CITY OF CLAYTON
CLAYTON, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2012

Jack P. Green, Jr.
CERTIFIED PUBLIC ACCOUNTANT
TOCCOA, GEORGIA 30577

CITY OF CLAYTON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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December 20, 2012

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, 2012, 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, 2012, 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 20, 2012 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

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, 2012

EXHIBIT 1

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 940,679	$ 202,009	$ 1,142,688
Accounts Receivable	22,371	80,471	102,842
Internal Balances	626,931	(626,931)	-
Capital Assets			
Land	508,242	141,100	649,342
Depreciable Assets, Net	236,424	6,968,081	7,204,505
Total Assets	$ 2,334,647	$ 6,764,730	$ 9,099,377
LIABILITIES			
Accounts Payable	$ 168,271	$ 242,585	$ 410,856
Deposits	-	115,815	115,815
Compensated Absences	-	22,577	22,577
Long-Term Debt			
Due Within One Year	-	183,166	183,166
Due Beyond One Year	-	1,892,340	1,892,340
Total Liabilities	$ 168,271	$ 2,456,483	$ 2,624,754
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 744,666	$ 4,083,490	$ 4,828,156
Unassigned	1,421,710	224,757	1,646,467
Total Net Assets	$ 2,166,376	$ 4,308,247	$ 6,474,623

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF ACTIVITIES
JUNE 30, 2012

EXHIBIT 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue & Changes in Net Assets: Government Activities	Net (Expenses) Revenue & Changes in Net Assets: Business-Type Activities	Net (Expenses) Revenue & Changes in Net Assets: Total
PRIMARY GOVERNMENT							
Government Activities							
General Government	$ 495,927	$ 77,880	$ -	$ -	$ (418,047)	$ -	$ (418,047)
Judicial	10,085	-	-	-	(10,085)	-	(10,085)
Police	1,067,719	331,596	-	13,174	(722,949)	-	(722,949)
Streets and Sanitation	549,146	39,795	-	108,369	(400,982)	-	(400,982)
Economic Development	33,256	-	-	34,670	1,414	-	1,414
Total Government Activities	$ 2,156,133	$ 449,271	$ -	$ 156,213	$ (1,550,649)	$ -	$ (1,550,649)
Business-Type Activities							
Water and Wastewater	2,885,289	2,725,560	-	281,456	-	121,727	121,727
City Hall Complex	29,254	81,721	-	-	-	52,467	52,467
Total Primary Government	$ 5,070,676	$ 3,256,552	$ -	$ 437,669	$ (1,550,649)	$ 174,194	$ (1,376,455)
General Revenues							
Taxes:							
Property					$ 822,075	$ -	$ 822,075
Intangible and Transfer					6,973	-	6,973
Franchise					374,196	-	374,196
Accommodations					73,979	-	73,979
Beer and Wine					158,749	-	158,749
Alcohol by Drink					22,616	-	22,616
Insurance Premium					96,013	-	96,013
Unrestricted Investment Earnings					767	443	1,210
Miscellaneous					24,987	40,791	65,778
Total General Revenues					$ 1,580,355	$ 41,234	$ 1,621,589
Change in Assets					$ 29,706	$ 215,428	$ 245,134
Transfers					(448,335)	448,335	-
Change in Assets After Transfers					$ (418,629)	$ 663,763	$ 245,134
Net Assets-Beginning					2,585,005	3,644,484	6,229,489
Net Assets-End					$ 2,166,376	$ 4,308,247	$ 6,474,623

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

EXHIBIT 3

	General Fund	SPLOST Cap Projects	Hotel Motel	Total
ASSETS				
Cash	$ 539,780	$ 398,085	$ 2,814	$ 940,679
Accounts Receivable	22,371	-	-	22,371
Due from City Complex Fund	950,185	-	-	950,185
TOTAL ASSETS	$ 1,512,336	$ 398,085	$ 2,814	$ 1,913,235
LIABILITIES				
Accounts Payable	$ 168,271	$ -	$ -	$ 168,271
Due to Water Fund	323,254	-	-	323,254
TOTAL LIABILITIES	$ 491,525	$ -	$ -	$ 491,525
FUND BALANCES				
Unassigned	$ 1,020,811	$ 398,085	$ 2,814	$ 1,421,710
TOTAL LIABILITIES AND FUND BALANCES	$ 1,512,336	$ 398,085	$ 2,814	$ 1,913,235

