



Agenda Date: 11-19-13

Agenda Item: 8a
2nd Revision
11/19/13

STAFF REPORT

Approved:

Gary A. Napper
City Manager/Executive Director

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: MERRY PELLETIER

DATE: NOVEMBER 19, 2013

SUBJECT: AUDIT REPORT FOR FISCAL YEAR ENDING JUNE 30, 2012 (FY '11-'12)

RECOMMENDATION

Accept the "unqualified opinion" Audit Report for the City of Clayton-Basic Financial Statements and independent Auditors' Report for fiscal year ended June 30, 2012.

BACKGROUND

The City's Audit Report was not completed in a timely manner for this year due to several issues impacting the Finance Department. There were financial software conversion issues that continued from fiscal year 2010-11 into 2011-12, staff changes due to retirements, and illness that limited our ability to complete the reports on time. The reporting format includes a management discussion and analysis for readers of the City's financial statements that are intended to serve as an introduction to the City's basic financial statements. A statement of net assets and a statement of activities and changes in net assets are also included that presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Clayton is improving or deteriorating.

FISCAL IMPACT

The General Fund revenues including transfers in exceeded expenditures by \$182,671 increasing the ending fund balance reserve to \$5,356,425. Included in the fund balance reserve are restricted funds for contingencies (\$250,000) and encumbrances (\$192,546), leaving an undesignated General fund balance of \$4,913,879. The City's budgetary history demonstrates an ability to provide necessary services within a limited and sometimes restrictive revenue source. There is decrease in the General Fund's actual expenditure plan to \$3,652,726 a figure slightly more than in fiscal year 2002/03 when the budget was adopted for \$3,537,893. At year end General Fund revenues increased by \$323,315 to

\$3,976,042 compared to the budget. The corresponding budgeted expenditures of \$3,845,272 included encumbrances of \$192,546 previously authorized by the City Council. The actual expenditures totaled \$3,879,460 which was \$34,188 over budget. The net result to the fund balance was a surplus of \$182,671.

There was a prior period adjustment made during the fiscal year ending June 30, 2012 by the auditors. The City determined that the recording of construction costs funded by loans payable, and other related transactions (including the collection of assessments due) had not been accounted for in prior years in conformity with the true nature of these transactions between certain agency funds and the former RDA Capital Projects Fund, the Capital Improvements Fund and the General Fund. In addition, it was determined that the current portion of accrued vacations payable should be recognized as a current liability of the General Fund. As a result of these analyses and the consequent restatement of account balances, the beginning fund balance of the former RDA Capital Projects Fund, the General Fund and the Capital Improvements Fund were decreased by \$132,011, \$102,734, and \$41,892, respectively.

The Special Revenue Fund's all maintained or improved fund balances except for the Landscape Maintenance District (\$28,276) and the Street Light Assessment District (\$7,041) that both exceeded revenues. The Enterprise Funds comprised of the Community Gym and Endeavor Hall finished with Gym expenditures exceeding revenues by \$111 and Endeavor Hall's expenditures exceeded revenue (without depreciation) by \$9,403.

Overall, and relative to numerous newspaper accounts of fiscal insolvency and troubles by other cities and counties during this period, the City of Clayton's reserve status is remarkably healthy. This status is not by accident; it is the result of prudent fiscal management policies and practices of the City's elected and appointed officials.

CONCLUSION

Accept the "unqualified opinion" Audit Report for the City of Clayton-Basic Financial Statements and Independent Auditors' report for fiscal year ending June 30, 2012 prepared by Cropper Accountancy and distributed on November 15, 2013.

Respectively submitted,



Merry Pelletier
Finance Manager

Attachments:

Basic Financial Statements and Independent Auditors' Report



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To the City Council and City Management
of the City of Clayton

In planning and performing our audit of the financial statements of the business-type activities of *the City of Clayton* ("the City") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *control deficiency* 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 Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We consider the following deficiencies in the City's internal control to be material weaknesses:

Controls over Financial Reporting

As we pointed out in our prior year audit comments, the trickle-down effect of Sarbanes-Oxley (SOX) has placed increased responsibility on governmental entities regarding their controls over financial reporting. The City's Finance Department has been depending too much on their auditors to detect any errors in the application of Governmental Accounting Standards and to take on additional responsibilities to insure that the annual financial statements are in accordance with these standards. This gap could negatively impact the independence of the auditor. Current Auditing Standards require that the identification of material misstatements be identified by the City's internal controls. *If material misstatements are identified by the auditor, they are reported as material weaknesses to the board.*

With the pending retirement of the City's Finance Manager, Merry Pelletier, the City is in the midst of getting their annual audits up-to-date, and has hired a consultant to aid in this process. In performing our audit for the fiscal year ended June 30, 2012, numerous adjusting entries were again required, some of which were material to the financial statements. Ten of these adjusting entries were recorded pursuant to our verification of the findings of the consultant regarding the improper recording in capital fundings and other transactions related to various agency funds, the former RDA Funds, the Capital Improvements Fund and the General Fund. The consultant has worked with the Finance Department to identify and correct other accounting issues, with the goal being to clean up various aspects of the accounting system prior to hiring a new Finance Manager on board, so that do not need to be burdened with cleaning up prior accounting issues.



