CITY OF CLAYTON
CLAYTON, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2016

CITY OF CLAYTON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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February 17, 2017

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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, 2016, 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.

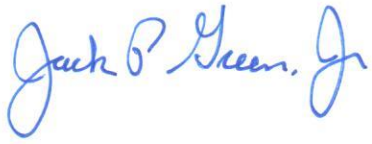
Other Matters

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 the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions on pages 29-32 and 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.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated February 17, 2017, 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, 2016

EXHIBIT 1

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 243,835	$ 1,654,911	$ 1,898,746
Cash Restricted	20,441	-	20,441
Accounts Receivable	18,300	102,873	121,173
Internal Balances	1,252,176	(1,252,176)	-
Capital Assets			
Land	508,242	141,100	649,342
Construction in Progress	-	382,685	382,685
Depreciable Assets, Net	303,569	6,193,272	6,496,841
Total Assets	$ 2,346,563	$ 7,222,665	$ 9,569,228
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	$ 658,276	$ 375,124	$ 1,033,400
LIABILITIES			
Accounts Payable	$ 42,185	$ -	$ 42,185
Police Escrowed Funds	6,466	-	6,466
Deposits	-	129,980	129,980
Compensated Absences	-	15,806	15,806
Long-Term Debt			
Due Within One Year	21,515	244,992	266,507
Due Beyond One Year	24,035	1,468,191	1,492,226
Net Pension Liability, Due in more than one Year	244,061	139,080	383,141
Total Liabilities	$ 338,262	$ 1,998,049	$ 2,336,311
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items	$ 237,555	$ 135,373	$ 372,928
NET POSITION			
Net Investment in Capital Assets	$ 756,561	$ 3,999,089	$ 4,755,650
Restricted for Debt	20,441	-	20,441
Restricted for Economic Development	734	-	734
Unrestricted	1,651,286	1,465,278	3,116,564
Total Net Position	$ 2,429,022	$ 5,464,367	$ 7,893,389

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
STATEMENT OF ACTIVITIES
JUNE 30, 2016

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	$ 436,250	$ 97,948	$ -	$ -	$ (338,302)	$ -	$ (338,302)
Judicial	167,646	-	-	-	(167,646)	-	(167,646)
Police	930,384	397,738	-	-	(532,646)	-	(532,646)
Streets and Sanitation	394,942	33,600	-	35,976	(325,366)	-	(325,366)
Economic Development	38,685	-	-	-	(38,685)	-	(38,685)
Intererest on Long Term Debt	1,778	-	-	-	(1,778)	-	(1,778)
Total Government Activities	$ 1,969,685	$ 529,286	$ -	$ 35,976	$ (1,404,423)	$ -	$ (1,404,423)
Business-Type Activities							
Water and Wastewater	2,709,498	3,005,464	-	23,484	-	319,450	319,450
City Hall Complex	35,875	49,535	-	-	-	13,660	13,660
Total Primary Government	$ 4,715,058	$ 3,584,285	$ -	$ 59,460	$ (1,404,423)	$ 333,110	$ (1,071,313)
General Revenues							
Taxes:							
Property					$ 727,444	$ -	$ 727,444
Intangible and Transfer					10,474	-	10,474
Franchise					240,631	-	240,631
Accommodations					107,273	-	107,273
Beer, Wine and Alcohol					180,044	-	180,044
Motor Vehicle					26,765	-	26,765
Insurance Premium					123,942	-	123,942
Unrestricted Investment Earnings					49	142	191
Miscellaneous					4,266	6,327	10,593
Total General Revenues					$ 1,420,888	$ 6,469	$ 1,427,357
Change in Net Position					$ 16,465	$ 339,579	$ 356,044
Transfers					-	-	-
Change in Position after Transfers					$ 16,465	$ 339,579	$ 356,044
Net Position Beginning of Year					2,052,700	4,807,426	6,860,126
Prior Period Adjustments					359,857	317,362	677,219
Net Position End of Year					$ 2,429,022	$ 5,464,367	$ 7,893,389

The accompanying notes are an integral part of these statements.