Adjustments to the Statement of Net Assets

Fund Balance	$ 1,421,710
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	744,666
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	-
Net Assets of Governmental Activities (Exhibit 1)	$ 2,166,376

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT 4

	General Fund	SPLOST Capital Projects	Hotel Motel	Total Government Funds
REVENUES				
Taxes	$ 1,480,622	$ -	$ 73,979	$ 1,554,601
Intergovernmental	155,539	-	-	155,539
Licenses and Permits	77,880	-	-	77,880
Fines and Forfeitures	331,596	-	-	331,596
Charges for Services	39,795	-	-	39,795
Miscellaneous	975,934	674	6	976,614
TOTAL REVENUES	$ 3,061,366	$ 674	$ 73,985	$ 3,136,025
EXPENDITURES				
CURRENT:				
General Government	$ 493,732	$ -	$ -	$ 493,732
Judicial	10,085	-	-	10,085
Police	1,034,226	11,250	-	1,045,476
Streets and Sanitation	748,127	1,402	-	749,529
Economic Development	-	-	33,256	33,256
TOTAL EXPENDITURES	$ 2,286,170	$ 12,652	$ 33,256	$ 2,332,078
EXCESS REVENUES OVER EXPENDITURES	$ 775,196	$ (11,978)	$ 40,729	$ 803,947
OTHER FINANCING SOURCES USES				
Transfer In	40,723	-	-	40,723
Transfer Out	-	(448,335)	(40,723)	(489,058)
NET CHANGE IN FUND BALANCES	$ 815,919	$ (460,313)	$ 6	$ 355,612
FUND BALANCE, JULY 1, 2011	204,892	858,398	2,808	1,066,098
FUND BALANCE, JUNE 30, 2012	$ 1,020,811	$ 398,085	$ 2,814	$ 1,421,710

Adjustments to the Statement of Activities

Net Change in Fund Balance	$ 355,612

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	(39,826)
Capital Outlays	215,771
Transfer of Assets to Enterprise Account	(950,186)
Change in Net Assets of Governmental Activities (Exhibit 2)	$ (418,629)

The accompanying notes are an integral part of this statement.

EXHIBIT 5

CITY OF CLAYTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

ASSETS	Water and Wastewater Fund	City Hall Complex	Totals
CURRENT ASSETS			
Cash on Hand and in Bank	$ 175,304	$ 26,705	$ 202,009
Accounts Receivable	80,471	-	80,471
Due From General Fund	323,254	-	323,254
Total Current Assets	$ 579,029	$ 26,705	$ 605,734
NONCURRENT ASSETS			
Capital Assets			
Land	$ 41,100	$ 100,000	$ 141,100
Other Capital Assets, Net	5,891,801	1,076,280	6,968,081
Total Noncurrent Assets	5,932,901	1,176,280	7,109,181
TOTAL ASSETS	$ 6,511,930	$ 1,202,985	$ 7,714,915
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ 242,585	$ -	$ 242,585
Customer Deposits	115,815	-	115,815
Current Portion Long-Term Debt	128,292	54,874	183,166
Compensated Absences	22,577	-	22,577
Due to General Fund	-	950,185	950,185
Total Current Liabilities	$ 509,269	$ 1,005,059	$ 1,514,328
NONCURRENT LIABILITIES			
Bonds Payable	$ 1,746,881	$ 145,459	$ 1,892,340
Total Noncurrent Liabilities	$ 1,746,881	$ 145,459	$ 1,892,340
TOTAL LIABILITIES	$ 2,256,150	$ 1,150,518	$ 3,406,668
NET ASSETS			
Invested in Capital Assets, Net Related Debt	$ 4,057,728	$ 25,762	$ 4,083,490
Unrestricted Assets	198,052	26,705	224,757
Total Net Assets	$ 4,255,780	$ 52,467	$ 4,308,247
TOTAL LIABILITIES AND NET ASSETS	$ 6,511,930	$ 1,202,985	$ 7,714,915

