CITY OF CLAYTON

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Phone: 706-782-4512 Fax: 706-782-4596

January 8, 2016

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, 2015 Streets and Sanitation Department was in excess of budgeted appropriations in the General Fund.

This was a result of an audit adjustment that separated a DHR grant from the expenditures that made the expenditures be in excess of the budget. This grant was a pass thru grant and all monies were expended by contract therefore the City offset the grant with the expenditures. The City recognizes the problem and will separate grant expenses from grant revenues in the future.

The City accepted a grant/loan from the USDA in a previous year to buy police cars and equipment. The loan was an installment loan with a long term portion that is in violation of Georgia law. The City did not consider this grant/loan to be in violation but will be aware of this situation in the future.

Yours truly,

City of Clayton

CITY OF CLAYTON
CLAYTON, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2015

CITY OF CLAYTON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

January 4, 2016

INDEPENDENT AUDITOR'S OPINION

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

Report on the Financial Statements

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, 2015, 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, each major fund and the remaining fund information of the City of Clayton, Georgia as of June 30, 2015, 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

Required Supplementary Information

Management has omitted Management's Discussions and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information , although not a part of the basic financial statements it is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. My opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States also requires that budgetary comparison information on pages 33-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during by audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurances.

Emphasis of Matter

As described in Notes 6 and 18, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No.27* as well as Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, as of July 1, 2014.* These standards significantly changed the accounting for the City's net pension liability and the related disclosures. My opinions are not modified with respect to this matter.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 4, 2016, 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. CPA
Toccoa, Georgia

BASIC FINANCIAL STATEMENTS

CITY OF CLAYTON
STATEMENT OF NET POSITION
JUNE 30, 2015

EXHIBIT 1

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 586,851	$ 1,100,412	$ 1,687,263
Cash Restricted	20,439	-	20,439
Accounts Receivable	15,693	62,634	78,327
Internal Balances	1,089,897	(1,089,897)	-
Capital Assets			
Land	508,242	141,100	649,342
Construction in Progress	-	198,219	198,219
Depreciable Assets, Net	254,512	6,677,498	6,932,010
Total Assets	$ 2,475,634	$ 7,089,966	$ 9,565,600
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	$ 180	$ 180	$ 360
LIABILITIES			
Accounts Payable	$ 134,993	$ -	$ 134,993
Police Escrowed Funds	6,466	-	6,466
Deposits	-	119,221	119,221
Compensated Absences	-	15,806	15,806
Long-Term Debt			
Due Within One Year	20,854	222,564	243,418
Due Beyond One Year	45,550	1,709,877	1,755,427
Net Pension Liability, Due in more than one Year	205,499	205,500	410,999
Total Liabilities	$ 413,362	$ 2,272,968	$ 2,686,330
DEFERRED INFLOWS OF RESOURCES			
Pension Realted Items	$ 9,752	$ 9,752	$ 19,504
NET POSITION			
Net Investment in Capital Assets	$ 696,350	$ 5,084,376	$ 5,780,726
Restricted for Debt	20,439	-	20,439
Restricted for Economic Development	731	-	731
Unrestricted	1,335,180	(276,950)	1,058,230
Total Net Position	$ 2,052,700	$ 4,807,426	$ 6,860,126