CITY OF CLAYTON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

EXHIBIT 3

	General Fund	Hotel Motel	Total
ASSETS			
Cash	$ 243,101	$ 734	$ 243,835
Cash Restricted	20,441	-	20,441
Accounts Receivable	18,300	-	18,300
Due from Water and Sewer Fund	247,391	-	247,391
Due from City Complex Fund	1,004,785	-	1,004,785
TOTAL ASSETS	$ 1,534,018	$ 734	$ 1,534,752
LIABILITIES			
Accounts Payable	$ 42,185	$ -	$ 42,185
Police Escrowed Funds	6,466	-	6,466
TOTAL LIABILITIES	$ 48,651	$ -	$ 48,651
FUND BALANCES			
Restricted for Debt	$ 20,441	$ -	$ 20,441
Restricted for Economic Development	-	734	734
Unassigned	1,464,926	-	1,464,926
TOTAL FUND BALANCE	$ 1,485,367	$ 734	$ 1,486,101
TOTAL LIABILITIES AND FUND BALANCES	$ 1,534,018	$ 734	$ 1,534,752

Adjustments to the Statement of Net Position	
Fund Balance	$ 1,486,101
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	811,812
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.	176,660
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	(45,551)
Net Position of Governmental Activities (Exhibit 1)	$ 2,429,022

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, 2016

	General Fund	Hotel Motel	Total Government Funds
REVENUES			
Taxes	$ 1,309,300	$ 107,273	$ 1,416,573
Intergovernmental	35,976	-	35,976
Licenses and Permits	97,203	-	97,203
Fines and Forfeitures	397,738	-	397,738
Charges for Services	34,345	-	34,345
Miscellaneous	4,315	-	4,315
TOTAL REVENUES	$ 1,878,877	$ 107,273	$ 1,986,150
EXPENDITURES			
CURRENT:			
General Government	$ 463,414	$ -	$ 463,414
Judicial	167,646	-	167,646
Police	1,007,975	-	1,007,975
Streets and Sanitation	393,750	-	393,750
Economic Development	-	38,685	38,685
TOTAL EXPENDITURES	$ 2,032,785	$ 38,685	$ 2,071,470
EXCESS REVENUES OVER EXPENDITURES	$ (153,908)	$ 68,588	$ (85,320)
OTHER FINANCING SOURCES USES			
Transfers	68,585	(68,585)	-
NET CHANGE IN FUND BALANCES	$ (85,323)	$ 3	$ (85,320)
FUND BALANCE, JULY 1, 2015	1,570,690	731	1,571,421
FUND BALANCE, JUNE 30, 2016	$ 1,485,367	$ 734	$ 1,486,101

Adjustments to the Statement of Activities	
Net Change in Fund Balance	$ (85,320)
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	(54,549)
Capital Outlays	103,605
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 governmental funds. Deferred Outflow $ 68,457, Deferred Inflows $ -30,311 Pension Libility $ -6,270.	31,876
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	20,853
Change in Net Position of Governmental Activities (Exhibit 2)	$ 16,465