We recommend that the City commit adequate resources and salary to recruit a qualified candidate to fill the Finance Manager position. This position is critical to establishing adequate internal controls over financial reporting as well as fulfilling other valuable management functions. We also recommend that the City implement increased controls over the Agency Funds and perform a review of the status of these funds in adhering to their charter and achieving their stated purpose.

* * * * *

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be a significant deficiency:

Segregation of duties

Where possible, care should be taken to separate the general ledger transaction recording, account reconciliations and transaction authorizations in the accounting department. Due to limited staffing available in the accounting department, the cost/benefit relationship of further segregation of duties may not be deemed feasible by management. The underlying risk is that controls could be overridden by management.

In performing our audit for the fiscal year ended June 30, 2012, we became aware of five areas where segregation of duties and other G/L controls which have not been adequately addressed in the City's conversion to a new accounting software package:

- There were no restrictions on who is able to make entries.
- Segregation of duties in A/P is inadequate, as Jennifer fulfills nearly all of the responsibilities.
- In the Financial Edge accounting software package, multiple period entries are allowed, which can create multiple issues if not properly controlled and monitored.
- Inter-fund balancing through the new software package could be simplified.
- We encountered numerous reversing entries recorded to the G/L, which hampered analysis and reconciliation of account balances.

We recommend mitigation of risk related to segregation of duties, where feasible, including an assessment of restrictions and other controls to be implemented through the Financial Edge accounting software package.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, CA
October 30, 2013



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October 30, 2013

To the Clayton City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *City of Clayton* ("the City") for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 11, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provision of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

The auditor's responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report, nor does the auditor have an obligation to perform any procedures to corroborate other information contained in these documents.

The auditor reserves the right to read and/or review any document containing the entity's financial statements. This procedure is deemed prudent to determine that nothing comes to our attention that causes us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation appearing in the financial statements.



Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by *City of Clayton* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimated of contingent liabilities related to outstanding lawsuits and claims against the City. We evaluated the legal representation letters obtained from the City's attorneys to determine that the legal reserves are adequate.
- The Other Post Employment Benefit (OPEB) data in footnote 11. The actuarial assumptions may change, which could revise the annual required contribution (ARC) needed to amortize the unfunded liability of \$400,257.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of the Other Post Employment Benefits (OPEB) payable. In footnote 11 of the financial statements the annual required contribution (ARC) of the District was determined to be \$50,667 and the interest on the net OPEB obligation was \$2,131. Total contributions totaled \$35,616, and there was a reduction in the actuarial estimate of \$1,569 which resulted in an ending net OPEB obligation of \$68,907 which was booked as a long term liability in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The corrected journal entries are included on the schedules provided on pages 4 through 9.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Clayton City Council and management of the City of Clayton and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John A. Cropper
CROPPER ACCOUNTANCY CORPORATION

Client: **City of Clayton**
Engagement: **City of Clayton**
Period Ending: **6/30/2012**
Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 1		TB 05		
Client accommodation JE to reverse Prepaid set up for Health Ins., since original A/P for July bill was reversed				
101-7246-01	Benefit Insurance		610.44	
101-7246-02	Benefit Insurance		5,472.85	
101-7246-03	Benefit Insurance		5,621.33	
101-7246-04	Benefit Insurance		2,808.02	
101-7246-06	Benefit Insurance		12,601.71	
230-7246-00	Benefit Insurance		1,587.14	
101-1401-00	Prepaid Expenses			27,114.35
230-1401-00	Prepaid Expenses			1,587.14
Total			28,701.49	28,701.49
Adjusting Journal Entry JE # 2				
To reinstate FNMA improperly written off @ 6/30/11 (we thought we were eliminating the Surety Bond value)				
422-1211-00	Cash with Fiscal Agent		251,984.15	
422-5606-00	Unrealized Inv. Gain/Loss			251,984.15
Total			251,984.15	251,984.15
Adjusting Journal Entry JE # 3				
To correct the Cost Basis for Clayton CFD # 1990-1: 1997 Special Tax Fund for cost of 342,000 shares which was shown as \$0 Cost Basis. Per Myrna Presto-Choroski of US Bank, cost s/b @ 100% of shares.				
420-1210-00	Cash with Fiscal Agent		342,000.00	
420-5601-00	Interest			342,000.00
Total			342,000.00	342,000.00
Adjusting Journal Entry JE # 4				
To complete the transfer of N/R & related Def'd Revenue from Oak Str. Bridge Fund (218) to the Gen'l Fund (this portion was missing from 2011 AJE #15), and reverse an entry recorded by client to reclass the N/P on Fund 218 to Deferred Revenue.				
101-1368-00	Note Rcvable- Oak Street Bridge Distr.- Fund 218		27,936.30	
218-2720-00	Deferred Revenues		27,936.30	
101-2721-00	Deferred Revenue- Oak Str. Bridge District N/R			27,936.30
218-2104-00	Note Payable to General Fund			27,936.30
Total			55,872.60	55,872.60
Adjusting Journal Entry JE # 5		E 06		
To record additional accrued interest receivable per 6/30/2012 investment account statements				
101-1305-00	Accrued Interest Receivable		10,440.79	
101-5601-00	Interest			10,440.79
Total			10,440.79	10,440.79