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF ACTIVITIES
JUNE 30, 2015

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	$ 327,154	$ 91,089	$ -	$ -	$ (236,065)	$ -	$ (236,065)
Judicial	144,510	-	-	-	(144,510)	-	(144,510)
Police	878,514	475,438	-	-	(403,076)	-	(403,076)
Streets and Sanitation	561,977	33,507	-	232,669	(295,801)	-	(295,801)
Economic Development	41,314	-	-	-	(41,314)		
Intererest on Long Term Debt	2,366	-	-	-	(2,366)	-	(2,366)
Total Government Activities	$ 1,955,835	$ 600,034	$ -	$ 232,669	$ (1,123,132)	$ -	$ (1,123,132)
Business-Type Activities							
Water and Wastewater	2,917,391	2,890,294	-	-	-	(27,097)	(27,097)
City Hall Complex	105,329	64,972	-	-	-	(40,357)	(40,357)
Total Primary Government	$ 4,978,555	$ 3,555,300	$ -	$ 232,669	$ (1,123,132)	$ (67,454)	$ (1,190,586)
General Revenues							
Taxes:							
Property					$ 800,070	$ -	$ 800,070
Intangible and Transfer					7,667	-	7,667
Franchise					234,395	-	234,395
Accommodations					93,148	-	93,148
Beer and Wine					174,554	-	174,554
Alcohol by Drink					16,772	-	16,772
Insurance Premium					116,014	-	116,014
Unrestricted Investment Earnings					24	98	122
Miscellaneous					16,455	550,327	566,782
Total General Revenues					$ 1,459,099	$ 550,425	$ 2,009,524
Change in Net Position					$ 335,967	$ 482,971	$ 818,938
Transfers					-	-	-
Change in Position after Transfers					$ 335,967	$ 482,971	$ 818,938
Net Position Beginning of Year					1,637,971	4,710,840	6,348,811
Prior Period Adjustments					78,762	(386,385)	(307,623)
Net Position End of Year					$ 2,052,700	$ 4,807,426	$ 6,860,126

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

EXHIBIT 3

	General Fund	Hotel Motel	Total
ASSETS			
Cash	$ 586,120	$ 731	$ 586,851
Cash Restricted	20,439	-	20,439
Accounts Receivable	15,693	-	15,693
Due from Water and Sewer Fund	85,112	-	85,112
Due from City Complex Fund	1,004,785	-	1,004,785
TOTAL ASSETS	$ 1,712,149	$ 731	$ 1,712,880
LIABILITIES			
Accounts Payable	$ 134,993	$ -	$ 134,993
Police Escrowed Funds	6,466	-	6,466
TOTAL LIABILITIES	$ 141,459	$ -	$ 141,459
FUND BALANCES			
Restricted for Debt	$ 20,439	$ -	$ 20,439
Restricted for Economic Development	-	731	731
Unassigned	1,550,251	-	1,550,251
TOTAL FUND BALANCE	$ 1,570,690	$ 731	$ 1,571,421
TOTAL LIABILITIES AND FUND BALANCES	$ 1,712,149	$ 731	$ 1,712,880

Adjustments to the Statement of Net Position

Fund Balance	$ 1,571,421
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	762,754
The deferred outflows of resources, deferred inflows of resources, and the net pension liability related to the City's pension plan are not expected to be liquidated with expendable available financial resources and, therefore are not reported in the funds.	(215,071)
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	(66,404)
Net Position of Governmental Activities (Exhibit 1)	$ 2,052,700

The accompanying notes are an integral part of these statements.

EXHIBIT 4

CITY OF CLAYTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Hotel Motel	Total Government Funds
REVENUES			
Taxes	$ 1,349,471	$ 93,148	$ 1,442,619
Intergovernmental	232,669	-	232,669
Licenses and Permits	90,889	-	90,889
Fines and Forfeitures	475,438	-	475,438
Charges for Services	33,707	-	33,707
Miscellaneous	16,480	-	16,480
TOTAL REVENUES	$ 2,198,654	$ 93,148	$ 2,291,802
EXPENDITURES			
CURRENT:			
General Government	$ 413,716	$ -	$ 413,716
Judicial	144,510	-	144,510
Police	869,035	-	869,035
Streets and Sanitation	554,495	-	554,495
Economic Development	-	41,314	41,314
TOTAL EXPENDITURES	$ 1,981,756	$ 41,314	$ 2,023,070
EXCESS REVENUES OVER EXPENDITURES	$ 216,898	$ 51,834	$ 268,732
OTHER FINANCING SOURCES USES			
Transfer In	51,833	-	51,833
Transfer Out	-	(51,833)	(51,833)
NET CHANGE IN FUND BALANCES	$ 268,731	$ 1	$ 268,732
FUND BALANCE, JULY 1, 2014	878,987	730	879,717
PRIOR PERIOD ADJUSTMENT	422,972	-	422,972
FUND BALANCE, JUNE 30, 2015	$ 1,570,690	$ 731	$ 1,571,421
Adjustments to the Statement of Activities			
Net Change in Fund Balance			$ 268,732
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			(37,880)
Capital Outlays			-
Expenses reported in the statement of activities that do not require the use of current financial resources and therefore, are not reported as expeditures in governmetal funds.			-
			86,562
Repayment of long-term debt principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position			18,553
Change in Net Position of Governmental Activities (Exhibit 2)			$ 335,967

