CITY OF CLAYTON
CLAYTON, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2013

DRAFT

CITY OF CLAYTON

COUNCIL WORKSESSION MEETING

TUESDAY JANUARY 7, 2014

(COURTROOM @ 4:30 P.M.)

1. MINUTES OF DECEMBER MEETING

2. AUDIT REPORT

3. TOWN OF TIGER

4. BUDGET CONCERNS

5. DILLARD WATER

6. APPOINTMENTS

7. GEORGIA ENVIROMENTAL FINANCE AUTHORITY (GEFA) LOAN

8. SIMPLY HOMEGROWN FARMERS MARKET AGREEMENT

9. INVENTORY QUESTIONS FROM COUNTY

10. ETHICS – ELIZABETH CHAPMAN

ADJOURN

We ask that you observe the following regarding public input:

Upon approaching the podium, please provide your *Name, Home Address and/or Business address.* Please direct your comments to the Mayor and the Council and not to the audience. Please limit your presentation to 5 min. and 30 seconds prior to your time expiration the parliamentarian will give a time warning. We ask the audience to extend courtesy to each speaker. Public input will be heard only after being recognized by the Mayor or meeting facilitator. Kindly turn off or silence cell phones. NO PUBLIC OUTBURST

CITY OF CLAYTON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2013

INDEPENDENT AUDITOR'S OPINION

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions of these financial statements 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 financial statements are free of material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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 and each major fund of the City of Clayton, Georgia as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clayton's financial statements. The Budgetary Comparison Schedule identified in Exhibit 8 is presented for purposes of additional analysis and is not a required part of the basic financials statements. The Budgetary Comparison Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Required Supplemental Information

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.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 16, 2013, 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 over 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.

Jack P. Green, Jr.

Jack P. Green, Jr. CPA
Toccoa, Georgia

BASIC FINANCIAL STATEMENTS

CITY OF CLAYTON
STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT 1

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 424,079	$ 315,751	$ 739,830
Accounts Receivable	35,593	79,572	115,165
Net Pension Assets	27,873	-	27,873
Internal Balances	454,123	(454,123)	-
Capital Assets			
Land	508,242	141,100	649,342
Depreciable Assets, Net	330,192	6,756,682	7,086,874
Total Assets	$ 1,780,102	$ 6,838,982	$ 8,619,084
LIABILITIES			
Accounts Payable	$ 137,395	$ 242,585	$ 379,980
Deposits	-	122,232	122,232
Compensated Absences	-	25,140	25,140
Long-Term Debt			
Due Within One Year	-	190,709	190,709
Due Beyond One Year	-	1,697,759	1,697,759
Total Liabilities	$ 137,395	$ 2,278,425	$ 2,415,820
NET POSITION			
Net Investment in Capital Assets	$ 838,434	$ 4,246,846	$ 5,085,280
Restricted for Capital Outlay	5,982	-	5,982
Restricted for Economic Developme	855	-	855
Unrestricted	797,436	313,711	1,111,147
Total Net Position	$ 1,642,707	$ 4,560,557	$ 6,203,264

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF ACTIVITIES
JUNE 30, 2013

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 Position: Government Activities	Net (Expenses) Revenue & Changes in Net Position: Business-Type Activities	Net (Expenses) Revenue & Changes in Net Position: Total
PRIMARY GOVERNMENT							
Government Activities							
General Government	$ 556,372	$ 77,391	$ -	$ -	$ (478,981)	$ -	$ (478,981)
Judicial	10,085	-	-	-	(10,085)	-	(10,085)
Police	1,023,434	307,229	-	-	(716,205)	-	(716,205)
Streets and Sanitation	426,518	31,416	-	116,792	(278,310)	-	(278,310)
Economic Development	31,935	-	-	-	(31,935)	-	(31,935)
Total Government Activities	$ 2,048,344	$ 416,036	$ -	$ 116,792	$ (1,515,516)	$ -	$ (1,515,516)
Business-Type Activities							
Water and Wastewater	2,918,934	2,724,297	-	-	-	(194,637)	(194,637)
City Hall Complex	28,947	72,756	-	-	-	43,809	43,809
Total Primary Government	$ 4,996,225	$ 3,213,089	$ -	$ 116,792	$ (1,515,516)	$ (150,828)	$ (1,666,344)
General Revenues							
Taxes:							
Property					$ 780,788	$ -	$ 780,788
Intangible and Transfer					10,309	-	10,309
Franchise					231,443	-	231,443
Accommodations					79,608	-	79,608
Beer and Wine					162,966	-	162,966
Alcohol by Drink					10,691	-	10,691
Insurance Premium					101,982	-	101,982
Unrestricted Investment Earnings					63	31	94
Miscellaneous					2,665	14,439	17,104
Total General Revenues					$ 1,380,515	$ 14,470	$ 1,394,985
Change in Net Position					$ (135,001)	$ (136,358)	$ (271,359)
Transfers					(388,668)	388,668	-
Change in Assets After Transfers					$ (523,669)	$ 252,310	$ (271,359)
Net Position Beginning of Year					2,166,376	4,308,247	6,474,623
Net Position End of Year					$ 1,642,707	$ 4,560,557	$ 6,203,264