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, 2016

EXHIBIT 5

ASSETS	Water and Wastewater Fund	City Hall Complex	Totals
CURRENT ASSETS			
Cash on Hand and in Bank	$ 1,631,804	$ 23,107	$ 1,654,911
Accounts Receivable	102,873	-	102,873
Total Current Assets	$ 1,734,677	$ 23,107	$ 1,757,784
NONCURRENT ASSETS			
Capital Assets			
Land	$ 41,100	$ 100,000	$ 141,100
Construction in Progress	382,685	-	382,685
Other Capital Assets, Net	5,176,917	1,016,355	6,193,272
Total Noncurrent Assets	5,600,702	1,116,355	6,717,057
TOTAL ASSETS	$ 7,335,379	$ 1,139,462	$ 8,474,841
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	$ 375,124	$ -	$ 375,124
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	$ -	$ -	$ -
Customer Deposits	129,980	-	129,980
Current Portion Long-Term Debt	171,542	-	171,542
Construction Loan	73,450	-	73,450
Compensated Absences	15,806	-	15,806
Due to General Fund	247,391	1,004,785	1,252,176
Total Current Liabilities	$ 638,169	$ 1,004,785	$ 1,642,954
NONCURRENT LIABILITIES			
Bonds Payable	$ 1,468,191	$ -	$ 1,468,191
Net Pension Liability	139,080	-	139,080
Total Noncurrent Liabilities	$ 1,607,271	$ -	$ 1,607,271
TOTAL LIABILITIES	$ 2,245,440	$ 1,004,785	$ 3,250,225
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items	$ 135,373	$ -	$ 135,373
NET POSITION			
Net Investment in Capital Assets	$ 3,887,519	$ 111,570	$ 3,999,089
Unrestricted	1,442,171	23,107	1,465,278
Total Net Position	$ 5,329,690	$ 134,677	$ 5,464,367

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, 2016

	Water and Wastewater Fund	City Hall Complex	Total
OPERATING REVENUES			
Charges for services	$ 3,005,464	$ -	$ 3,005,464
Rents	-	49,535	49,535
Total Operating Revenues	$ 3,005,464	$ 49,535	$ 3,054,999
OPERATING EXPENSES			
Water Purchases	$ 855,931	$ -	$ 855,931
Water Distribution	616,691	-	616,691
Wastewater Collection	273,789	-	273,789
Wastewater Treatment	431,940	-	431,940
Other Expenses	-	11,927	11,927
Depreciation	468,645	23,681	492,326
Total Operating Expenses	$ 2,646,996	$ 35,608	$ 2,682,604
Operating Income	$ 358,468	$ 13,927	$ 372,395
Non Operating Revenue (Expenses)			
Interest Income	$ 141	$ 1	$ 142
Grants	23,484	-	23,484
Other Revenue	1,327	5,000	6,327
Interest Expense	(62,502)	(267)	(62,769)
Total Non Operating Revenue	$ (37,550)	4,734	$ (32,816)
Change in Net Position Before Transfers	$ 320,918	$ 18,661	$ 339,579
Transfers	-	-	-
Change in Net Position After Transfers	$ 320,918	$ 18,661	$ 339,579
Net Position Beginning	4,691,410	116,016	4,807,426
Prior Period Adjustment	317,362	-	317,362
Net Position Ending	$ 5,329,690	$ 134,677	$ 5,464,367

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, 2016

EXHIBIT 7

	Water and Wastewater Fund	City Hall Complex	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customer	$ 2,975,983	$ 49,535	$ 3,025,518
Payments to Suppliers	(1,719,733)	(11,927)	(1,731,660)
Payments to Employees	(458,618)	-	(458,618)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 797,632	$ 37,608	$ 835,240
CASH FROM INVESTING ACTIVITIES			
Interest Earned	$ 141	$ 1	$ 142
CASH FROM NONCAPITAL FINANCING ACTIVITIES			
Increase Due from General Fund	$ 162,279	-	$ 162,279
NET CASH PROVIDED FROM NONCAPITAL FINANCING	$ 162,279	-	$ 162,279
CASH FLOWS FOR CAPITAL RELATED FINANCING			
Interest Expense	$ (62,502)	$ (267)	$ (62,769)
Decrease in Notes Payable	(261,623)	-	(261,623)
Increase in Construction Loans	73,450	(31,085)	42,365
Grants	23,484	-	23,484
Constructions in Progress	(182,846)	-	(182,846)
Other Revenue	1,327	5,000	6,327
Purchased Assets	(8,100)	-	(8,100)
NET CASH FOR CAPITAL RELATED FINANCING	$ (416,810)	$ (26,352)	$ (443,162)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 543,242	$ 11,257	$ 554,499
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,088,562	11,850	1,100,412
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,631,804	$ 23,107	$ 1,654,911
Reconciliation of Operating Income to Amounts Provided by Operating Activities			
Operating Income	$ 358,468	$ 13,927	$ 372,395
Adjustments to Reconcile Operating Income to Net Cash Provided ByOperating Activities			
Depreciation	$ 468,645	$ 23,681	$ 492,326
Increase in Accounts Receivable	(40,239)	-	(40,239)
Increase in Accounts Payable	-	-	-
Increase in Customer Deposits	10,758	-	10,758
TOTAL ADJUSTMENTS	$ 439,164	$ 23,681	$ 462,845
NET CASH PROVIDED FOR OPERATING ACTIVITIES	$ 797,632	$ 37,608	$ 835,240