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, 2015

EXHIBIT 5

ASSETS	Water and Wastewater Fund	City Hall Complex	Totals
CURRENT ASSETS			
Cash on Hand and in Bank	$ 1,088,562	$ 11,850	$ 1,100,412
Accounts Receivable	62,634	-	62,634
Total Current Assets	$ 1,151,196	$ 11,850	$ 1,163,046
NONCURRENT ASSETS			
Capital Assets			
Land	$ 41,100	$ 100,000	$ 141,100
Construction in Progress	198,219	-	198,219
Other Capital Assets, Net	5,637,462	1,040,036	6,677,498
Total Noncurrent Assets	5,876,781	1,140,036	7,016,817
TOTAL ASSETS	$ 7,027,977	$ 1,151,886	$ 8,179,863
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	$ 180	$ -	$ 180
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ -	$ -	$ -
Customer Deposits	119,222	-	119,222
Current Portion Long-Term Debt	191,479	31,085	222,564
Compensated Absences	15,806	-	15,806
Due to General Fund	85,112	1,004,785	1,089,897
Total Current Liabilities	$ 411,619	$ 1,035,870	$ 1,447,489
NONCURRENT LIABILITIES			
Bonds Payable	$ 1,709,877	$ -	$ 1,709,877
Net Pension Liability	205,500	-	205,500
Total Noncurrent Liabilities	$ 1,915,377	$ -	$ 1,915,377
TOTAL LIABILITIES	$ 2,326,996	$ 1,035,870	$ 3,362,866
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items	$ 9,751	$ -	$ 9,751
NET POSITION			
Net Investment in Capital Assets	$ 3,975,425	$ 104,166	$ 4,079,591
Unrestricted	715,985	11,850	727,835
Total Net Position	$ 4,691,410	$ 116,016	$ 4,807,426
TOTAL LIABILITIES AND NET POSITION	$ 7,027,977	$ 1,151,886	$ 8,179,863

The accompanying notes are an integral part of this statement.

CITY OF CLAYTON EXHIBIT 6
STATEMENT OF REVENUES, EXPENSE AND FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Water and Wastewater Fund	City Hall Complex	Total
OPERATING REVENUES			
Charges for services	$ 2,890,294	$ -	$ 2,890,294
Rents	-	64,972	64,972
Total Operating Revenues	$ 2,890,294	$ 64,972	$ 2,955,266
OPERATING EXPENSES			
Water Treatment	$ 857,890	$ -	$ 857,890
Water Distribution	726,452	-	726,452
Wastewater Collection	372,769	-	372,769
Wastewater Treatment	449,721	-	449,721
Other Expenses	-	79,762	79,762
Depreciation	443,647	23,681	467,328
Total Operating Expenses	$ 2,850,479	$ 103,443	$ 2,953,922
Operating Income	$ 39,815	$ (38,471)	$ 1,344
Non Operating Revenue (Expenses)			
Interest Income	$ 96	$ 2	$ 98
Sale of Lease	500,000	-	500,000
Other Revenue	50,018	309	50,327
Interest Expense	(66,912)	(1,886)	(68,798)
Total Non Operating Revenue	$ 483,202	(1,575)	$ 481,627
Change in Net Position Before Transfers	$ 523,017	$ (40,046)	$ 482,971
Transfers	-	-	-
Change in Net Position After Transfers	$ 523,017	$ (40,046)	$ 482,971
Net Position Beginning	4,554,778	156,062	4,710,840
Prior Period Adjustment	(386,385)	-	(386,385)
Net Position Ending	$ 4,691,410	$ 116,016	$ 4,807,426