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

EXHIBIT 3

	General Fund	SPLOST Cap Projects	Hotel Motel	Total
ASSETS				
Cash	$ 417,242	$ 5,982	$ 855	$ 424,079
Accounts Receivable	35,593	-	-	35,593
Net Pension Assets	27,873	-	-	27,873
Due from City Complex Fund	984,985	-	-	984,985
TOTAL ASSETS	$ 1,465,693	$ 5,982	$ 855	$ 1,472,530
LIABILITIES				
Accounts Payable	$ 137,395	$ -	$ -	$ 137,395
Due to Water Fund	530,862	-	-	530,862
TOTAL LIABILITIES	$ 668,257	$ -	$ -	$ 668,257
FUND BALANCES				
Restircted for Capital Outlay	$ -	$ 5,982	$ -	$ 5,982
Restricted for Economic Development	-	-	855	855
Unassigned	797,436	-	-	797,436
TOTAL LIABILITIES AND FUND BALANCES	$ 1,465,693	$ 5,982	$ 855	$ 1,472,530

Adjustments to the Statement of Net Assets	
Fund Balance	$ 804,273
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	838,434
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)	$ 1,642,707

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, 2013

EXHIBIT 4

	General Fund	SPLOST Capital Projects	Hotel Motel	Total Government Funds
REVENUES				
Taxes	$ 1,298,179	$ -	$ 79,608	$ 1,377,787
Intergovernmental	116,792	-	-	116,792
Licenses and Permits	71,760	-	-	71,760
Fines and Forfeitures	307,229	-	-	307,229
Charges for Services	37,047	-	-	37,047
Miscellaneous	2,720	8	-	2,728
TOTAL REVENUES	$ 1,833,727	$ 8	$ 79,608	$ 1,913,343
EXPENDITURES				
CURRENT:				
General Government	$ 555,572	$ -	$ 75	$ 555,647
Judicial	9,810	-	-	9,810
Police	1,123,358	-	-	1,123,358
Streets and Sanitation	417,994	3,443	-	421,437
Economic Development	-	-	31,860	31,860
TOTAL EXPENDITURES	$ 2,106,734	$ 3,443	$ 31,935	$ 2,142,112
EXCESS REVENUES OVER EXPENDITURES	$ (273,007)	$ (3,435)	$ 47,673	$ (228,769)
OTHER FINANCING SOURCES USES				
Transfer In	49,632	-	-	49,632
Transfer Out	-	(388,668)	(49,632)	(438,300)
NET CHANGE IN FUND BALANCES	$ (223,375)	$ (392,103)	$ (1,959)	$ (617,437)
FUND BALANCE, JULY 1, 2012	1,020,811	398,085	2,814	1,421,710
FUND BALANCE, JUNE 30, 2013	$ 797,436	$ 5,982	$ 855	$ 804,273

Adjustments to the Statement of Activities	
Net Change in Fund Balance	$ (617,437)
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	(43,962)
Capital Outlays	137,730
Change in Net Assets of Governmental Activities (Exhibit 2)	$ (523,669)