Client: **City of Clayton**
 Engagement: **City of Clayton**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 6		L 20		
To record interest expense allocation between RDA fund 401 and SA Fund 615, based on interest prmt due on 2/1/2012, and record the effect on the T/F of ending fund balance of the RDA to the SA.				
401-7612-00	Interest Expense		146,353.75	
615-6008-00	Trx. From RDA Project Fund 301		146,353.75	
401-8119-00	Transfer to Successor Agency Fund			146,353.75
615-7612-00	Interest Expense			146,353.75
Total			292,707.50	292,707.50
Adjusting Journal Entry JE # 7		L 20		
To record accrued interest payable by SA Fund #615 at June 30, 2012				
615-7612-00	Interest Expense		106,284.38	
615-2110-00	Accrued Interest Payable			106,284.38
Total			106,284.38	106,284.38
Adjusting Journal Entry JE # 8		P 05		
To record the transfer of bonds payable to the Successor Agency funds				
615-9800-00	Extraordinary Gain/Loss		5,835,000.00	
615-2800-00	1996A Redevelopment Bonds Payable			930,000.00
615-2801-00	1999 Redevelopment Bonds Payable			4,905,000.00
Total			5,835,000.00	5,835,000.00
Adjusting Journal Entry JE # 9				
To reclassify principal payment made by the Successor Agency Redevelopment Retirement Trust Fund				
615-2800-00	1996A Redevelopment Bonds Payable		700,000.00	
615-7611-00	Principal			700,000.00
Total			700,000.00	700,000.00
Adjusting Journal Entry JE # 10		P 07		
To record current portion of Redevelopment Bonds payable @ 6/30/12				
615-2810-00	Less Current Portion of Redev. Bonds Payable		280,000.00	
615-2120-00	Current Portion - Redevelopment Bonds Payable			280,000.00
Total			280,000.00	280,000.00
Adjusting Journal Entry JE # 11				
To reclassify transfers from RDA Funds 301 & 401 to Successor Agency Fund 615 as extraordinary gain/loss				
301-9800-00	Extraordinary Gain/Loss		827,275.10	
401-9800-00	Extraordinary Gain/Loss		700,038.13	
615-6008-00	Trx. From RDA Project Fund 301		1,527,313.23	
301-8119-00	Transfer to Successor Agency Fund			827,275.10
401-8119-00	Transfer to Successor Agency Fund			700,038.13
615-9800-00	Extraordinary Gain/Loss			1,527,313.23
Total			3,054,626.46	3,054,626.46

Client: **City of Clayton**
 Engagement: **City of Clayton**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 12				
To reclassify transfers from RDA Fund 302 to Successor Agency Fund 616 as extraordinary gain/loss.				
302-9800-00	Extraordinary Gain/Loss		6,904,680.48	
616-6009-00	Trx. From RDA Housing Fund 302		6,904,680.48	
302-8119-00	Transfer to Successor Agency Fund			6,904,680.48
616-9800-00	Extraordinary Gain/Loss			6,904,680.48
Total			13,809,360.96	13,809,360.96

Adjusting Journal Entry JE # 13				
CAJE to reclassify over budget High St Bridge project expenses to fund 303				
217-1199-00	Equity in Pooled Cash		9,909.86	
303-3201-00	Unreserved/Designated Fund Bal		9,909.86	
217-3201-00	Unreserved/Designated Fund Bal			9,909.86
303-1199-00	Equity in Pooled Cash			9,909.86
Total			19,819.72	19,819.72