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, 2012

EXHIBIT 6

	Water and Wastewater Fund	City Hall Complex	Total
OPERATING REVENUES			
Charges for services	$ 2,725,560	$ -	$ 2,725,560
Rents	-	81,721	81,721
Total Revenues	$ 2,725,560	$ 81,721	$ 2,807,281
OPERATING EXPENSES			
Water Treatment	$ 942,903	$ -	$ 942,903
Water Distribution	924,162	-	924,162
Wastewater Collection	175,422	-	175,422
Wastewater Treatment	387,410	-	387,410
Other Expenses	-	16	16
Depreciation	366,311	22,985	389,296
Total Operating Expenses	$ 2,796,208	$ 23,001	$ 2,819,209
Operating Income	$ (70,648)	$ 58,720	$ (11,928)
Non Operating Revenue (Expenses)			
Interest Income	$ 443	$ -	$ 443
Grants	281,456	-	281,456
Other Revenue	40,791	-	40,791
Interest Expense	(89,081)	(6,253)	(95,334)
Total Non Operating Revenue	$ 233,609	(6,253)	$ 227,356
Change in Net Assets Before Transfers	$ 162,961	$ 52,467	$ 215,428
Transfers	448,335	-	448,335
Change in Net Assets After Transfers	$ 611,296	$ 52,467	$ 663,763
Net Assets Beginning	3,644,484	-	3,644,484
Net Assets Ending	$ 4,255,780	$ 52,467	$ 4,308,247

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, 2012

EXHIBIT 7

	Water and Wastewater Fund	City Hall Complex	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customer	$ 2,797,189	$ 81,721	$ 2,878,910
Payments to Suppliers	(1,875,198)	(16)	(1,875,214)
Payments to Employees	(549,665)	-	(549,665)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 372,326	$ 81,705	$ 454,031
CASH FROM INVESTING ACTIVITIES			
Interest Earned	$ 443	$ -	$ 443
CASH FOR NONCAPITAL FINANCING ACTIVITIES			
Increase Due from General Fund	$ (250,685)	$ 950,185	$ 699,500
NET CASH PROVIDED FOR NONCAPITAL FINANCING	$ (250,685)	$ 950,185	$ 699,500
CASH FLOWS FOR CAPITAL RELATED FINANCING			
Interest Expense	$ (89,081)	$ (6,253)	$ (95,334)
Transfers	448,335	-	448,335
Bond and Notes Payments	(122,489)	200,333	77,844
Capital Grant	281,456	-	281,456
Purchased Assets	(651,928)	(1,199,265)	(1,851,193)
NET CASH FOR CAPITAL RELATED FINANCING	$ (133,707)	$ (1,005,185)	$ (1,138,892)
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (11,623)	$ 26,705	$ 15,082
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	186,927	-	186,927
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 175,304	$ 26,705	$ 202,009
Reconciliation of Operating Income to Amounts Provided by Operating Activities			
Operating Income	$ (70,648)	$ 58,720	$ (11,928)
Adjustments to Reconcile Operating Income to Net Cash Provided ByOperating Activities			
Depreciation	$ 366,311	$ 22,985	$ 389,296
Decrease in Accounts Receivable	8,013	-	8,013
Increase in Customer Deposits	22,825	-	22,825
Increase in Compensated Absences	5,034	-	5,034
Other Income	40,791	-	40,791
TOTAL ADJUSTMENTS	$ 442,974	$ 22,985	$ 465,959
NET CASH PROVIDED FOR OPERATING ACTIVITIES	$ 372,326	$ 81,705	$ 454,031

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, 2012

EXHIBIT 8

Assets

Investments	
Regions Morgan Keegan Trust Account	$ 730,206

Liabilities and Net Assets

Liabilities	
Accounts Payable	$ -
Other Payables	-
Total Liabilities	$ -
Net Assets Held in Trust for Pension Benefits	$ 730,206

(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, 2012

EXHIBIT 9

Additions		
Investment Income	$	22,593
Less: Managaement/Admin. Fees		(6,625)
Net Investment Income	$	15,968
Employer Contribution		144,000
Deductions		
Benefit Payments (Gross)		(6,376)
Change in Net Assets	$	153,592
Net Assets Beginning of Year		576,614
Net Assets End of the Year	$	730,206

The accompanying notes are an integral part of this statement.

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

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 unites 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.

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.

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.

City Hall Complex Enterprise Fund – This major enterprise fund is used to manage and account for the operations of the buildings and land attached to City Hall. The city departments that use the City Hall pay rent to retire the debt service and maintain the City Hall Complex. Outside nonprofit and governmental agencies also rent space in the City Hall Complex. This fund was established at the beginning of the current fiscal year.

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 include 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.

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 30, 2011, 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.

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, 2012 and the lien date is the following July 20. Taxes are collected through the year. Receivables are recorded when the tax is levied.

The total 2011 property assessment is $243,156,088 real property and personal property. The 2011 property is taxed at 8.0 mills on 40 % of appraised value and the tax due before errors and omissions is $ 776,495.