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, 2015

EXHIBIT 7

	Water and Wastewater Fund	City Hall Complex	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customer	$ 2,927,121	$ 64,972	$ 2,992,093
Payments to Suppliers	(1,928,644)	(79,762)	(2,008,406)
Payments to Employees	(485,489)	-	(485,489)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 512,988	$ (14,790)	$ 498,198
CASH FROM INVESTING ACTIVITIES			
Interest Earned	$ 96	$ 2	$ 98
CASH FOR NONCAPITAL FINANCING ACTIVITIES			
Increase Due from General Fund	$ 355,929	$ 19,797	$ 375,726
NET CASH PROVIDED FROM NONCAPITAL FINANCING	$ 355,929	$ 19,797	$ 375,726
CASH FLOWS FOR CAPITAL RELATED FINANCING			
Interest Expense	$ (66,912)	$ (1,886)	$ (68,798)
Increase in Notes Payable	451,750	-	451,750
Bond and Notes Payments	(541,803)	(58,111)	(599,914)
Sale of Lease	500,000	-	500,000
Other Revenue	50,018	$ 309	50,327
Purchased Assets	(759,448)	-	(759,448)
NET CASH FOR CAPITAL RELATED FINANCING	$ (366,395)	$ (59,688)	$ (426,083)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 502,618	$ (54,679)	$ 447,939
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	585,944	66,529	652,473
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,088,562	$ 11,850	$ 1,100,412
Reconciliation of Operating Income to Amounts Provided by Operating Activities			
Operating Income	$ 39,815	$ (38,471)	$ 1,344
Adjustments to Reconcile Operating Income to Net Cash Provided ByOperating Activities			
Depreciation	$ 443,647	$ 23,681	$ 467,328
Decrease in Accounts Receivable	32,264	-	32,264
Increase in Accounts Payable	-	-	-
Decrease in Customer Deposits	4,563	-	4,563
Decrease in Compensated Absences	(7,301)	-	(7,301)
TOTAL ADJUSTMENTS	$ 473,173	$ 23,681	$ 496,854
NET CASH PROVIDED FOR OPERATING ACTIVITIES	$ 512,988	$ (14,790)	$ 498,198

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, 2015

EXHIBIT 8

Assets	
Investments	
Regions Morgan Keegan Trust Account	$ 946,079
Liabilities and Net Assets	
Liabilities	
Accounts Payable	$ -
Other Payables	-
Total Liabilities	$ -
Net Position Held in Trust for Pension Benefits	$ 946,079

(A schedule of funding progress is presented on page 22)

The accompanying notes are an integral part of this statement.

EXHIBIT 9

CITY OF CLAYTON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Additions		
Investment Income	$	17,309
Less: Managaement/Admin. Fees		(9,836)
Net Investment Income	$	7,473
Employer Contribution		331,500
Deductions		
Benefit Payments (Gross)		(448,005)
Changes in Net Position	$	(109,032)
Net Position Beginning of Year		1,055,111
Net Position End of the Year	$	946,079

Components of Annual Pension Costs

Annual Required Contribution	$ 121,673
Interest on Pension Obligation	-0-
Adjustment to Annual Required Contribution	8,231
Annual Pension Cost	$ 129,886

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) net investment 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.

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-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 30, 2014, the City Commission adopted the original budget, it was later 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 20, 2014 the due date for these taxes was January 20, 2015 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 2014 property assessment is $226,582,173 real property and personal property. The 2014 property was taxed at 8.255 mills on 40 % of appraised value and the tax due before errors and omissions was $ 734,757.