TB 07 A

Adjusting Journal Entry JE # 14				
CAJE to record funding of "99-"01 Oak St. Bridge project costs up to budget/ N/P principal amount for Fund 301, reclassify over budget costs to Fund 303, and adjust Maintenance Reserve to actual.				
218-1199-00	Equity in Pooled Cash		75,445.14	
218-2130-00	Reserve for Bridge Maintenance		2,734.56	
301-3201-00	Unreserved/Designated Fund Bal		39,103.00	
303-3201-00	Unreserved/Designated Fund Bal		36,342.14	
218-3201-00	Unreserved/Designated Fund Bal			2,734.56
218-3201-00	Unreserved/Designated Fund Bal			75,445.14
301-1199-00	Equity in Pooled Cash			39,103.00
303-1199-00	Equity in Pooled Cash			36,342.14
Total			153,624.84	153,624.84

TB 07 A

Adjusting Journal Entry JE # 15				
CAJE to record funding of "01-"03 Oak St Sewer project costs within budget/ Principal amount..				
223-1199-00	Equity in Pooled Cash		71,359.74	
301-3201-00	Unreserved/Designated Fund Bal		71,359.74	
223-3201-00	Unreserved/Designated Fund Bal			71,359.74
301-1199-00	Equity in Pooled Cash			71,359.74
Total			142,719.48	142,719.48

TB 07 A

Client: **City of Clayton**
 Engagement: **City of Clayton**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 16				
TB 07 B				
CAJE to reclassify assessments, interest, GASB 31 adjmt & misc, charges from fund 217 to fund 101 and reclass property taxes due from the RDA to fund 301.				
101-3201-00	Unreserved/Designated Fund Bal		6,512.00	
217-1199-00	Equity in Pooled Cash		34,215.00	
301-3201-00	Unreserved/Designated Fund Bal		27,703.00	
101-1199-00	Equity in Pooled Cash			6,512.00
217-3201-00	Unreserved/Designated Fund Bal			34,215.00
301-1199-00	Equity in Pooled Cash			27,703.00
Total			68,430.00	68,430.00

Adjusting Journal Entry JE # 17				
TB 07 B				
CAJE to reclassify interest, GASB 31 Adjmt and misc, charges from fund 218 to fund 101				
101-3201-00	Unreserved/Designated Fund Bal		17,342.00	
218-1199-00	Equity in Pooled Cash		17,342.00	
101-1199-00	Equity in Pooled Cash			17,342.00
218-3201-00	Unreserved/Designated Fund Bal			17,342.00
Total			34,684.00	34,684.00

Adjusting Journal Entry JE # 18				
TB 07 B				
CAJE to reclassify interest, GASB 31 and misc. chrges from fund 223 to fund 101.				
101-1199-00	Equity in Pooled Cash		7,208.00	
223-3201-00	Unreserved/Designated Fund Bal		7,208.00	
101-3201-00	Unreserved/Designated Fund Bal			7,208.00
223-1199-00	Equity in Pooled Cash			7,208.00
Total			14,416.00	14,416.00

Adjusting Journal Entry JE # 19				
TB 07 B				
CAJE to record balance of High St. Bridge (\$-2,290) & Oak St. Sewer (\$+6,650) funding of principal by the RDA which was not recorded by prior AJE's				
301-3201-00	Unreserved/Designated Fund Bal		4,360.00	
303-1199-00	Equity in Pooled Cash		4,360.00	
301-1199-00	Equity in Pooled Cash			4,360.00
303-3201-00	Unreserved/Designated Fund Bal			4,360.00
Total			8,720.00	8,720.00

Adjusting Journal Entry JE # 20				
TB 07 B				
CAJE to record past due fund 217 loan repayments				
217-3201-00	Unreserved/Designated Fund Bal		29,542.00	
301-1199-00	Equity in Pooled Cash		29,542.00	
217-1199-00	Equity in Pooled Cash			29,542.00
301-3201-00	Unreserved/Designated Fund Bal			29,542.00
Total			59,084.00	59,084.00

Client: **City of Clayton**
 Engagement: **City of Clayton**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 21			TB 07 B	
CAJE to record past due fund 218 loan repayments				
218-3201-00	Unreserved/Designated Fund Bal		50,446.00	
301-1199-00	Equity in Pooled Cash		50,446.00	
218-1199-00	Equity in Pooled Cash			50,446.00
301-3201-00	Unreserved/Designated Fund Bal			50,446.00
Total			<u>100,892.00</u>	<u>100,892.00</u>

