Clayton, Georgia, as of and for the year ended June 30, 2011, which collectively comprise the city's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Clayton's management. My responsibility is to express opinions on these basic financial statements based on the audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Clayton, Georgia as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 13, 2011 on my consideration of the City of Clayton's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control, our financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The City has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedule identified as Exhibit 10 in the Financial Section of the accompanying table of contents is not part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Jack P. Green, Jr.

BASIC FINANCIAL STATEMENTS

**CITY OF CLAYTON
STATEMENT OF NET ASSETS
JUNE 30, 2011**

EXHIBIT 1

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
Cash	\$ 1,158,115	\$ 186,927	\$ 1,345,042
Accounts Receivable	53,604	88,484	142,088
Internal Balances	(72,569)	72,569	-
Capital Assets			
Land	508,242	41,100	549,342
Construction in Progress	1,199,265	343,082	1,542,347
Depreciable Assets, Net	60,480	5,263,102	5,323,582
Total Assets	\$ 2,907,137	\$ 5,995,264	\$ 8,902,401
<u>LIABILITIES</u>			
Accounts Payable	\$ 73,052	\$ 242,585	\$ 315,637
Deposits	-	92,990	92,990
Compensated Absences	-	17,543	17,543
Long-Term Debt			
Due Within One Year	53,237	122,549	175,786
Due Beyond One Year	195,843	1,875,113	2,070,956
Total Liabilities	\$ 322,132	\$ 2,350,780	\$ 2,672,912
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 1,518,907	\$ 3,649,622	\$ 5,168,529
Unrestricted Assets	1,066,098	(5,138)	1,060,960
Total Net Assets	\$ 2,585,005	\$ 3,644,484	\$ 6,229,489

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT 2

Functions/Programs	Program Revenues			Net (Expenses) Revenue & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Government Activities							
General Government	\$ 458,295	\$ 77,806	\$ -	\$ -	\$ (380,489)	\$ -	\$ (380,489)
Judicial	9,825	-	-	-	(9,825)	-	(9,825)
Police	963,207	268,213	-	-	(694,994)	-	(694,994)
Streets and Sanitation	378,128	52,117	-	2,675	(323,336)	-	(323,336)
Economic Development	31,684	-	-	-	(31,684)	-	(31,684)
Total Government Activities	\$ 1,841,139	\$ 398,136	\$ -	\$ 2,675	\$ (1,440,328)	\$ -	\$ (1,440,328)
Business-Type Activities							
Water and Wastewater	2,722,069	2,674,257	-	496,160	-	448,348	448,348
Total Primary Government	\$ 4,563,208	\$ 3,072,393	\$ -	\$ 498,835	\$ (1,440,328)	\$ 448,348	\$ (991,980)
General Revenues							
Taxes:					\$ 812,789	\$ -	\$ 812,789
Property					13,521	-	13,521
Intangible and Transfer					225,624	-	225,624
Franchise					70,617	-	70,617
Accommodations					153,597	-	153,597
Beer and Wine					24,611	-	24,611
Alcohol by Drink					108,686	-	108,686
Insurance Premium					5,101	4,302	9,403
Unrestricted Investment Earnings					10,864	1,448	12,312
Miscellaneous							
Total General Revenues					\$ 1,425,410	\$ 5,750	\$ 1,431,160
Change in Assets					\$ (14,918)	\$ 454,098	\$ 439,180
Transfers					(320,136)	320,136	-
Change in Assets After Transfers					\$ (335,054)	\$ 774,234	\$ 439,180
Net Assets-Beginning					2,920,059	2,870,250	5,790,309
Net Assets-End					\$ 2,585,005	\$ 3,644,484	\$ 6,229,489

The accompanying notes are an integral part of these statements.

**CITY OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

EXHIBIT 3

	General Fund	SPLOST Cap Projects	Hotel Motel	Total
ASSETS				
Cash	\$ 296,909	\$ 858,398	\$ 2,808	\$ 1,158,115
Accounts Receivable	53,604	-	-	53,604
TOTAL ASSETS	<u>\$ 350,513</u>	<u>\$ 858,398</u>	<u>\$ 2,808</u>	<u>\$ 1,211,719</u>
LIABILITIES				
Accounts Payable	\$ 73,052	\$ -	\$ -	\$ 73,052
Due to Water Fund	72,569	-	-	72,569
TOTAL LIABILITIES	<u>\$ 145,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,621</u>
FUND BALANCES				
Unreserved	\$ 204,892	\$ 858,398	\$ 2,808	\$ 1,066,098
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 350,513</u>	<u>\$ 858,398</u>	<u>\$ 2,808</u>	<u>\$ 1,211,719</u>

Adjustments to the Statement of Net Assets

Fund Balance	\$ 1,066,098
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	1,767,987
Liabilities that are not due and payable in the current period and therefore are not reported in the funds but are reported on the government-wide statement of net assets	(249,080)
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 2,585,005</u>