The accompanying notes are an integral part of this statement.

EXHIBIT 8

CITY OF CLAYTON
STATEMENT OF NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Assets

Investments	
Trust Account	$ 960,185

Liabilities and Net Assets

Liabilities	
Accounts Payable	$ -
Other Payables	-
Total Liabilities	$ -
Net Position Held in Trust for Pension Benefits	$ 960,185

(A schedule of funding progress is presented on page 29)

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, 2016

Additions		
Investment Income	$	32,256
Less: Managaement/Admin. Fees		(6,239)
Net Investment Income	$	26,017
Employer Contribution		112,000
Deductions		
Benefit Payments (Gross)		(123,912)
Changes in Net Position	$	14,105
Net Position Beginning of Year		946,080
Net Position End of the Year	$	960,185

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 and Hotel Motel Fund are 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, 2015, the City Commission adopted the original budget, the budget has not been 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, 2015 the due date for these taxes was January 20, 2016 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 2015 property assessment is $ 225,281,885 real property and personal property. The 2015 property was taxed at 8.255 mills on 40 % of appraised value and the tax due before errors and omissions was $ 733,380.

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, 2016 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, 2016 consist of:

General Fund Property Taxes	$ 18,300
Water and Sewer Fund Service Fees	102,873
Total	$ 121,173

NOTE 4 – CAPITAL ASSETS

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

	Balance 06/30/15	Additions	Deletions	Balance 06/30/16
Non-Depreciable Assets				
Land	$ 508,242	$ -	$ -	$ 508,242
Other Capital Assets				
Buildings	$ 297,225	$ -	$ -	$ 297,225
Machinery & Equipment	440,955	103,606	-	544,561
Total Depreciable Assets	$ 738,180	$ 103,606	$ -	$ 841,786
Less: Accumulated Depreciation for:				
Buildings	$ (93,955)	$ -	$ -	$ (93,955)
Machinery & Equipment	(389,713)	(54,549)	-	$ (444,262)
Net Depreciable Assets	$ 254,512	$ 49,057	$ -	$ 303,569

Depreciation was charged to governmental functions as follows:

Police	$ 49,467
Streets and Sanitation	5,082
Total	$ 54,549

The following is a summary of proprietary fund-type capital assets at June 30, 2016:

City Hall Complex	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Land	$ 100,000	$ -	$ -	$ 100,000
Buildings	$ 1,134,065	$ -	$ -	$ 1,134,065
Less: Accumulated Depreciation	(94,029)	(23,681)	-	(117,710)
	$ 1,040,036	$ (23,681)	$ -	$ 1,016,355

Water and Wastewater Fund	Balance 06/30/15	Additions	Deletions	Balance 06/30/16
Non-Depreciable Assets				
Land & Improvements	$ 41,100	$ -	$ -	$ 41,100
Construction in Progress	$ 198,219	$ 184,466	$ -	$ 382,685
Other Capital Assets				
Utility Systems	$ 11,504,476	$ 8,099	$ -	$ 11,512,575
Machinery & Equipment	1,525,600	-	-	1,525,600
Total Depreciable Assets	$ 13,030,076	$ 8,099	$ -	$ 13,038,175
Less: Accumulated Depreciation for:				
Utility Systems	$ (6,485,519)	$ (424,109)	$ -	$ (6,909,628)
Machinery & Equipment	(907,095)	(44,535)	-	(951,630)
Net Depreciable Assets	$ 5,637,462	$ (460,545)	$ -	$ 5,176,917

Construction in Progress –The City has a project to renovate water and sewer lines. The Project is now evaluating the scope of the work to be done. The project will be paid for by GEFA grants, loans and City funds .