Adjusting Journal Entry JE # 22			TB 07 B	
CAJE to record past due fund 223 loan repayments				
223-3201-00	Unreserved/Designated Fund Bal		68,527.00	
301-1199-00	Equity in Pooled Cash		68,527.00	
223-1199-00	Equity in Pooled Cash			68,527.00
301-3201-00	Unreserved/Designated Fund Bal			68,527.00
Total			<u>137,054.00</u>	<u>137,054.00</u>

Adjusting Journal Entry JE # 23				
To transfer net effect of AJE's 14-22 on Pooled Cash for Fund 301 (RDA) to Fund 615 (SA). Entry ignores entry to transfers accounts for transfer of Cash and offsetting entries which would be recorded to reclassify as extraordinary gain/loss.				
301-9800-00	Extraordinary Gain/Loss		5,989.26	
615-1199-00	Equity in Pooled Cash		5,989.26	
301-1199-00	Equity in Pooled Cash			5,989.26
615-9800-00	Extraordinary Gain/Loss			5,989.26
Total			<u>11,978.52</u>	<u>11,978.52</u>

Adjusting Journal Entry JE # 24			L 05	
To reclassify the current portion of accrued vacation payable as a liability of the General Fund				
101-7113-02	Vacation Accrual		74,116.78	
802-2350-00	Current Portion Accrued Vacation Payable		74,116.78	
101-2350-00	Current Portion- Accrued Vacation Payable			74,116.78
802-1509-00	Amount Provided For Compensate			74,116.78
Total			<u>148,233.56</u>	<u>148,233.56</u>

Adjusting Journal Entry JE # 25			D 02	
To eliminated Investment in Bonds as the \$138,000 represents the original principal portion of Notes Rcvable from the Oak St. Sewer AD, which has already been recorded (including interest).				
301-3201-00	Unreserved/Designated Fund Bal		138,000.00	
301-1251-00	Investment in Bonds			138,000.00
Total			<u>138,000.00</u>	<u>138,000.00</u>

Client: **City of Clayton**
 Engagement: **City of Clayton**
 Period Ending: **6/30/2012**
 Workpaper: **Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 26				
To restate the transfer from RDA Fund 301 to SA Fund 615 upon the elimination of the investment in Bonds per AJE 25				
301-1251-00	Investment in Bonds		138,000.00	
615-9800-00	Extraordinary Gain/Loss		138,000.00	
301-9800-00	Extraordinary Gain/Loss			138,000.00
615-1251-00	Investment in Fund 223 Bonds			138,000.00
Total			<u>276,000.00</u>	<u>276,000.00</u>

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 27				
CAJE to record RDA's constructive payment to fund 217 - offsets assessment obligation against N/P to fund 301				
217-2103-00	Note Payable RDA		33,097.32	
301-2720-00	Deferred Revenues		33,097.32	
217-1331-00	Assessment Receivable			33,097.32
301-1331-00	Note Receivable High St Bridge			33,097.32
Total			<u>66,194.64</u>	<u>66,194.64</u>

TB 08

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 28				
To record effect on transfer from RDA Fund 301 to SA Fund 615 of the Constructive Pmt between Funds 3301 & 217 recorded by AJE #27				
301-1331-00	Note Receivable High St Bridge		33,097.32	
615-2720-00	Deferred Revenues		33,097.32	
301-2720-00	Deferred Revenues			33,097.32
615-1331-00	Note Receivable High St Bridge			33,097.32
Total			<u>66,194.64</u>	<u>66,194.64</u>

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 29				
To adjust OPEB liability to actual per Actuary's report and current year City and beneficiary contributions.				
101-7247-05	OPEB Expense		15,613.00	
101-2407-00	LT OPEB Liability			15,613.00
Total			<u>15,613.00</u>	<u>15,613.00</u>



Agenda Date: 11-19-13

Agenda Item: 8(a)

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City Council
JULIE K. PIERCE, MAYOR
HANK STRATFORD, VICE MAYOR
JIM DIAZ
HOWARD GELLER
DAVID T. SHUEY

**CITY MANAGEMENT RESPONSE TO
AUDITOR MANAGEMENT LETTER DATED OCTOBER 30, 2013
FY 2011-12 AUDITED FINANCIAL STATEMENT**

In accordance with auditing standards generally accepted in the United States of America, the independent certified public accounting firm of Cropper Accountancy Corporation (“Auditor”) issued what is known as a “Management Letter” to the Clayton City Council and City Management concerning its review and audit of the City’s financial records and activities for the year ending 30 June 2012. As is accepted practice, the City’s Management personnel primarily responsible for the financial accounting of the City’s finances provides the following response to the deficiencies noted:

1. We recommend that the City commit adequate resources and salary to recruit a qualified candidate to fill the Finance Manager position. This position is critical to establishing adequate internal controls over financial reporting as well as fulfilling other valuable management functions. We also recommend that the City implement increased controls over the Agency Funds and perform a review of the status of these funds in adhering to their charter and achieving their stated purpose.