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

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, services and rent. 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, 2012 are entirely insured or collateralized with securities held by the City or by its agent in the City's name.

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	$ 22,371
Enterprise Fund Water Fees	80,471
Total	$ 102,842

NOTE 4 – CAPITAL ASSETS

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

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Non-Depreciable Assets				
Construction in Progress	$ 1,199,265	$ -	$ 1,199,265	$ -
Land	508,242	-	-	508,242
Other Capital Assets				
Buildings	$ 321,724	$ 203,270	$ -	$ 524,994
Machinery & Equipment	729,513	12,500	122,590	619,423
Total Depreciable Assets	$ 1,051,237	$ 215,770	$ 122,590	$ 1,144,417
Less: Accumulated Depreciation for:				
Buildings	$ (321,724)	$ -	$ -	$ (321,724)
Machinery & Equipment	(669,033)	(39,826)	122,590	(586,269)
Net Depreciable Assets	$ 60,480	$ 175,944	$ -	$ 236,424

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 2,195
Police	34,743
Streets and Sanitation	2,888
Total	$ 39,826

The following is a summary of proprietary fund-type capital assets at June 30, 2012:

City Hall Complex	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Non-Depreciable Assets				
Land	$ -	$ 100,000	$ -	$ 100,000
Buildings	$ -	$ 1,099,265	$ -	$ 1,099,265
Less: Accumulated Depreciation	-	(22,985)	-	(22,985)
	$ -	1,076,280	$ -	1,076,280

Water and Wastewater Fund	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Non-Depreciable Assets				
Land & Improvements	$ 41,100	$ -	$ -	$ 41,100
Construction in Progress	$ 343,082	$ 426,847	$ 769,929	$ -
Other Capital Assets				
Utility Systems	$ 10,137,886	$ 944,270	$ -	$ 11,082,156
Machinery & Equipment	913,631	50,740	-	964,371
Total Depreciable Assets	$ 11,051,517	$ 995,010	$ -	$ 12,046,527
Less: Accumulated Depreciation for:				
Utility Systems	$ (5,038,319)	$ (327,264)	$ -	$ (5,365,583)
Machinery & Equipment	(750,096)	(39,047)	-	(789,143)
Net Depreciable Assets	$ 5,263,102	$ 628,699	$ -	$ 5,891,801

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 $ 323,254

The SPLOST Capital Projects Funds transferred $ 448,335 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 $ 40,723.

At the beginning of the current year the City established the City Hall Complex Fund to better manage the land and buildings purchased for City Hall. To do this the General Fund transferred the land, buildings and improvements along with the related debt to the new City Hall Complex Fund. The equity the General Fund had in this project was $ 950,185 which was recorded as due from the City Hall Complex Fund to the General Fund. The City Hall Complex Fund rents land and space in the City Hall to the departments of the City and outside nonprofit and governmental agencies, this rent will be used to pay off this interfund receivable and renovate other parts of the complex.

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 2012 was $ 144,000, the contribution for 2013 will be $ 120,127. The plan does not allow employee contribution.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2012. 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 actuary 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, 2012, there were 31 active and 4 inactive participants.

Annual Pensions Costs

Valuation Date	Annual Pension Cost	Contributions	Percentage of Costs Contributed	Net Pension Obligations
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
07/01/11	121,564	144,000	118.5%	(22,436)

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

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Net Assets Held In Trust For Pension Benefits	Funded Ratio	Annual Covered Payroll	Ration Unfunded Actuarial Liability or Funding Excess to Annual Covered Payroll
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%
07/01/12	743,525	1,229,000	(485,475)	60.5%	1,168,724	41.5%

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.

At the beginning of the year the City paid 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 was changed to a charge per thousand gallons as of January 1, 2012. The rate is adjusted each six months.

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 Commission (RC) and is required to pay annual dues thereto. Membership in an RC is required by the Official Code of Georgia Annotated (OGCA) Section 50-8-34, which provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area.

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

Georgia Mountains Regional Commission
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 $ 38,232, Judicial $ 85, Police $ 112,126, Streets and Sanitation $402,127.

NOTE 13 - LONG TERM DEBT

The City purchased from the Rabun County Board of Education a surplus school building. This building is presently houses the Administration, Police, Streets, Water, and Wastewater Departments. Additional space is being used for several nonprofit entities that pay rent. 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, 2012 this property along with the related debt was transferred to an Enterprise Fund to better record the use by City and other users.