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 $ 247,391

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 $ 65,585.

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, as authorized by the City Commission, has established a non-contributory defined benefit pension plan (The City of Clayton Retirement Plan), covering substantially all of the City's employees. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are provided by the Plan whereby retirees receive 2% (1.25% for service prior to July 1, 1988) of the Participant's Average Monthly Compensation multiplied by the Participants total number of Years of Service. The City Commission, in its role as the Plan sponsor, has the governing authority to establish and amend from time to time, the benefits provided and the contribution rates of the City and its employees.

Plan Membership

As of June 30, 2016, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

Inactive plan members of beneficiaries currently receiving benefits	4
Inactive plan members entitiled to but not receiving benefits	2
Active plan members	25
	31

Contributions

The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the Plan, as adopted by the City Commission, is to contribute an amount equal to or greater than the actuarially recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members, as determined by the City Commission. For the fiscal year ended June 30, 2016, the City's contribution rate was 11.42 % of annual payroll. City contributions to the Plan were $ 112,000 for the fiscal year ended June 30, 2016. Employees of the City of Clayton do not contribute to the Plan.

Net Pension Liability of the City

The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2016 with update procedures performed by the actuary to roll forward to the total pension liability measured as of June 30, 2016.

Actuarial Assumptions

The total pension liability in the June 30 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 %
Investment rate of return	2.85% to 6.75 %

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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015-June 30, 2016.

Cost of living adjustments were assumed to be 3.00% although the Plan allowance for annual cost of living adjustment is variable, as established by the City Commission, in an amount not to exceed 4%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the table on the following page.

NOTE 7 – 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 8 – AGREEMENT WITH THE WATER AUTHORITY

The City has an agreement to purchase water from the Rabun County Water and Sewer Authority. The City also has an temporary agreement to allow the Authority to use the City's water lines to deliver water to the northern portion of the County. This agreement will end when the Authority completes its northern water plant.

NOTE 9 – 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 10 - 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. The Town of Tiger is in the process of selling its wastewater system to the Rabun County Water and Sewer Authority. The agreements to treat wastewater will continue with the Authority.

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 11 - 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.

The General Government, Judicial and Police Departments expenditures exceeded approved appropriations which is a violation of Georgia law.

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 12 - 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. This debt was paid in full in the current year.

Business-Type Activities	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Notes Payable	$ 31,085	$ -	$ 31,085	$ -	$ -
Total	$ 31,085	$ -	$ 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 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Notes Payable	$ 1,901,356	$ -	$ 261,623	$ 1,639,733	$ 171,542
Total	$ 1,901,356	$ -	$ 261,623	$ 1,639,733	$ 171,542

Series 1997		June 30	Principal	Interest	Total
4.5% Water Revenue Bond					
Principal and Interest of					
$ 1,365 Due Monthly		2017	$ 6,481	$ 9,899	$ 16,380
		2018	6,779	9,601	16,380
Current Portion	$ 6,481	2019	7,090	9,290	16,380
	209,214	2020	7,416	8,964	16,380
	215,695	2021	7,757	8,623	16,380
		2022	8,113	8,267	16,380
		2023	8,486	7,894	16,380
$ 303,300 borrowed for		2024	8,876	7,504	16,380
Improvements in Water		2025	9,283	7,097	16,380
and Wastewater systems		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	10,358	562	10,920
			$ 215,695	$ 122,825	$ 338,520