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT 4

	General Fund	SPLOST Capital Projects	Hotel Motel	Total Government Funds
REVENUES				
Taxes	\$ 1,338,828	\$ -	\$ 70,617	\$ 1,409,445
Licenses and Permits	72,631	-	-	72,631
Fines and Forfeitures	268,213	-	-	268,213
Charges for Services	57,291	-	-	57,291
Miscellaneous	15,911	2,675	55	18,641
TOTAL REVENUES	\$ 1,752,874	\$ 2,675	\$ 70,672	\$ 1,826,221
EXPENDITURES				
CURRENT:				
General Government	\$ 1,226,906	\$ -	\$ 75	\$ 1,226,981
Judicial	9,825	-	-	9,825
Police	914,561	-	-	914,561
Streets and Sanitation	368,880	3,472	-	372,352
Economic Development	-	-	31,684	31,684
Capital Outlay-Debt Service	50,920	-	-	50,920
Principal Retirement	9,080	-	-	9,080
Interest	9,080	-	-	9,080
TOTAL EXPENDITURES	\$ 2,580,172	\$ 3,472	\$ 31,759	\$ 2,615,403
EXCESS REVENUES OVER EXPENDITURES	\$ (827,298)	\$ (797)	\$ 38,913	\$ (789,182)
OTHER FINANCING SOURCES USES				
Transfer In	43,570	-	-	43,570
Transfer Out	-	(320,136)	(43,570)	(363,706)
NET CHANGE IN FUND BALANCES	\$ (783,728)	\$ (320,933)	\$ (4,657)	\$ (1,109,318)
FUND BALANCE, JULY 1, 2010	988,620	1,179,331	7,465	2,175,416
FUND BALANCE, JUNE 30, 2011	\$ 204,892	\$ 858,398	\$ 2,808	\$ 1,066,098
Adjustments to the Statement of Activities				
Net Change in Fund Balance				\$ (1,109,318)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and as depreciation expense this is the difference between depreciation expense and capital outlays in the current period.				
Depreciation Expense				(57,612)
Capital Outlays				780,956
Under the modified accrual basis of accounting used in the governmental fund, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, liabilities are reported regardless of when the financial resources are available.				
Payment of Debt				50,920
Change in Net Assets of Governmental Activities (Exhibit 2)				\$ (335,054)

The accompanying notes are an integral part of this statement.

**CITY OF CLAYTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

EXHIBIT 5

ASSETS	Water and Wastewater Fund
CURRENT ASSETS	
Cash on Hand and in Bank	\$ 186,927
Accounts Receivable	88,484
Due From General Fund	72,569
Total Current Assets	<u>\$ 347,980</u>
 NONCURRENT ASSETS	
Capital Assets	
Land	\$ 41,100
Construction in Progress	343,082
Other Capital Assets, Net	5,263,102
Total Noncurrent Assets	<u>\$ 5,647,284</u>
 TOTAL ASSETS	 <u><u>\$ 5,995,264</u></u>
 LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES	
Accounts Payable	\$ 242,585
Customer Deposits	92,990
Current Portion Long-Term Debt	122,549
Compensated Absences	17,543
Total Current Liabilities	<u>\$ 475,667</u>
 NONCURRENT LIABILITIES	
Bonds Payable	\$ 1,875,113
Total Noncurrent Liabilities	<u>\$ 1,875,113</u>
 TOTAL LIABILITIES	 <u>\$ 2,350,780</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 3,649,622
Unrestricted Assets	(5,138)
Total Net Assets	<u>\$ 3,644,484</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 5,995,264</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF REVENUES, EXPENSE AND FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT 6

	<u>Water and Wastewater Fund</u>
OPERATING REVENUES	
Charges for services	<u>\$ 2,674,257</u>
OPERATING EXPENSES	
Water Treatment	\$ 987,488
Water Distribution	773,794
Wastewater Collection	213,882
Wastewater Treatment	361,843
Depreciation	<u>291,981</u>
Total Operating Expenses	<u>\$ 2,628,988</u>
Operating Income	<u>\$ 45,269</u>
Non Operating Revenue (Expenses)	
Interest Income	\$ 4,302
Grants	496,160
Other Revenue	1,448
Interest Expense	<u>(93,081)</u>
Total Non Operating Revenue	<u>\$ 408,829</u>
Change in Net Assets Before Transfers	<u>\$ 454,098</u>
Transfers	<u>320,136</u>
Change in Net Assets After Transfers	<u>\$ 774,234</u>
Net Assets Beginning	2,870,250
Net Assets Ending	<u><u>\$ 3,644,484</u></u>

The accompanying notes are an integral part of this statement.