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 is classified in the following categories: Net Investment in Capital Assets, - 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 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).

S. Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the separate financial statement elements, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. Deferred outflows and inflows relate to the recording of charges in the net pension liability and changes in the actuarial estimates which are recognized over time rather than in the year of occurrence.

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, 2015 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, 2015 consist of:

General Fund Property Taxes	$ 15,693
Water and Sewer Fund Service Fees	62,634
Total	$ 78,327

NOTE 4 – CAPITAL ASSETS

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

	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Non-Depreciable Assets				
Land	$ 508,242	$ -	$ -	$ 508,242
Other Capital Assets				
Buildings	$ 297,225	$ -	$ -	$ 297,225
Machinery & Equipment	689,307	-	248,352	440,955
Total Depreciable Assets	$ 986,532	$ -	$ 248,352	$ 738,180
Less: Accumulated Depreciation for:				
Buildings	$ (93,955)	$ -	$ -	$ (93,955)
Machinery & Equipment	(588,185)	37,880	(236,352)	$ (389,713)
Net Depreciable Assets	$ 304,392	$ 37,880	$ 12,000	$ 254,512

Depreciation was charged to governmental functions as follows:

Police	$ 30,398
Streets and Sanitation	7,482
Total	$ 37,880

The following is a summary of proprietary fund-type capital assets at June 30, 2015:

City Hall Complex	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Non-Depreciable Assets				
Land	$ 100,000	$ -	$ -	$ 100,000
Buildings	$ 1,134,065	$ -	$ -	$ 1,134,065

Water and Wastewater Fund	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Non-Depreciable Assets				
Land & Improvements	$ 41,100	$ -	$ -	$ 41,100
Construction in Progress	$ -	$ 198,219	$ -	$ 198,219
Other Capital Assets				
Utility Systems	$ 11,747,060	$ -	$ 242,584	$ 11,504,476
Machinery & Equipment	964,371	561,229	-	1,525,600
Total Depreciable Assets	$ 12,711,431	$ 561,229	$ 242,584	$ 13,030,076
Less: Accumulated Depreciation for:				
Utility Systems	$ (6,079,317)	$ (406,202)	$ -	$ (6,485,519)
Machinery & Equipment	(869,649)	(37,446)	-	(907,095)
Net Depreciable Assets	$ 5,762,465	$ 117,581	$ 242,584	$ 5,637,462

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 Water Fund owes the General Fund $ 85,112

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 $ 51,833.

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. The General Fund paid $ 54,600 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 Complex and the old City Hall to the departments of the City and outside nonprofit, governmental agencies and commercial enterprises, 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 2015 was $ 129,886, the contribution for 2016 will be $ 112,278. The plan does not allow employee contribution.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2015. 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, 2015, there were 28 active and 5 inactive participants.

Annual Pensions Costs

Valuation Date	Annual Pension Cost	Contributions	of Costs Contributed	Net Pension Obligations
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)
07/01/13	152,296	155,000	101.8%	(2,704)
07/01/14	129,886	331,500	255.20%	(201,614)

Net Pension Liability of the City

Effective July, 1, 2014, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which significantly changed the City's accounting for pension amounts. The information disclosed below is presented in accordance with this new standard.