Government Fund Types	Balance 7/1/20011	Additions	Reductions	Balance 6/30/2012	Due Within One Year
Notes Payable	$ 249,080	$ -	$ 48,747	$ 200,333	$ 54,874
Total	$ 249,080	$ -	$ 48,747	$ 200,333	$ 54,874

3.0% Note Payable

Principal and Interest of $ 5,000 due monthly

$ 300,000 to purchase Building and Land

Current Portion	$ 54,874
Long Term	145,459
	$ 200,333

June 30	Principal	Interest
2013	$ 54,874	$ 5,126
2014	56,543	3,457
2015	58,263	1,737
2016	30,653	209
	$ 200,333	$ 10,529

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.

Government Fund Types	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Due Within One Year
Notes Payable	$ 1,997,662	$ -	$ 122,489	$ 1,875,173	$ 128,292
Total	$ 1,997,662	$ -	$ 122,489	$ 1,875,173	$ 128,292

4.36% Note Payable

Principal and Interest of $ 7,422 due quarterly

$ 297,608 to install
Booster Pumps to North Loop

Current Portion	$ 22,765
Long Term	144,473
	$ 167,238

June 30	Principal	Interest
2013	$ 22,765	$ 6,924
2014	23,774	5,915
2015	24,828	4,861
2016	25,928	3,761
2017	27,078	2,611
2018	28,278	1,411
2019	14,587	239
	$ 167,238	$ 25,722

Series 1997
4.5% Water Revenue Bond
Principal and Interest of
$ 1,365 Due Monthly

Current Portion	$ 5,415
	237,674
	243,089

$ 303,300 borrowed for
Improvements in Water
and Wastewater systems

June 30	Principal	Interest	Total
2013	$ 5,415	$ 10,965	$ 16,380
2014	5,664	10,716	16,380
2015	5,924	10,456	16,380
2016	6,197	10,183	16,380
2017	6,481	9,899	16,380
2018	6,779	9,601	16,380
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	14,552	501	15,053
	$ 243,089	$ 165,084	$ 408,173

3.98% Water Revenue Bond

Principal and Interest of $ 18,074 due quarterly

Used to replace sewer line and water meters in 2005

Current Portion	$ 43,421
Long Term	698,199
	$ 741,620

June 30	Principal	Interest
2013	$ 43,421	$ 28,876
2014	45,175	27,121
2015	47,000	25,296
2016	48,899	23,398
2017	50,875	21,422
2018	52,930	19,367
2019	55,068	17,229
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	17,851	223
	$ 741,620	$ 216,312

GEFA Loan 5.2% Interest Principal and Interest of $ 23,301 due quarterly

Current Portion	$ 56,691
Long Term	666,535
	$ 723,226

Used to extend sewer line on Highway US 76 East

June 30	Principal	Interest
2013	$ 56,691	$ 36,513
2014	59,697	33,507
2015	62,863	30,342
2016	66,196	27,008
2017	69,706	23,498
2018	73,402	19,802
2019	77,294	15,911
2020	81,392	11,812
2021	85,707	7,497
2022	90,278	2,926
	$ 723,226	$ 208,816

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:

	Amount	Percent
Collections	$ 73 979	
Tourism Promotion	33 256	44.9%

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 that should have a material effect on the City.

CITY OF CLAYTON
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND
JUNE 30, 2012

EXHIBIT 10

	General Fund			Hotel-Motel Fund		
	Original Budget	Actual	Variance Over (Under)	Original Budget	Actual	Variance Over (Under)
REVENUES						
Taxes	$ 1,265,600	$ 1,480,622	$ 215,022	$ 60,000	$ 73,979	$ 13,979
Intergovernmental Revenues	-	155,539	155,539	-	-	-
Licenses and Permits	78,500	77,880	(620)	-	-	-
Fines and Forfeitures	313,000	331,596	18,596	-	-	-
Charges for Services	50,000	39,795	(10,205)	-	-	-
Miscellaneous	1,500	975,934	974,434	-	6	6
TOTAL REVENUES	$ 1,708,600	$ 3,061,366	$ 1,352,766	$ 60,000	$ 73,985	$ 13,985
EXPENDITURES						
General Government	$ 455,500	$ 493,732	$ (38,232)	$ -	$ -	$ -
Judicial	10,000	10,085	(85)	-	-	-
Police	922,100	1,034,226	(112,126)	-	-	-
Street and Sanitation	346,000	748,127	(402,127)	-	-	-
Economic Development	-	-	-	35,000	33,256	(1,744)
TOTAL EXPENDITURES	$ 1,733,600	$ 2,286,170	$ (552,570)	$ 35,000	$ 33,256	$ (1,744)
EXCESS REVENUES OVER EXPENDITURES	$ (25,000)	$ 775,196	$ 800,196	$ 25,000	$ 40,729	$ 15,729
OTHER FINANCING SOURCES						
Transfer In	25,000	40,723	15,723	-	-	-
Transfer Out	-	-	-	(25,000)	(40,723)	15,723
NET CHANGE IN FUND BALANCES	$ -	$ 815,919	$ 815,919	$ -	$ 6	$ 6
FUND BALANCE, JULY 1, 2011		204,892			2,808	
FUND BALANCE, JUNE 30, 2012		1,020,811			2,814	