Management Response

After fourteen (14) years of employment with the City of Clayton as its Finance Manager, the incumbent will be retiring from City employment effective 01 January 2014. In anticipation of that vacancy, the City prepared and conducted a western regional advertisement of the public sector career opportunity. Although not overwhelmed by the number of applicants, it only takes one (1) excellent candidate to emerge. As of this date the City Manager has made a conditional offer of employment to an outstanding candidate who is a Certified Public Accountant (C.P.A.) and has approximately five (5) years of increasingly responsible experience in California as an audit manager performing and supervising field audits of various city and county agencies in the production of audited financial statements. Management considers the new Finance Manager possesses the proper skills and aptitudes to establish the adequate internal controls noted by the Auditor. The new Finance Manager is expected to start City employment on 09 December 2014.

Further, Management hired in May 2013 a proficient Interim Assistant Finance Manager familiar with the City’s new financial management software system (i.e. Financial Edge), who has also conducted an in-depth forensic analysis of all Agency Funds. This individual will remain available for a short time period to assist the new Finance Manager in the management transition with the express objective to establish maximum internal controls over financial reporting of the City. It is noted with emphasis the City’s financial status is secure and healthy; it was the use of the new financial reporting system which suffered issues due to an inadequate conversion and training process from the former software reporting system.

2. Segregation of Duties

The Auditor noted five areas where segregation of duties and other G/L controls have not been adequately addressed in the City's conversion to a new accounting software package:

- a. *There were no restrictions on who is able to make entries.*

Management Response

Due to the limited staffing in the City's Finance Department, while there are no restrictions as to who is able to make entries, staff has implemented restrictions on who may post entries. Only the Finance Manager and the Interim Assistant Finance Manager currently have such authority.

- b. *Segregation of duties in the A/P is inadequate, as the Accounting Technician [Jennifer] fulfills nearly all of the responsibilities.*

Management Response

The Accounting Technician does not authorize checks or invoices for payment. All invoices require the review and signature of both the Department Head and the City Manager prior to processing for payment. The Accounting Technician inputs all invoices into the Accounts Payable system after the invoices have been approved. Once checks are prepared and ready for signature, each check requires two (2) original signatures, neither of which includes any personnel in the Finance Department or the City Manager. The Accounts Payable purchase journal and all checks are given to the Finance Manager along with the check register. Cash is controlled and booked into the check register separately only by the Finance Manager such that all transactions are monitored.

As noted in previous Management Responses, this separation of duties is the maximum extent possible given available City resources to fund one (1) full-time Finance Manager and one (1) part-time (24 hours per week) Accounting Technician to fulfill the duties of payroll, cash receipts and accounts payable.

- c. *In the Financial Edge accounting software package, multiple period entries are allowed, which can create multiple issues if not properly controlled and monitored.*

Management Response

Staff is aware of the multiple period entry issue and has set controls on the periods that are allowed to be open and is monitoring them.

- d. *Inter-fund balancing through the new software package could be simplified.*

Management Response

Due to lingering unfamiliarity with the new software package, Finance Department staff was unaware of this flexibility and will research and train on how it could be simplified.

- e. *We encountered numerous reversing entries recorded to the G/L, which hampered analysis and reconciliation of account balances.*

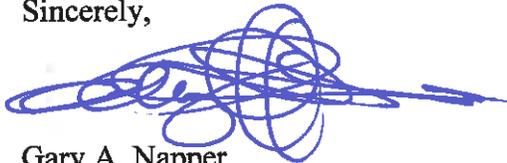
Management Response

The numerous adjusting entries that were required pertained to the former Redevelopment Agency Funds, the Capital Improvement Funds, and the General Fund; each were related to prior period adjustments initiated by prior auditors (excluding the Oak Street Sewer Project). The Bridge Assessments were associated with the funding of the High Street Bridge and the Oak Street Bridge projects within the redevelopment area that should have been funded at the time the projects were set up. The prior Finance Manager set up the High Street and Oak Street Bridge projects in Fiduciary Funds instead of the Capital Improvement Project Funds, in error. No funding was ever transferred into the Fiduciary Funds to cover the costs of these projects. Instead, negative cash was created that was being slowly relieved by the annual assessments.

The Oak Street Sewer Assessment was set up to track costs of the project and the corresponding assessments. The Capital Improvement Project Fund (No. 303) should have been used to track this project; however, this did not occur. Instead, the Fiduciary Fund was used to track costs similar to the High Street and Oak Street Bridge projects. This set up mirrored what had been established by the prior Finance Manager and thought to be an acceptable practice by the current Finance Manager.