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT 5

	Water and Wastewater Fund	City Hall Complex	Totals
ASSETS			
CURRENT ASSETS			
Cash on Hand and in Bank	$ 273,510	$ 42,241	$ 315,751
Accounts Receivable	79,572	-	79,572
Due From General Fund	530,862	-	530,862
Total Current Assets	$ 883,944	$ 42,241	$ 926,185
NONCURRENT ASSETS			
Capital Assets			
Land	$ 41,100	$ 100,000	$ 141,100
Other Capital Assets, Net	5,669,284	1,087,398	6,756,682
Total Noncurrent Assets	5,710,384	1,187,398	6,897,782
TOTAL ASSETS	$ 6,594,328	$ 1,229,639	$ 7,823,967
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ 242,585	$ -	$ 242,585
Customer Deposits	122,232	-	122,232
Current Portion Long-Term Debt	134,310	56,399	190,709
Compensated Absences	25,140	-	25,140
Due to General Fund	-	984,985	984,985
Total Current Liabilities	$ 524,267	$ 1,041,384	$ 1,565,651
NONCURRENT LIABILITIES			
Bonds Payable	$ 1,608,560	$ 89,199	$ 1,697,759
Total Noncurrent Liabilities	$ 1,608,560	$ 89,199	$ 1,697,759
TOTAL LIABILITIES	$ 2,132,827	$ 1,130,583	$ 3,263,410
NET POSITION			
Net Investment in Capital Assets	$ 4,190,031	$ 56,815	$ 4,246,846
Unrestricted Assets	271,470	42,241	313,711
Total Net Position	$ 4,461,501	$ 99,056	$ 4,560,557
TOTAL LIABILITIES AND NET POSITION	$ 6,594,328	$ 1,229,639	$ 7,823,967

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF REVENUES, EXPENSE AND FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT 6

	Water and Wastewater Fund	City Hall Complex	Total
OPERATING REVENUES			
Charges for services	$ 2,724,297	$ -	$ 2,724,297
Rents	-	72,756	72,756
Total Operating Revenues	$ 2,724,297	$ 72,756	$ 2,797,053
OPERATING EXPENSES			
Water Treatment	$ 877,728	$ -	$ 877,728
Water Distribution	857,494	-	857,494
Wastewater Collection	301,804	-	301,804
Wastewater Treatment	405,694	-	405,694
Other Expenses	-	-	-
Depreciation	396,948	23,681	420,629
Total Operating Expenses	$ 2,839,668	$ 23,681	$ 2,863,349
Operating Income	$ (115,371)	$ 49,075	$ (66,296)
Non Operating Revenue (Expenses)			
Interest Income	$ 28	$ 3	$ 31
Grants	-	-	-
Other Revenue	11,662	2,777	14,439
Interest Expense	(79,266)	(5,266)	(84,532)
Total Non Operating Revenue	$ (67,576)	(2,486)	$ (70,062)
Change in Net Position Before Transfers	$ (182,947)	$ 46,589	$ (136,358)
Transfers	388,668	-	388,668
Change in Net Position After Transfers	$ 205,721	$ 46,589	$ 252,310
Net Position Beginning	4,255,780	52,467	4,308,247
Net Position Ending	$ 4,461,501	$ 99,056	$ 4,560,557

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, 2013

EXHIBIT 7

	Water and Wastewater Fund	City Hall Complex	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customer	$ 2,731,613	$ 72,756	$ 2,804,369
Payments to Suppliers	(1,879,991)	-	(1,879,991)
Payments to Employees	(560,166)	-	(560,166)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 291,456	$ 72,756	$ 364,212
CASH FROM INVESTING ACTIVITIES			
Interest Earned	$ 28	$ -	$ 28
CASH FOR NONCAPITAL FINANCING ACTIVITIES			
Increase Due from General Fund	$ (207,608)	$ 34,800	$ (172,808)
NET CASH PROVIDED FOR NONCAPITAL FINANCING	$ (207,608)	$ 34,800	$ (172,808)
CASH FLOWS FOR CAPITAL RELATED FINANCING			
Interest Expense	$ (79,266)	$ (5,266)	$ (84,532)
Transfers	388,668	-	388,668
Bond and Notes Payments	(132,303)	(54,731)	(187,034)
Other Revenue	11,662	2,777	14,439
Purchased Assets	(174,431)	(34,800)	(209,231)
NET CASH FOR CAPITAL RELATED FINANCING	$ 14,330	$ (92,020)	$ (77,690)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 98,206	$ 15,536	$ 113,742
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	175,304	26,705	202,009
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 273,510	$ 42,241	$ 315,751
Reconciliation of Operating Income to Amounts Provided by Operating Activities			
Operating Income	$ (115,371)	$ 49,075	$ (66,296)
Adjustments to Reconcile Operating Income to Net Cash Provided ByOperating Activities			
Depreciation	$ 396,948	$ 23,681	$ 420,629
Decrease in Accounts Receivable	899	-	899
Increase in Customer Deposits	6,417	-	6,417
Increase in Compensated Absences	2,563	-	2,563
TOTAL ADJUSTMENTS	$ 406,827	$ 23,681	$ 430,508
NET CASH PROVIDED FOR OPERATING ACTIVITIES	$ 291,456	$ 72,756	$ 364,212