**CITY OF CLAYTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

EXHIBIT 7

	<u>Water and Wastewater Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customer	\$ 2,713,188
Payments to Suppliers	(1,806,196)
Payments to Employees	(531,266)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u><u>\$ 375,726</u></u>
CASH FROM INVESTING ACTIVITIES	
Interest Earned	<u>\$ 4,302</u>
CASH FOR NONCAPITAL FINANCING ACTIVITIES	
Decrease Due to General Fund	\$ (429,521)
NET CASH PROVIDED FOR NONCAPITAL FINANCING	<u><u>\$ (429,521)</u></u>
CASH FLOWS FOR CAPITAL RELATED FINANCING	
Interest Expense	\$ (93,081)
Transfers	320,136
Bond and Notes Payments	(118,487)
Capital Grant	496,160
Construction Loan	(536,221)
Purchased Assets	(460,030)
NET CASH FOR CAPITAL RELATED FINANCING	<u><u>\$ (391,523)</u></u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (441,016)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>627,943</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 186,927</u></u>
Reconciliation of Operating Income to Amounts Provided by Operating Activities	
Operating Income	<u>\$ 45,269</u>
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities	
Depreciation	\$ 291,981
Increase in Accounts Receivable	39,997
Decrease in Customer Deposits	(2,514)
Decrease in Compensated Absences	(455)
Other Income	1,448
TOTAL ADJUSTMENTS	<u><u>\$ 330,457</u></u>
NET CASH PROVIDED FOR OPERATING ACTIVITIES	<u><u>\$ 375,726</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT 8

Assets

Investments

Regions Morgan Keegan Trust Account	<u>\$ 576,614</u>
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Liabilities and Net Assets

Liabilities

Accounts Payable	\$ -
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Other Payables	<u>-</u>
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Total Liabilities	<u>\$ -</u>
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Net Assets	<u>\$ -</u>
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Held in Trust for Pension Benefits	<u>\$ 576,614</u>
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(A schedule of funding progress is presented on page 20)

The accompanying notes are an integral part of this statement.

**CITY OF CLAYTON
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

EXHIBIT 9

Additions

Investment Income	\$ 42,157
Less: Managaement/Admin. Fees	(5,370)
Net Investment Income	\$ 36,787

Employer Contribution	130,000
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Deductions

Benefit Payments (Gross)	(68,413)
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Change in Net Assets	\$ 98,374
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Net Assets Beginning of Year	478,240
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Net Assets End of the Year	\$ 576,614
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The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Clayton operates under a mayor-council form of Government. The city's combined financial statements include the accounts of all the city operations.

The financial statements of the City of Clayton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, includes whether:

- the organization is legally separate
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

Related organizations:

The Clayton Housing Authority administers Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the Governing Board are appointed by the City Commission. The City has no significant influence over the management, budget, or policies of the Clayton Housing Authority. The Authority reports independently.

The City of Clayton has elected to treat the Downtown Development Authority as a discretely presented component unit. The Authority did not adopt an annual budget and did not have any financial transactions during the year. Additional information on the Authority can be obtained from the City.

B. Basis of Presentation – Fund Accounting

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The statement, known as the "Reporting Model" statement, affects the way the City prepares financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction. The government-wide Statement of Activities reflects both the gross and net cost per functional category (recreation, public safety, streets and sanitation, etc.) which is otherwise being supported by general government revenues (property, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety, public works, recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental funds are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, reconciliation is presented which briefly explains the adjustment necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports. (MD&A is not included in this report).

Government-Wide Financial Statements – The government-wide financial statements include a statement of net assets and a statement of activities. These statements report financial information for the City as a whole but do not include the fiduciary funds nor component units that are fiduciary in nature,

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and other capital assets, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Schedule of Net Assets – The Schedule of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Schedule of Net Assets and will report depreciation expense-the cost of "using up" capital assets-in the Schedule of Activities. The net assets of a government will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Schedule of Program Activities – The new government-side statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. This fund is used to account for all financial transactions and resources except those required to be accounted or in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

The Hotel-Motel Fund is set up to report transactions related to the 5% Hotel-Motel Tax. This fund is classified a major fund.

Capital Project Funds

The Capital Project Fund Accounts for funds from the City's portion of the Rabun County Special Purpose Local Option Sales Tax (SPLOST).

2. Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, expense, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Subsidies and grants to proprietary funds, which finance either capital or current operations, are recorded as non-operating revenue when earned. Operating expenses include cost of service as well as, materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The City's proprietary funds are classified as enterprise funds. The following are the City's major enterprise funds.

Water and Sewerage System Enterprise Fund – This major enterprise fund is used to account for the operations of the area wide water treatment and distribution system and wastewater collection and treatment primarily within the City limits and two other municipalities.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets. The City's fiduciary funds include its single employer pension trust fund. The pension trust fund is the "City of Clayton Employees Retirement Plan".

4. Policy of Using Restricted Resources

The City first applies restricted resources when an expense for purposes for which both restricted and unrestricted net assets are available.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, all proprietary funds and fiduciary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General fund is maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The statements of net assets, statements of activities, and financial statements of the proprietary funds and the fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

D. Budgets and Budgetary Accounting

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. On June 8, 2010, the City Commission adopted the original budget, it was not amended.

Expenditures may not legally exceed appropriations at the department level. Transfers within departments may be approved by the City Clerk. Transfers between departments may be approved by the City Commission. A supplementary budget appropriation would be necessary to support expenditures in excess of the annual appropriated budget.