Unfortunately, when the new accounting software package was installed in FY 2010-11, staff subsequently utilized it incorrectly. Staff continued to utilize the software package posting into multiple periods that necessitated reversing entries. Once Finance personnel discovered the postings were done incorrectly, it was halted.

Sincerely,



Gary A. Napper
City Manager



Merry Pelletier
Finance Manager

Date: 19 November 2013

City of Clayton

Clayton, California

***Basic Financial Statements
and Independent Auditors' Report***

For the fiscal year ended June 30, 2012

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City of Clayton
Basic Financial Statements
June 30, 2012
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Clayton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clayton (the City), as of and for the year ended June 30, 2012, 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

The City's 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, 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 the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10, pages 68-73 and pages 80-85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The required supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.


CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
October 30, 2013

Management of the City of Clayton (the "City") provides this Management's Discussion and Analysis of the City's Basic Financial Statements for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for its fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the additional information that is furnished with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government -Wide Highlights

Net Position - The assets of the City of Clayton exceeded its liabilities at the close of the most recent fiscal year by \$41,379,085. Of this amount, \$4,913,662 was reported as "unrestricted net position" and may be used to meet the ongoing obligations to citizens and creditors.

Changes in Net Position - The City's total net position decreased by \$(1,842,427) in fiscal year 2012. Net assets of governmental activities decreased by \$(1,796,847), while net position of business type activities decreased by \$(45,580).

Major Fund Highlights

Governmental Funds – Upon the dissolution of the RDA on February 1, 2012, an extraordinary loss of \$8,299,982 has been recorded for the Governmental Funds to recognize the effect of the dissolution of the RDA and the transfer of all of the RDA assets and liabilities to the Successor Agency. As of the close of fiscal year 2012, the City's governmental funds reported a combined ending fund balance of \$11,689,567. Of this amount \$4,913,879 represents "unassigned fund balances" available for appropriation.

General Fund - The unassigned fund balance of the general fund on June 30, 2012 was \$ 4,913,879, while the assigned fund balance was \$442,546. The reporting of fund balances has changed due to a Governmental Accounting Standards Board (GASB 54) change in fiscal year ending 2010-11 that requires management restrict, commit, assign, indicate unassigned balances or nonspendable balances in the fund balance. In the past the management recorded the fund balances as reserved, unreserved and designated for contingencies, or unreserved, undesignated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Clayton's basic financial statements. The City of Clayton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information and supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government -wide financial statements* are designed to provide readers with a broad overview of the City of Clayton's finances, in a manner similar to a private-sector business.

**City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2012**

The *statement of net position* presents information on all of the City of Clayton's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Clayton is improving or deteriorating.

The *statement of activities* presents information showing how the City's *net position* changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Clayton that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Clayton include general government, public safety, public works, parks and library. The business-type activities of the City of Clayton include the Community Gym and Endeavor Hall.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Clayton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Clayton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Clayton maintains seventeen individual governmental funds. Information is presented separately in the government funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, RDA Capital Projects Fund, RDA Low/Moderate Capital Projects Fund, Capital Improvements Fund, and RDA Debt Service Fund, all of which are considered to be major funds.

Proprietary Funds

The City of Clayton maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Clayton uses enterprise funds to account for its Community Gym and Endeavor Hall activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Clayton various functions. City of Clayton uses internal service funds to account for its capital equipment replacement program and its self -insurance liabilities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Both of these enterprise funds are considered to be major funds. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Clayton's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-61 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Clayton's progress in funding its obligation to provide pension benefits to its employees and budgetary information for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Clayton, assets exceeded liabilities by \$41,379,085 at the close of the most recent fiscal year. This is a decrease of \$1,842,427 or 4% from the prior fiscal year's ending balance after restatement for a prior period adjustment of \$(190,549).