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT 8

Assets	
Investments	
Regions Morgan Keegan Trust Account	$ 866,308
Liabilities and Net Assets	
Liabilities	
Accounts Payable	$ -
Other Payables	-
Total Liabilities	$ -
Net Position Held in Trust for Pension Benefits	$ 866,308

(A schedule of funding progress is presented on page 21)

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT 9

Additions		
Investment Income	$	26,729
Less: Managaement/Admin. Fees		(8,233)
Net Investment Income	$	18,496
Employer Contribution		148,000
Deductions		
Benefit Payments (Gross)		(30,394)
Changes in Net Position	$	136,102
Net Position Beginning of Year		730,206
Net Position End of the Year	$	866,308

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 Position, 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 Position 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 Position – The Schedule of Net Position 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 Position and will report depreciation expense-the cost of "using up" capital assets-in the Schedule of Activities. The Net Position 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.

3. Fiduciary Funds
Fiduciary fund reporting focuses on Net Position. 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 Position 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 Position, 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 28, 2012, 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, 2012 The due date for these taxes was December 20, 2012 and the lien date was the following June 20. Taxes are collected through the year. Receivables are recorded when the tax is levied.

The total 2012 property assessment is $233,541,109 real property and personal property. The 2012 property was taxed at 8.0 mills on 40 % of appraised value and the tax due before errors and omissions was $ 747,331.

L. Long-Term Obligations

The City reports long-term debt of governmental funds at face value in the Government-wide Statement of Net Position. 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 Position

In the Government-wide Financial Statements, Net Position are classified in the following categories: Invested Capital Assets, Net of Related Debt - This category groups all capital assets into one component of Net Position. 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 Position – This category presents external restrictions imposed by bond ordinances. Unrestricted Net Position – This category represents the Net Position of the City, which are not restricted for any project or other purpose.

Fund equity at the governmental fund financial reporting level is classified as "fund of balance." Fund equity for all other reporting is classified as "Net Position."

Fund Balance- Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- Nonspendable- Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- Restricted- Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Committed- Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.
- Assigned- Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance committee or the City's finance director to assign fund balances.
- Unassigned- Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions- When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position- Net Position represent the difference between assets and liabilities. Net Position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e. the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net Position are reported as restricted as described in the fund balance section above. All other Net Position are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

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, 2013 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, 2013 consist of:

General Fund Property Taxes	$ 35,593
Water and Sewer Fund Service Fees	79,572
Total	$ 115,165

NOTE 4 – CAPITAL ASSETS

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

	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Non-Depreciable Assets				
Land	$ 508,242	$ -	$ -	$ 508,242
Other Capital Assets				
Buildings	$ 524,994	$ -	$ -	$ 524,994
Machinery & Equipment	619,423	137,730	83,846	673,307
Total Depreciable Assets	$ 1,144,417	$ 137,730	$ 83,846	$ 1,198,301
Less: Accumulated Depreciation for:				
Buildings	$ (321,724)	$ -	$ -	$ (321,724)
Machinery & Equipment	(586,269)	(43,962)	83,846	(546,385)
Net Depreciable Assets	$ 236,424	$ 93,768	$ -	$ 330,192

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 800
Police	38,080
Streets and Sanitation	5,082
Total	$ 43,962

The following is a summary of proprietary fund-type capital assets at June 30, 2013:

City Hall Complex	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Non-Depreciable Assets				
Land	$ 100,000	$ -	$ -	$ 100,000
Buildings	$ 1,099,265	$ 34,800	$ -	$ 1,134,065
Less: Accumulated Depreciation	(22,985)	(23,681)	-	(46,666)
	$ 1,076,280	$ 11,119	$ -	$ 1,087,399

Water and Wastewater Fund	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Non-Depreciable Assets				
Land & Improvements	$ 41,100	$ -	$ -	$ 41,100
Other Capital Assets				
Utility Systems	$ 11,082,156	$ 174,430	$ -	$ 11,256,586
Machinery & Equipment	964,371	-	-	964,371
Total Depreciable Assets	$ 12,046,527	$ 174,430	$ -	$ 12,220,957
Less: Accumulated Depreciation for:				
Utility Systems	$ (5,365,583)	$ (352,688)	$ -	$ (5,718,271)
Machinery & Equipment	(789,143)	(44,260)	-	(833,403)
Net Depreciable Assets	$ 5,891,801	$ (222,518)	$ -	$ 5,669,283

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 $ 454,123

The SPLOST Capital Projects Funds transferred $ 388,668 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 $ 49,632.