The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year. Encumbrances represent commitments related to unperformed contracts for goods or services.

Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion other applicable appropriation is not utilized by the City of Clayton.

E. Cash and Investments

Cash includes amounts in demand deposits. State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. State statutes authorize the City to invest only in obligations of the United States and of its agencies and instrumentalities, or bonds or certificates of indebtedness of the State of Georgia and of its agencies and instrumentalities, or certificates of deposit of banks which have deposits insured by the FDIC with any uninsured cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible

G. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

H. Inventories

It is the City’s policy to expense parts as they are purchased. No inventory is recorded due to lack of materiality.

I. Prepaid Expenses

Prepaid expenses are recognized as expenses during the benefiting period in proprietary funds.

**CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

J. Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent of the City's capitalization threshold is met. The City capitalizes asset purchase valued at \$5,000 or more. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at their estimated fair market value on the date donated.

The estimated useful lives are as follows:

Buildings	20-40 years
Utility Plant and	15-30 years
Equipments	5-10 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sales or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

K. Ad Valorem Taxes

The City levied property taxes on October 30. The due date for these taxes was January 20, 2011 and the lien date is the following July 1. Taxes are collected through the year. Receivables are recorded when the tax is levied.

The total 2010 property assessment is \$243,353,750 real property and personal property. The 2010 property is taxed at 8.0 mills on 40 % of appraised value and the tax due before errors and omissions is \$ 778,732.

L. Long-Term Obligations

The City reports long-term debt of governmental funds at face value in the Government-wide Statement of Net Assets. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in both the government-wide and fund financial statements.

M. Fund Equity/Net Assets

In the Government-wide Financial Statements, net assets are classified in the following categories: Invested Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. Restricted Net Assets - This category presents external restrictions imposed by bond ordinances. Unrestricted Net Assets - This category represents the net assets of the City, which are not restricted for any project or other purpose.

N. Internal Activity

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of Interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

O. Estimates

The preparation of basic 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.

P. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Q. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

R. Accumulated unpaid vacation and other employee benefit amounts

Accumulated unpaid vacation and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting). Such amounts are not accrued in governmental funds (using the modified accrual basis of accounting).

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. To conform to GASB Statement No. 3 definitions of deposits and investments, however, these certificates of deposit and money market accounts have been reclassified from investments to deposits for the data presented below.

The City's cash and investment policy limits deposits to demand and money market accounts, and time deposits at local banks. The City's deposits shall be secured by Federal Depositary Insurance Corporation (FDIC) coverage and/or bank pledges. State statutes require bank's holding public funds to secure these funds by FDIC insurance, securities pledged at par value and surety bonds at face value in combined aggregate totaling not less than 110 percent of the public funds held. All bank balances of deposits as of June 30, 2011 are entirely insured or collateralized with securities held by the City or by its agent in the City's name.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Custodial Credit Risk-Deposits

The custodial credit risk for deposits is the risk that, in the event of a Bank failure, the City's deposits may not be recovered.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2011 consist of:

General Fund Property Taxes	\$ 53,604
Enterprise Fund Water Fees	88,484
Total	<u>\$ 142,088</u>

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in the governmental activities during the fiscal year:

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Non-Depreciable Assets				
Construction in Progress	\$ 418,309	\$ 780,956	\$ -	\$ 1,199,265
Land	<u>508,242</u>	<u>-</u>	<u>-</u>	<u>508,242</u>
Other Capital Assets				
Buildings	\$ 321,724	\$ -	\$ -	\$ 321,724
Machinery & Equipment	<u>729,513</u>	<u>-</u>	<u>-</u>	<u>729,513</u>
Total Depreciable Assets	\$ 1,051,237	\$ -	\$ -	\$ 1,051,237
Less: Accumulated Depreciation for:				
Buildings	\$ (321,724)	\$ -	\$ -	\$ (321,724)
Machinery & Equipment	<u>(611,421)</u>	<u>(57,612)</u>	<u>-</u>	<u>(669,033)</u>
Net Depreciable Assets	<u>\$ 118,092</u>	<u>\$ (57,612)</u>	<u>\$ -</u>	<u>\$ 60,480</u>

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 3,190
Police	48,646
Streets and Sanitation	5,776
Total	<u>\$ 57,612</u>

The City has purchased and is remodeling a building that will house its City Hall, Police and other offices of the City with space available for other community organizations. As of July 1, 2011 Phase 1 is complete on this project and the City will create an Enterprise Fund to manage the City Hall Complex.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The following is a summary of proprietary fund-type capital assets at June 30, 2011:

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Non-Depreciable Assets				
Land & Improvements	<u>\$ 41,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,100</u>
Construction in Progress	<u>\$ 738,259</u>	<u>\$ 350,798</u>	<u>\$ 745,975</u>	<u>\$ 343,082</u>
Other Capital Assets				
Utility Systems	\$ 9,391,911	\$ 745,975	\$ -	\$ 10,137,886
Machinery & Equipment	<u>861,633</u>	<u>109,232</u>	<u>57,234</u>	<u>913,631</u>
Total Depreciable Assets	<u>\$ 10,253,544</u>	<u>\$ 855,207</u>	<u>\$ 57,234</u>	<u>\$ 11,051,517</u>
Less: Accumulated Depreciation for:				
Utility Systems	\$ (4,779,109)	\$ (259,210)	\$ -	\$ (5,038,319)
Machinery & Equipment	<u>(774,559)</u>	<u>(32,771)</u>	<u>57,234</u>	<u>(750,096)</u>
Net Depreciable Assets	<u>\$ 4,699,876</u>	<u>\$ 563,226</u>	<u>\$ -</u>	<u>\$ 5,263,102</u>

The Water Wastewater Fund is engaged in a construction project to replace water lines. The total cost of the project is estimated to be \$ 752,000 to be paid for by a grant of \$ 415,310 and a loan proceeds. As of the year end, \$ 343,082 had been spent.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During normal operations, the City will occasionally pay for goods and services or transfer monies between the Funds. The General Fund owes the Water Fund \$ 72,569.

In the 1980s and 1990s the City made several capital improvements to the water and wastewater system that were paid for by grants and loans, the City's matching portion of these monies was advanced from the General Fund to the Water and Wastewater Fund which was approximately \$500,000. There has been no interest charged or received on these amounts. In the last two years the City has paid the remaining balance on this debt. At the present time, it is the City's policy to pay these advances between funds within the current period.

The SPLOST Capital Projects Funds transferred \$ 320,136 to the Water and Wastewater Fund for capital improvements.

The City transfers surplus funds from the Hotel-Motel Excise Tax Fund to the General Fund each year. For the current year, the amount transferred was \$ 43,570.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – PENSION PLAN

Plan Description

The City contributes to a single employer defined benefit pension plan, the City of Clayton Employees Retirement Plan, administered by Regions Bank of Georgia. The City is assigned the authority to establish and amend benefit provisions of the plan. The plan provides financial statements retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Authority to establish and amend benefit provisions, as well as the authority under which the obligations to contribute to the plan of the members, employer and other contributing entities are established or may be amended, is held by the City Council of the City of Clayton. A copy of the plan's financial statement can be obtained from the City at 99 N. Church St., Clayton, Georgia.

The City's contribution to the retirement plan is calculated by an independent actuary as of July 1 of each year using the individual aggregate funding method. The required contribution in 2011 was \$ 142,739, the contribution for 2012 will be \$ 121,564. The plan does not allow employee contribution.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2011. Significant actuarial assumptions used in the valuation include (1) a rate of return on the investment of present and future assets of 6.75 percent a year compounded annually, (2) projected salary increases of 5.0 percent a year compounded annually, 0.0 percent attributable to inflation, and (3) post-retirement benefit increases of 7.0 percent per year.

The actuarial value of the assets is based on the market value. Contributions to the plan are expensed by the City in the year made. Benefits are paid from the plan and charged in the year paid. The annual contribution to the plan is calculated by an independent actuary and unfunded actuarial and unfunded actuarial liabilities and funding excesses are paid in the next year. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

All employees are eligible for the plan. As of June 30, 2011, there were 32 active and 6 inactive participants.

Annual Pensions Costs

<u>Valuation Date</u>	<u>Annual Pension Cost</u>	<u>Contributions</u>	<u>Percentage of Costs Contributed</u>	<u>Net Pension Obligations</u>
07/01/04	\$ 72,000	\$ 75,000	104.2%	\$ -
07/01/05	72,000	30,000	41.7%	42,000
07/01/06	84,000	57,000	67.8%	27,000
07/01/07	84,000	52,000	61.0%	32,000
07/01/08	107,293	140,000	130.5%	(32,707)
07/01/09	137,291	140,000	102.0%	(2,709)
07/01/10	142,739	130,000	91.1%	12,739

**CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

The unfunded actuarial accrued liability will be paid in the next three years.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Net Assets Held In Trust For Pension Benefits</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Ration Unfunded Actuarial Liability or Funding Excess to Annual Covered Payroll</u>
07/01/05	\$ 316,996	\$ 478,936	\$ (89,122)	66.2%	\$ 809,346	20.0%
07/01/06	255,363	425,584	(170,221)	60.0%	827,670	20.6%
07/01/07	262,836	480,914	(218,078)	54.7%	941,849	23.2%
07/01/08	298,168	622,296	(324,128)	47.0%	1,204,444	26.0%
07/01/09	373,400	902,253	(528,853)	41.4%	1,170,632	45.4%
07/01/10	489,533	1,115,997	(626,464)	43.9%	1,096,194	57.1%
07/01/11	573,963	1,076,980	(503,017)	53.3%	1,155,984	43.5%

NOTE 7 – LEASES

Capital Leases

The City currently has no capital lease agreements as lessee for financing the acquisition of equipment.

NOTE 8 – CONTINGENT LIABILITIES-GRANT PROGRAMS

The City participated in Federal and State Grants. These programs are subject to program compliance audits by the grantors or their representatives.