3.98% Water Revenue Bond		June 30	Principal	Interest
Principal and Interest of $ 18,074		2017	$ 50,875	$ 21,422
due quarterly		2018	52,930	19,367
		2019	55,068	17,229
Used to replace sewer line and		2020	57,293	15,004
water meters in 2005		2021	59,607	12,690
		2022	62,015	10,282
Current Portion	$ 50,875	2023	64,521	7,776
Long Term	506,294	2024	67,127	5,170
	$ 557,169	2025	69,838	2,458
		2026	17,895	179
			$ 557,169	$ 111,577

GEFA Loan 5.2% Interest		June 30	Principal	Interest
Principal and Interest of		2017	$ 69,706	$ 23,498
$ 23,301 due quarterly		2018	73,402	19,802
		2019	77,294	15,911
Current Portion	$ 69,706	2020	81,392	11,812
Long Term	408,046	2021	85,707	7,497
	$ 477,752	2022	90,251	2,954
Used to extend sewer line on			$ 477,752	$ 81,474
Highway US 76 East				

		June 30	Principal	Interest
		2017	$ 44,480	$ 1,844
GEFA Loan .5% Interest		2018	44,702	1,621
Principal and Interest of		2019	44,926	1,397
$ 3,860 per month		2020	45,152	1,172
		2021	45,378	945
Used to purchase and		2022	45,605	718
install screw press for		2023	45,834	489
Waste Water Treatment		2024	46,063	260
		2025	26,977	45
Current Portion	$ 44,480			
Long Term	344,637		$ 389,117	$ 10,557
	$ 389,117			

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 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Notes Payable	$ 66,404	$ -	$ 20,853	$ 45,551	$ 21,515
Net Pension Liability	$ 220,698	$ 23,363	$ -	$ 244,061	$ -

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.

Lease Purchase

The City has entered into an agreement to lease with the option to purchase equipment used in the streets department. The purchase price of the equipment is $ 60,121 with monthly lease payments of $ 1,097.21 renewable on an annual basis.

NOTE 13 - 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 14 - 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	$ 107,273	
Tourism Promotion	38,685	36.1%

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

NOTE 15 – 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 16 – LITIGATION AND CONTINGENT LIABILITIES

The City is in litigation with the Rabun County Water and Sewer Authority concerning service areas, rates for water purchased from the Authority and water transported through the City water lines for the Authority's northern water system. There is no estimate of outcome of this litigation.

The City is being sued by a former employee for wrongful termination. This litigation is being defended by the City's insurance carrier.

NOTE 17 –PRIOR PERIOD ADJUSTMENTS

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. A review of these calculations determined that the beginning balances needed adjusting for governmental activities and business type activities.

CITY OF CLAYTON
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2016

Schedule of Changes in the City's Net Pension Liability
And Related Ratios

	2016
Total Pension Liability	
Service Cost	$ 68,292
Interest on Total Pension Liability	91,251
Changes of Benefit Terms	--
Differences Between Expected and Actual Experience	(58,793)
Other	14,622
Benefit Payments, Including Refunds of Employee Contributions	(123,912)
Net Change In Total Pension Liability	$ (8,540)
Total Pension Liability – Beginning	1,351,866
Total Pension Liability – Ending (a)	$ 1,343,326
Plan Fiduciary Net Position	
Contributions—Employer	$ 112,000
Net Investment Income	32,256
Benefit Payments, Including Refunds of Employee Contributions	(123,912)
Administrative Expenses	(6,238)
Other	0
Net Change in Plan Fiduciary Net Position	$ 14,106
Plan Fiduciary Net Position—Beginning	946,079
Plan Fiduciary Net Position – Ending (b)	$ 960,185
City's Net Pension Liability—Ending (a-b)	$ 383,141
Plan Fiduciary Net Positions As A Percentage of The Total Pension Liability	28.5%
Covered Employee Payroll	$ 943,755
City's Net Pension Liability As A Percentage of Covered Employee Payroll	40.6%