In a previous 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. In the current year the General Fund paid $ 34,800 for repairs on the building. Both of these amounts were 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 2013 was $ 120,127, the contribution for 2014 will be $ 152,296. The plan does not allow employee contribution.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2013. 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, 2013, there were 31 active and 4 inactive participants.

Annual Pensions Costs

Valuation Date	Annual Pension Cost	Contributions	Percentage of Costs Contributed	Net Pension Obligations
07/01/06	$ 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)
07/01/12	120,127	148,000	123.2%	(27,873)

For the year beginning July 1, 2013 the annual pension cost is $ 152,296 and the required contribution is $ 152,296. This is an increase from the prior year of $ 32,169.

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
07/01/07	$ 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%
07/01/13	883,961	1,630,173	(746,512)	54.2%	1,260,864	59.2%

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.

During the current year the City paid a fee equal to the debt service and assumed most operating costs of the water plant and water lines. The City and the Authority are negotiating a new agreement whereby the Authority will assume management of the water plant, pay all operating costs and charge the City a fee for the water sold to the City. This agreement is scheduled to be operational in 2014.

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 $ 28,637, Police $ 145,918, Streets and Sanitation $4,544 and Economic Development $ 1,860.

NOTE 13 - LONG TERM DEBT

The City purchased from the Rabun County Board of Education a surplus school building. This building 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.

Business-Type Activities	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Due Within One Year
Notes Payable	$ 200,333	$ -	$ 54,735	$ 145,598	$ 56,399
Total	$ 200,333	$ -	$ 54,735	$ 145,598	$ 56,399

3.0% Note Payable		June 30	Principal	Interest
Principal and Interest of $ 5,000 due monthly		2014	$ 56,399	$ 3,601
		2015	58,114	1,886
$ 300,000 to purchase Building and Land		2016	31,085	287
Current Portion	$ 56,399		$ 145,598	$ 5,774
Long Term	89,199			
	$ 145,598			

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.

Business-Type Activities	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Due Within One Year
Notes Payable	$ 1,875,173	$ -	$ 132,303	$ 1,742,870	$ 134,310
Total	$ 1,875,173	$ -	$ 132,303	$ 1,742,870	$ 134,310

4.36% Note Payable		June 30	Principal	Interest
Principal and Interest of $ 7,422 due quarterly		2014	$ 23,774	$ 5,915
		2015	24,828	4,861
$ 297,608 to install		2016	25,928	3,761
Booster Pumps to North Loop		2017	27,078	2,611
		2018	28,278	1,411
		2019	14,575	239
Current Portion	$ 23,774		$ 144,461	$ 18,798
Long Term	120,687			
	$ 144,461			

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

Current Portion	$ 5,664
	228,132
	233,796

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

June 30	Principal	Interest	Total
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	10,674	246	10,920
	$ 233,796	$ 153,864	$ 387,660

		June 30	Principal	Interest
3.98% Water Revenue Bond				
Principal and Interest of $ 18,074		2014	$ 45,175	$ 27,121
due quarterly		2015	47,000	25,296
		2016	48,899	23,398
Used to replace sewer line and		2017	50,875	21,422
water meters in 2005		2018	52,930	19,367
		2019	55,068	17,229
Current Portion	$ 45,175	2020	57,293	15,004
Long Term	652,975	2021	59,607	12,690
	$ 698,150	2022	62,015	10,282
		2023	64,521	7,776
		2024	67,127	5,170
		2025	69,838	2,458
		2026	17,802	272
			$ 698,150	$ 187,485

		June 30	Principal	Interest
GEFA Loan 5.2% Interest				
Principal and Interest of		2014	$ 59,697	$ 33,507
$ 23,301 due quarterly		2015	62,863	30,342
		2016	66,196	27,008
Current Portion	$ 59,697	2017	69,706	23,498
Long Term	606,766	2018	73,402	19,802
	$ 666,463	2019	77,294	15,911
		2020	81,392	11,812
Used to extend sewer line on		2021	85,707	7,497
Highway US 76 East		2022	90,206	2,998
			$ 666,463	$ 172,375

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	$ 70 608	
Tourism Promotion	31 860	45.1%