The City's net pension liability was measured as of July 1, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as July 1, 2014

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

Changes in the Net Pension Liability of the City. The changes in the components of the net pension liability of the City for the fiscal year ended June 30, 2015 were as follows:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances at 6/30/14	$ 1,687,438	$ 1,053,908	$ 633,530
Changes for the Year			
Service Cost	87,848		87,848
Interest	48,693		48,693
Differences between expected and actual experience	-	-	-
Assumption Changes	360		360
Contributions-Employer		331,500	(331,500)
Net Investments Income		37,614	(37,614)
Benefit Payments	(448,005)	(448,005)	
Administrative Expense	9,682	-	9,682
Other Changes			
Net Changes	(301,422)	$ (78,891)	$ (222,531)
Balance at 6/30/15	$ 1,386,016	$ 975,017	$ 410,999

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial

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
07/01/08	$ 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%
07/01/14	1,053,908	1,687,438	(633,530)	62.5%	1,124,192	56.4%

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 an agreement to purchase water from the Clayton-Rabun County Water and Sewer Authority. The City agreed to operate and maintain the Authority's facilities, lines and administrative requirements. The Rabun County Water and Sewer Authority was created and has assume the assets, liabilities and contracts of the old authority. On December 1, 2014 the Rabun County Water and Sewer Authority took over operation and maintenance of the facilities and began billing on a consumption basis.

The City, in a separate agreement with the Authority, leased 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. The authority purchased the remainder of this lease during the year for $ 500,000 and is now operating the Phase II project.

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, the City of Clayton will bill and collect all customer sewer bills for the Town of Mountain City and pay all USDA loans, 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 was the Streets and Sanitation $ 114,133.

In a prior year the City purchased new police cars and equipment thru a USDA grant and loan. A portion of the loan was a general fund long term liability which is a violation of Georgia law.

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 7/1/2014	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Notes Payable	$ 89,199	$ -	$ 58,114	$ 31,085	$ 31,085
Total	$ 89,199	$ -	$ 58,114	$ 31,085	$ 31,085

3.0% Note Payable	June 30	Principal	Interest
Principal and Interest of $ 5,000 due monthly	2016	31,085	287
$ 300,000 to purchase Building and Land		$ 31,085	$ 287

Current Portion	$ 31,085
Long Term	-
	$ 31,085

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 7/1/2014	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Notes Payable	$ 1,991,409	$ 451,750	$ 541,803	$ 1,901,356	$ 191,479
Total	$ 1,991,409	$ 451,750	$ 541,803	$ 1,901,356	$ 191,479

4.36% Note Payable	June 30	Principal	Interest
Principal and Interest of $ 7,422 due quarterly	2016	$ 25,928	$ 3,761
	2017	27,078	2,611
$ 297,608 to install	2018	28,278	1,411
Booster Pumps to North Loop	2019	14,573	239
		$ 95,857	$ 8,022

Current Portion	$ 25,928
Long Term	69,929
	$ 95,857

Series 1997 4.5% Water Revenue Bond Principal and Interest of $ 1,365 Due Monthly		June 30	Principal	Interest	Total
		2016	$ 6,198	$ 10,182	$ 16,380
		2017	6,481	9,899	16,380
Current Portion	$ 6,198	2018	6,779	9,601	16,380
	216,011	2019	7,090	9,290	16,380
	222,209	2020	7,416	8,964	16,380
		2021	7,757	8,623	16,380
		2022	8,113	8,267	16,380
$ 303,300 borrowed for		2023	8,486	7,894	16,380
Improvements in Water		2024	8,876	7,504	16,380
and Wastewater systems		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
			$ 222,209	$ 132,691	$ 354,900

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	$ 48,899
Long Term	557,070
	$ 605,969

June 30	Principal	Interest
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	17,796	275
	$ 605,969	$ 135,071

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

Current Portion	$ 66,196
Long Term	477,751
	$ 543,947

Used to extend sewer line on Highway US 76 East

June 30	Principal	Interest
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	90,250	2,954
	$ 543,947	$ 108,482

GEFA Loan .5% Interest
Principal and Interest of $ 3,860 per month

Used to purchase and install screw press for Waste Water Treatment

Current Portion	$ 44,258
Long Term	389,116
	$ 433,374

June 30	Principal	Interest
2016	$ 44,258	$ 2,066
2017	44,480	1,844
2018	44,702	1,621
2019	44,926	1,397
2020	45,152	1,172
2021	45,378	945
2022	45,605	718
2023	45,834	489
2024	46,063	260
2025	26,976	45
	$ 433,374	$ 10,557

General Fund Long Term Debt

In 2013 the City was awarded a grant and loan from the USDA to purchase vehicles and equipment for the Police Department. The grant was for $ 25,000 and the loan was a five year loan for $ 104,500.