CITY OF CLAYTON
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

SCHEDULE OF CITY CONTRIBUTIONS

		2016
Actuarially Determined Contribution		$ 112,000
Contributions in Relation to the Actuarially Determined Contribution		$ 112,000
Contribution Deficiency (Excess)		---
Covered Employee Payroll		$ 943,755
Contributions as a Percentage of Covered Employee Payroll		11.9%
Notes to the Schedule		
Valuation Date	June 30, 2016	
Cost Method	Projected Unit Credit	
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	3.25%	
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.		

Notes To The Schedule

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

Net Pension Liability of the City (Continued)

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, 2016 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/15	$ 1,351,866	$ 946,079	$ 405,787
Changes for the year:			
Service cost	68,292	----	68,292
Interest	91,251	----	91,251
Differences between expected and actual Experience	(58,793)	----	(58,793)
Contributors—employer	14,622	112,000	(112,000)
Change of Assumption			
Net Investment Income	---	32,256	(32,256)
Benefit Payments, including refunds of Employee contributions	(123,912)	(123,912)	---
Administrative Expense	---	(6,238)	6,238
Net Changes	$ (8,540)	$ 14,106	$ (22,646)
Balances at 6/30/16	$ 1,343,326	$ 960,185	$ 383,141

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.

Required Supplementary Information

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the System recognized pension expense of $ 43,205. At June 30, 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	(58,793)
Changes of assumptions	14,622	0
Net difference between projected And actual earnings	30,993	0
Total	45,615	(58,793)

Amounts reported in deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	$ (220,478)
2018	(161,151)
2019	(91,895)
2020	(22,637)
2021	(8,923)
Thereafter	0

CITY OF CLAYTON
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND
JUNE 30, 2016

EXHIBIT 10

GENERAL FUND	Original Budget	Actual	Variance Over (Under)
REVENUES			
Taxes	$ 1,301,000	$ 1,309,300	$ 8,300
Intergovernmental Revenues	30,000	35,976	5,976
Licenses and Permits	81,000	97,203	16,203
Fines and Forfeitures	364,145	397,738	33,593
Charges for Services	33,000	34,345	1,345
Miscellaneous	1,000	4,315	3,315
TOTAL REVENUES	$ 1,810,145	$ 1,878,877	$ 68,732
EXPENDITURES			
General Government	$ 462,025	$ 463,414	$ 1,389
Judicial	120,500	167,646	47,146
Police	847,601	1,007,975	160,374
Street and Sanitation	438,970	393,750	(45,220)
TOTAL EXPENDITURES	$ 1,869,096	$ 2,032,785	$ 163,689
EXCESS REVENUES OVER EXPENDITURES	$ (58,951)	$ (153,908)	$ (94,957)
OTHER FINANCING SOURCES			
Transfer In	40,000	68,585	28,585
NET CHANGE IN FUND BALANCES	$ -	$ (85,323)	$ (66,372)
FUND BALANCE, JULY 1, 2015		1,570,690	
FUND BALANCE, JUNE 30, 2016		1,485,367	

HOTEL/MOTEL TAX	Original Budget	Actual	Variance Over (Under)
REVENUE			
Hotel/Motel Taxes	$ 80,000	$ 107,273	$ 27,273
EXPENDITURES			
Economic Development	25,000	38,685	(13,685)
TRANSFERS	(55,000)	(68,585)	(13,585)
CHANGE IN FUND BALANCES	-	3	3
FUND BALANCE, JULY 1, 2015	731	731	-
FUND BALANCE, JUNE 30, 2016	$ 731.00	$ 734.00	$ 3

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 General Government, Judicial and Police Departments exceeded their approved budget.

Jack P. Green, Jr.
CERTIFIED PUBLIC ACCOUNTANT

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CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

February 17, 2017

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, 2016, 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 February 17, 2017.

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