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, 2013

EXHIBIT 10

	General Fund			Hotel-Motel Fund		
	Original Budget	Actual	Variance Over (Under)	Original Budget	Actual	Variance Over (Under)
REVENUES						
Taxes	$ 1,438,900	$ 1,298,179	$ (140,721)	$ 60,000	$ 79,608	$ 19,608
Intergovernmental Revenues	-	116,792	116,792	-	-	-
Licenses and Permits	75,000	71,760	(3,240)	-	-	-
Fines and Forfeitures	340,500	307,229	(33,271)	-	-	-
Charges for Services	40,000	37,047	(2,953)	-	-	-
Miscellaneous	3,500	2,720	(780)	-	-	-
TOTAL REVENUES	$ 1,897,900	$ 1,833,727	$ (64,173)	$ 60,000	$ 79,608	$ 19,608
EXPENDITURES						
General Government	$ 527,010	$ 555,572	$ (28,562)	$ -	$ 75	$ (75)
Judicial	10,000	9,810	190	-	-	-
Police	977,440	1,123,358	(145,918)	-	-	-
Street and Sanitation	413,450	417,994	(4,544)	-	-	-
Economic Development	-	-	-	30,000	31,860	(1,860)
TOTAL EXPENDITURES	$ 1,927,900	$ 2,106,734	$ (178,834)	$ 30,000	$ 31,935	$ 1,935
EXCESS REVENUES OVER EXPENDITURES	$ (30,000)	$ (273,007)	$ (243,007)	$ 30,000	$ 47,673	$ 17,673
OTHER FINANCING SOURCES						
Transfer In	30,000	49,632	19,632	-	-	-
Transfer Out	-	-	-	(30,000)	(49,632)	19,632
NET CHANGE IN FUND BALANCES	$ -	$ (223,375)	$ (223,375)	$ -	$ (1,959)	$ (1,959)
FUND BALANCE, JULY 1, 2012		1,020,811			2,814	
FUND BALANCE, JUNE 30, 2013		797,436			855	

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	$ 527,010	$ 555,647	$ 28,637
Police	977,440	1,123,358	145,918
Streets and Sanitation	413,450	417,994	4,544
Economic Development	30,000	31,860	1,860

Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

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GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2013

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, 2013. 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, 2013, 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, 2013

EXHIBIT 11

Project SPLOST #4	Estimated Costs	Expenditures			
	Original	Prior Years	Current Year	Total	Estimated Percentage of Completion
Water and Sewer	$ 1,978,000	$ 1,601,326	$ 388,668	$ 1,989,994	100.6%
City Hall Improvements	20,000	17,472	-	17,472	87.4%
Police Vehicle	20,000	31,229	-	31,229	156.1%
Streets and Sanitation	40,000	22,990	3,443	26,433	66.1%
	$ 2,058,000	$ 1,673,017	$ 392,111	$ 2,065,128	

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December 16, 2013

INDEPENDENT AUDITOR'S 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 in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements which collectively comprise the City of Clayton, Georgia's basic financial statements and have issued my report thereon dated December 16, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Clayton, Georgia's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, I did not identify any deficiencies in internal control that I consider to be material weaknesses. 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, Georgia'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 *Governmental Auditing Standards.*

Purpose of this Report

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

Jack P. Green, Jr., CPA
Toccoa, Georgia

December 20, 2013

State of Georgia
Department of Audits and Accounts
254 Washington St, S.W.
Suite 322
Atlanta, Georgia 30334-8400

Re: Corrective Action Plan

The City of Clayton recognizes that for the year ended June 30, 2013 the General Government, Police, Streets and Sanitation and Economic Development Departments were in excess of budgeted appropriations in the General Fund.

As explained in the following paragraph the City does not have the accounting expertise to prepare and analyze interim financial data and monitor the budget variances.

The City does not have an accountant that is capable of preparing municipal financial statements which is defined as a significant deficiency under SAS 116. The City has a trained accountant that continues to complete various governmental training and certification provided by the Institute of Government at the University of Georgia and the Georgia Municipal Association. The City's staff does a very good job of recording basic transactions and monitoring internal control. They simply do not have an accountant that is capable of preparing these financial statements. The City does not believe that it is feasible to hire someone at this time to do this level of accounting.

In the current year there was confusion on several budget issues and who was responsible. The City is establishing an annual review process in May to review budget issues and recommend amendments to improve reporting. The City's staff and elected officials will continue to work with the auditor to improve financial reporting

Yours truly,

City of Clayton