Government Activities	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2014	Due Within One Year
Notes Payable	$ 84,957	$ -	$ 18,553	$ 66,404	$ 20,854
Total	$ 84,957	$ -	$ 18,553	$ 66,404	$ 20,854

3.125% Note Payable	June 30	Principal	Interest
Principal and Interest of $1,886 due monthly	2016	$ 20,854	$ 1,778
	2017	21,515	1,117
$104,500 to purchase	2018	22,197	435
Vehicles and Police Equipment	2019	1,838	48
		$ 66,404	$ 3,378

Current Portion	$ 20,854
Long Term	45,550
	$ 66,404

The grant and loan agreement stated that there would be a sinking fund established which the City would pay $ 189.00 monthly in addition to the loan payment. The sinking fund is fully funded.

The USDA loan is a long term loan for general fund purposes which is a violation of Georgia Law.

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	$ 93 148	
Tourism Promotion	41,313	44.4%

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.

NOTE 18 –PRIOR PERIOD ADJUSTMENTS

The City has used advances between the General Fund and Water and Sewer Fund to pay for normal operating expenses that were used for both funds, to reimburse collections in one fund that a portion should be allocated to another fund and for various advances throughout the history of both funds. In the current year the City has carried out an extensive project to verify and reconcile those old interfund accounts. Those amounts that could not be verified were written off as a prior period adjustment for both funds as approved by the City Council.

With the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No.27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* effective July 1, 2014. This statement significantly changed the City's accounting for pension amounts. As a result of this change in accounting principle, the City was required to restate beginning net position for governmental activities and business type activities.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILTY AND RELATED RATIOS

June 30, 2015

		2015
Total Pension Liability		
Service cost	$	87,848
Interest on total pension liability		48,693
Changes of benefit terms		-
Differences between expected and actual experience		360
Administrative		9,682
Benefit payment, including refunds of employee contributions		(448,005)
Net change in total pension liability		(301,422)
Total pension liability - beginning		1,687,438
Total pension liability – ending (a)	$	1,386,016
Plan fiduciary net position		
Contributions – employer		331,500
Net investment income		37,614
Benefit payments, including refunds of employee contributions		(448,005)
Net change in plan fiduciary net position		(78,891)
Plan fiduciary net position - beginning		1,053,908
Plan fiduciary net position – ending (b)	$	975,017
City's net pension liability – ending (a) – (b)	$	410,99
Plan fiduciary net position as a percentage total of the pension liability		70.3%
Covered employee payroll	$	1,007,998
City's net pension liability as a percentage of covered – employee payroll		40.8

Notes to the schedule
The schedule will present 10 years of information once it is accumulated.

Required Supplementary Information

June 30, 2015

	2015
Actuarially determined contribution	$ 129,886
Contributions in relation to the actuarially determined contribution	126,886
Contribution deficiency (excess)	$ -
Covered employee payroll	1,007,998
Contributions as a percentage of covered-employee payroll	12.9%

Notes to the schedule

Valuation Date	
Cost method	Entry age normal cost method
Actuarial Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amounts that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
Assumed Rate of Return On Investments	6.75%
Projected Salary Increases	5.0%
Cost-of-living adjustment	0.0%
Amortization Method	Closed level dollar for unfunded liability
Remaining Amortization Period	None Remaining

The schedule will present 10 years of information once it is accumulated.

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 Streets and Sanitation Department exceeded its approved budget.

Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

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CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

January 4, 2016

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, 2015, 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 January 4, 2016.

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 on 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. A *significant deficiency* is a deficiency, or 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.

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, material weaknesses may exist that have not been identified.

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