NOTE 9 – AGREEMENT WITH THE WATER AUTHORITY

The City has entered into an agreement to purchase water from the Clayton-Rabun County Water and Sewer Authority. The City has agreed to operate and maintain the Authority's facilities, lines and administrative requirements.

The City pays each month a fee equal; to the actual cost incurred to produce the water plus pay the debt service and sinking fund requirement in addition to a \$10,000 per month depreciation fee. This agreement will be changed to a charge per thousand gallons as of January 1, 2012. The rate has not be determined at this time

The City, in a separate agreement with the Authority, leases the Authority's Phase II project, the North Loop Line. The city agreed to pay the Authority a quarterly lease payment of \$11,030 and maintain the North Loop Line. The payment and term of the lease coincide with Authority's payment on the North Loop Line's related debt.

NOTE 10 – JOINT VENTURES

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development Center (RDC) and is required to pay annual dues thereto. Membership in an RDC is required by the Official Code of Georgia Annotated (OGCA) Section 50-8-34, which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each county and municipality of the area.

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

OGCA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from:

Georgia Mountains Regional Development Center
P.O. Box 1720
Gainesville, GA 30503

NOTE 11 - WASTE WATER SERVICE AGREEMENTS

The City has entered into an agreement with the Town of Tiger to treat wastewater with the fee based on the amount treated. The City also bills and performs other services for the Town of Tiger customers.

On February 1, 2007 the City entered an agreement with Town of Mountain City that will eventually lead to the City of Clayton acquiring the Mountain City sewer collection system after certain infiltration goals are met and approval of lenders. Until the City of Clayton acquires the system, Clayton will pay all USDA loan and sinking fund payments, utility bills and repair and maintain the system.

NOTE 12 - OTHER REQUIRED DISCLOSURES

Annual budgets were established for the General Fund, Hotel-Motel Fund and the Water and Wastewater Fund.

Enterprise Fund revenues are recognized when billed. In the General Fund, only property taxes are recognized when billed.

Debt reported in the proprietary funds is expected to be paid with the resources of those proprietary funds.

Government activity expenditures that exceeded approved appropriations which is a violation of Georgia law are the General Government \$ 757,656, Police \$ 15,774, Streets and Sanitation \$ 8,767, Capital Outlays Principle Retirement \$ 50,920 and Interest Expense \$ 9,080.

NOTE 13 - LONG TERM DEBT

The City purchased from the Rabun County Board of Education a surplus school building. This building is presently being remodeled to house the Police Department; the Streets, Water, and Wastewater Departments are using portions of the property. The purchase price of this property was \$ 400,000 with \$ 300,000 being financed by the Board of Education at 3 % per annum. This note is renewable annually at the same terms. On July 1, 2011 this property along with the related debt will be transferred to an Enterprise Fund to better record the use by City and governmental users.

<u>Government Fund Types</u>	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2011</u>	<u>Due Within One Year</u>
Notes Payable	\$ 300,000	\$ -	\$ 50,920	\$ 249,080	\$ 53,237
Total	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 50,920</u>	<u>\$ 249,080</u>	<u>\$ 53,237</u>

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
3.0% Note Payable				
Principal and Interest of \$ 5,000 due monthly		2012	\$ 53,237	\$ 6,763
		2013	54,874	5,126
\$ 300,000 to purchase Building and Land		2014	56,543	3,457
		2015	58,263	1,737
Current Portion	\$ 53,237	2016	26,163	209
Long Term	<u>195,843</u>			
	<u>\$ 249,080</u>		<u>\$ 249,080</u>	<u>\$ 17,292</u>

Water and Sewer Bonds were issued to build the sewer plant and extend sewer lines. Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

The revenue bonds are collateralized by the revenue of the water and sewer system and various special funds established by the bond ordinance. The ordinance provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining funds may be used for any lawful purposes. The ordinance also requires the City to establish bond sinking funds that must maintain reserves sufficient to pay one year's annual bond payment.

<u>Government Fund Types</u>	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2011</u>	<u>Due Within One Year</u>
Notes Payable	\$ 2,116,149	\$ -	\$ 118,487	\$ 1,997,662	\$ 122,549
Total	<u>\$ 2,116,149</u>	<u>\$ -</u>	<u>\$ 118,487</u>	<u>\$ 1,997,662</u>	<u>\$ 122,549</u>

		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
4.36% Note Payable				
Principal and Interest of \$ 7,422 due quarterly		2012	\$ 21,799	\$ 7,890
		2013	22,765	6,924
\$ 297,608 to install		2014	23,774	5,915
Booster Pumps to North Loop		2015	24,828	4,861
		2016	25,928	3,761
		2017	27,078	2,611
		2018	28,278	1,411
Current Portion	\$ 21,799	2019	14,576	239
Long Term	<u>167,227</u>			
	<u>\$ 189,026</u>		<u>\$ 189,026</u>	<u>\$ 33,612</u>