CITY OF CLAYTON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

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:

	Budget	Actual	Excess Over Budget
General Government	$ 455,500	$ 493,732	$ 38,232
Judicial	10,000	10,085	85
Police	923,100	1,034,226	15,774
Streets and Sanitation	346,000	748,127	402,127

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December 20, 2012

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, 2012. 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, 2012, 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, 2012

EXHIBIT 11

Project SPLOST #4	Estimated Costs	Expenditures			
	Original	Prior Years	Current Year	Total	Estimated Percentage of Completion
Water and Sewer	$ 1,978,000	$ 1,152,991	$ 448,335	$ 1,601,326	81.0%
City Hall Improvements	20,000	17,472	-	17,472	87.4%
Police Vehicle	20,000	19,979	11,250	31,229	156.1%
Streets and Sanitation	40,000	21,588	1,402	22,990	57.5%
	$ 2,058,000	$ 1,212,030	$ 460,987	$ 1,673,017	

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December 20, 2012

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, 2012, which collectively comprise the City of Clayton, Georgia's basic financial statements and have issued my report thereon dated December 20, 2012 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 the deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described below that I consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 posses 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.

Compliance and Other Matters

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

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.

Jack P. Green, Jr

City of Clayton
Clayton, Georgia
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

FEDERAL GRANTOR	Federal Award Number	Program or Award Number	Disbursements or Expenditures
Environmental Protection Agency			
American Recovery and Reinvestment Act			
Georgia Environmental Finance Authority			
DW09-010	*66.468	$ -	$ 526,647
GRAND TOTAL FOR REPORTING ENTITY			$ 526,647

NOTE:
The accompanying schedule of expenditure of federal awards includes the federal grant activity of the Authority and is presented on the full accrual basis of accounting (see Note 1 for a detailed description of this basis of accounting). The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Since this schedule reports the expenditure of federal awards, including capital expenditures, some of the amounts appearing on this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

* - Major program
** - Non-major program

See Auditor's report.
The accompanying notes are an integral part of this statement.

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December 20, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and City Commission
City of Clayton
Clayton, Georgia 30525

Compliance

I have audited the compliance of City of Clayton, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The City of Clayton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Clayton's management. My responsibility is to express an opinion on City of Clayton's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Clayton's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Clayton's compliance with those requirements.

In my opinion, the City of Clayton, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of City of Clayton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Clayton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing

procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Clayton's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, 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.

Jack P. Green, Jr

CITY OF CLAYTON
CLAYTON, GEORGIA
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

The prior audit report for the period ended June 30, 2011 contained no findings.

CITY OF CLAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Summary of Audit Results

The independent auditor's opinion on the City's financial statements was unqualified and was dated December 20, 2012 for the year ended June 30, 2012. The audit did not disclose any noncompliance which was material to the financial statements. The audit did disclose a significant deficiency in the internal control system over financial reporting. The report issued on the City's compliance for major programs was unqualified. The audit did not disclose significant deficiencies in internal control over a major program. The major programs were as follows:

CFDA #	Description
66.468a	Drinking Water State Revolving Loan Program

The type A programs were those where Federal expenditures exceeded $300,000 and type B were those where the expenditures were less than $300,000 as detailed in the Schedule of Expenditures of Federal Awards. This auditee did not qualify as a low-risk auditee for the fiscal year ended June 30, 2012.

Finding Related to the Financial Statements Which are Required to be Reported in Accordance with GAGAS:

There was a finding related to the internal control over financial reporting which is required to be reported in accordance with GAGAS disclosed by the audit of the City for the year ended June 30, 2012.

Findings and Questioned Costs for Federal Awards:

There were no audit findings and/or questioned costs for Federal Awards disclosed by the audit of the Authority for the year ended June 30, 2012.