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 1997					
4.5% Water Revenue Bond					
Principal and Interest of					
\$ 1,365 Due Monthly					
		2012	\$ 5,178	\$ 11,202	\$ 16,380
		2013	5,415	10,965	16,380
Current Portion	\$ 5,178	2014	5,664	10,716	16,380
	<u>243,168</u>	2015	5,924	10,456	16,380
	<u>248,346</u>	2016	6,197	10,183	16,380
		2017	6,481	9,899	16,380
		2018	6,779	9,601	16,380
\$ 303,300 borrowed for					
Improvements in Water					
and Wastewater systems					
		2019	7,090	9,290	16,380
		2020	7,416	8,964	16,380
		2021	7,757	8,623	16,380
		2022	8,113	8,267	16,380
		2023	8,486	7,894	16,380
		2024	8,876	7,504	16,380
		2025	9,283	7,097	16,380
		2026	9,710	6,670	16,380
		2027	10,156	6,224	16,380
		2028	10,623	5,757	16,380
		2029	11,111	5,269	16,380
		2030	11,621	4,759	16,380
		2031	12,155	4,225	16,380
		2032	12,713	3,667	16,380
		2033	13,297	3,083	16,380
		2034	13,908	2,472	16,380
		2035	14,547	1,833	16,380
		2036	15,215	1,165	16,380
		2037	14,631	501	15,132
			<u>\$ 248,346</u>	<u>\$ 176,286</u>	<u>\$ 424,632</u>

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
3.98% Water Revenue Bond				
Principal and Interest of \$ 18,074 due monthly		2012	\$ 41,735	\$ 30,562
		2013	43,421	28,876
		2014	45,175	27,121
Used to replace sewer line and water meters in 2005		2015	47,000	25,296
		2016	48,899	23,398
		2017	50,875	21,422
Current Portion	\$ 41,735	2018	52,930	19,367
Long Term	741,574	2019	55,068	17,229
	<u>\$ 783,309</u>	2020	57,293	15,004
		2021	59,607	12,690
		2022	62,015	10,282
		2023	64,521	7,776
		2024	67,127	5,170
		2025	69,838	2,458
		2026	17,805	269
			<u>\$ 783,309</u>	<u>\$ 246,920</u>

		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
GEFA Loan 5.2% Interest				
Principal and Interest of \$ 23,301 due quarterly		2012	\$ 53,837	\$ 39,367
		2013	56,691	36,513
		2014	59,697	33,507
Current Portion	\$ 53,837	2015	62,863	30,342
Long Term	723,144	2016	66,196	27,008
	<u>\$ 776,981</u>	2017	69,706	23,498
		2018	73,402	19,802
Used to extend sewer line on Highway US 76 East		2019	77,294	15,911
		2020	81,392	11,812
		2021	85,707	7,497
		2022	90,196	3,008
			<u>\$ 776,981</u>	<u>\$ 248,265</u>

CITY OF CLAYTON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14 - THE CLAYTON HOUSING AUTHORITY

Although the City appoints the Governing Board, it does not exercise the other prerequisites for inclusion and thus, we are providing limited information which may be useful. The Clayton Housing Authority was established in 1950 and operates under various Federal Housing programs. The CHA services 98 rental units that are located in the City. The City has no obligation to, nor has it been requested to, nor has it electively provided any subsidy.

NOTE 15 - MOTEL-HOTEL TAX

The City collects a 5% hotel motel tax and is required to spend a portion of this for promoting tourism, conventions, and trade shows. Below is a summary of collections and expenditures:

	<u>Amount</u>	<u>Percent</u>
Collections	\$ 70 617	
Tourism Promotion	31 684	44.8%

The City transfers unrestricted hotel-motel funds to the general fund.

NOTE 16 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has insurance with private insurance companies to protect against these risks. There has been no significant reduction in insurance coverage from the prior years, nor insurance settlements exceeding coverage within the past three years.

Pursuant to Title 34, Chapter 9, Article 5 of the official code of Georgia Annotated, the City of Clayton became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer (City of Clayton) is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability.

As a part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the fund, and report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim against the Government within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings, allegations or demands be wholly groundless, false or fraudulent. The fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expense incurred for investigation, negotiation or defense.

NOTE 17 – LITIGATION AND CONTINGENT LIABILITIES

The City is not aware of any litigation or other contingent liabilities either in effect or pending against itself.

CITY OF CLAYTON

BUDGETARY COMPARISON SCHEDULES

GENERAL FUND

JUNE 30, 2011

EXHIBIT 10

	General Fund			Hotel-Motel Fund		
	Original Budget	Actual	Variance Over (Under)	Original Budget	Actual	Variance Over (Under)
REVENUES						
Taxes	\$ 1,279,550	\$ 1,338,828	\$ 59,278	\$ 60,000	\$ 70,617	\$ 10,617
Intergovernmental Revenues	-	-	-	-	-	-
Licenses and Permits	69,100	72,631	3,531	-	-	-
Fines and Forfeitures	300,000	268,213	(31,787)	-	-	-
Charges for Services	62,000	57,291	(4,709)	-	-	-
Miscellaneous	1,500	15,911	14,411	-	55	55
TOTAL REVENUES	\$ 1,712,150	\$ 1,752,874	\$ 40,724	\$ 60,000	\$ 70,672	\$ 10,672
EXPENDITURES						
General Government	\$ 469,250	\$ 1,226,906	\$ (757,656)	\$ -	\$ 75	\$ 75
Judicial	10,000	9,825	175	-	-	-
Police	898,787	914,561	(15,774)	-	-	-
Street and Sanitation	360,113	368,880	(8,767)	-	-	-
Capital Outlay-Debt Service	-	-	-	-	-	-
Principle Retirement	-	50,920	(50,920)	-	-	-
Interest Expense	-	9,080	(9,080)	-	-	-
Economic Development	-	-	-	35,000	31,684	(3,316)
TOTAL EXPENDITURES	\$ 1,738,150	\$ 2,580,172	\$ (842,022)	\$ 35,000	\$ 31,759	\$ (3,241)
EXCESS REVENUES OVER EXPENDITURES	\$ (26,000)	\$ (827,298)	\$ (801,298)	\$ 25,000	\$ 38,913	\$ 13,913
OTHER FINANCING SOURCES						
Transfer In	25,000	43,570	18,570	-	-	-
Transfer Out	-	-	-	(25,000)	(43,570)	18,570
NET CHANGE IN FUND BALANCES	\$ (1,000)	\$ (783,728)	\$ (782,728)	\$ -	\$ (4,657)	\$ (4,657)
FUND BALANCE, JULY 1, 2010		<u>988,620</u>			<u>7,465</u>	
FUND BALANCE, JUNE 30, 2011		<u>204,892</u>			<u>2,808</u>	

CITY OF CLAYTON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

NOTE 1 – LEGAL COMPLIANCE – BUDGETS

The city is required by law to adopt a budget. The procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. Prior to July 1, the City Clerk submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to July 1, the Commission approves the budget.
4. The City Clerk is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.
5. Formal budgetary integration is employed as a management control device during the year for all funds.

The Budgetary Comparison Schedule presents Actual expenditures in accordance with accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the general fund. The Enterprise Funds adopt a budget at the fund level. No eliminations have been made between funds.

The following exceeded their budget:

	<u>Budget</u>	<u>Actual</u>	<u>Excess Over Budget</u>
General Government	\$ 469,250	\$ 1,226,906	\$ 757,656
Police	898,787	914,561	15,774
Streets and Sanitation	360113	368,880	8,767
Principle Retirement	0	50,920	50,920
Interest Expense	0	9,080	9,080

Jack P. Green, Jr.

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December 13, 2011

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX**

Mayor and Council
City of Clayton
Clayton, Georgia

I have audited the accompanying Schedule of Special Purpose Local Option Sales Tax for the City of Clayton, Georgia for the year ended December 31, 2011. This Schedule is the responsibility of the City of Clayton, Georgia's management. My responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the Schedule of Special Purpose Local Option Sales Tax is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation on the Schedule of Special Purpose Local Option Sales Tax. I believe that my audit provides a reasonable basis for my opinion.

The accompanying Schedule of Special Purpose Local Option Sales Tax is prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis of accounting as described in Note 1 and is not intended to be a complete presentation of the City of Clayton, Georgia's revenues and expenditures.

In my opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project of the City of Clayton, Georgia for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Jack P. Green, Jr.

CITY OF CLAYTON
SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT 11

Project SPLOST #4	Estimated Costs		Expenditures		Estimated Percentage of Completion
	Original	Prior Years	Current Year	Total	
Water and Sewer	\$ 1,978,000	\$ 832,855	\$ 320,136	\$ 1,152,991	58.3%
City Hall Improvements	20,000	17,472	-	17,472	87.4%
Police Vehicle	20,000	19,947	32	19,979	99.9%
Streets and Sanitation	40,000	18,116	3,472	21,588	54.0%
	<u>\$ 2,058,000</u>	<u>\$ 888,390</u>	<u>\$ 323,640</u>	<u>\$ 1,212,030</u>	

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December 13, 2011

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

To the Mayor and City Council
City of Clayton, Georgia

I have audited the financial statements of the governmental activities, business-type activities, each major fund and the remaining fund information of the City of Clayton, as of and for the year ended June 30, 2011, which collectively comprise the City of Clayton, Georgia's basic financial statements and have issued my report thereon dated December 13, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Clayton, Georgia's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Clayton, Georgia's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of the City of Clayton, Georgia's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, I consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Condition

The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Criteria

The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

Cause

The City staff does not have the accounting skills necessary to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Effect

The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Recommendations

The City should consider employing someone or contracting with another entity to review the financial statements prepared by the auditor.

Response

The City agrees with the finding but cannot economically justify following the recommendation.

The City's response to the finding identified in my audit as described above was not audited by me and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, City council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Jack P. Green, Jr." with a stylized flourish at the end.