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2012

The largest portion of the City of Clayton's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Clayton uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Clayton's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is the condensed Statement of Net Position for the fiscal year ended June 30, 2012:

	Governmental Activities 2012 *	Governmental Activities 2011	Business- Type Activities 2012	Business- Type Activities 2011	Total 2012	Total 2011
Current Assets	\$ 11,770,439	\$ 18,328,490	\$ (77,919)	\$ (93,581)	\$ 11,692,520	\$ 18,234,909
Non-Current Assets	1,004,835	4,266,430	-	-	1,004,835	4,266,430
Capital Assets	<u>28,330,852</u>	<u>27,398,220</u>	<u>1,358,883</u>	<u>1,394,950</u>	<u>29,689,735</u>	<u>28,793,170</u>
Total Assets	\$ <u>41,106,126</u>	\$ <u>49,993,140</u>	\$ <u>1,280,964</u>	\$ <u>1,301,369</u>	\$ <u>42,387,090</u>	\$ <u>51,294,509</u>
Current Liabilities	\$ 821,707	\$ 1,857,172	\$ 43,274	\$ 18,099	\$ 864,981	\$ 1,875,271
Long-term Liabilities	143,024	6,007,177	-	-	143,024	6,007,177
Total Liabilities	\$ <u>964,731</u>	\$ <u>7,864,349</u>	\$ <u>43,274</u>	\$ <u>18,099</u>	\$ <u>1,008,005</u>	\$ <u>7,882,448</u>
Investment in Capital Assets, Net of Related Debt	\$ 28,330,852	\$ 20,953,220	\$ 1,358,883	\$ 1,394,950	\$ 29,689,735	\$ 22,348,170
Restricted	6,775,688	6,240,370	-	-	6,775,688	6,240,370
Unrestricted	<u>5,034,855</u>	<u>14,935,201</u>	<u>(121,193)</u>	<u>(111,680)</u>	<u>4,913,662</u>	<u>14,823,521</u>
Total Net Position	\$ <u>40,141,395</u>	\$ <u>42,128,791</u>	\$ <u>1,237,690</u>	\$ <u>1,283,270</u>	\$ <u>41,379,085</u>	\$ <u>43,412,061</u>

* - as restated for prior period adjustment

A portion of the City of Clayton's net position (\$6,775,688 or 16%) represents resources that are subject to external restrictions on how they may be used. The balance of the *unrestricted net position* of \$4,913,662 may be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Position

The most significant impact on the City's net position for the fiscal year ended June 30, 2012 was the recognition of an extraordinary loss of \$6,100,352 upon the dissolution of The City's Redevelopment Agency ("RDA"). As a result, the City's net position at June 30, 2012 has decreased by \$1,842,427 or 4%, from the prior fiscal year's ending balance sheet, as restated.

City revenues for the year, including both governmental and business-type activities, were \$10,324,077, while expenses totaled \$6,066,152. The excess of revenues over expenses of \$4,257,925 was more than offset by the extraordinary loss of \$6,100,352 on the dissolution of the RDA. Further analysis is provided within the governmental and business-type activity sections on the next page.

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2012

Following is a recap of the City of Clayton's Statement of Activities and Changes in Net Position for the fiscal years ended June 30, 2012 and 2011:

	Governmental Activities 2012	Governmental Activities 2011	Business Type Activities 2012	Business Type Activities 2011	Total 2012	Total 2011
Revenues:						
Program revenues:						
Charges for services	\$ 988,529	\$ 698,733	\$ 16,294	\$ 26,202	\$ 1,004,823	\$ 724,935
Operating and capital grants and contributions	884,026	494,148	-	-	884,026	494,148
Total program revenues	<u>1,872,555</u>	<u>1,192,881</u>	<u>16,294</u>	<u>26,202</u>	<u>1,888,849</u>	<u>1,219,083</u>
General revenues:						
Property taxes	4,488,417	6,698,149	-	-	4,488,417	6,698,149
Sales and other taxes	307,887	303,880	-	-	307,887	303,880
Special assessments	1,220,460	1,187,642	-	-	1,220,460	1,187,642
Other taxes	792,726	803,498	-	-	792,726	803,498
Investment income	242,539	335,205	(359)	276	242,180	335,481
Miscellaneous	873,249	477,402	-	60	873,249	477,462
Escheat recapture (deposits)	376,648	-	-	-	376,648	-
Gain (loss) on sale of assets	(116,339)	6,700	-	-	(116,339)	6,700
Total general revenues	<u>8,185,587</u>	<u>9,812,476</u>	<u>(359)</u>	<u>336</u>	<u>8,185,228</u>	<u>9,812,812</u>
Total revenues	<u>10,058,142</u>	<u>11,005,357</u>	<u>15,935</u>	<u>26,538</u>	<u>10,074,077</u>	<u>11,031,895</u>
Expenses						
Legislative	48,420	59,000	-	-	48,420	59,000
Administrative	1,009,135	1,389,506	-	-	1,009,135	1,389,506
Community services and facilities	721,272	566,450	-	-	721,272	566,450
Community park	194,376	187,701	-	-	194,376	187,701
Economic development	143,255	214,151	-	-	143,255	214,151
General support	143,768	134,861	-	-	143,768	134,861
Police	1,972,460	1,841,028	-	-	1,972,460	1,841,028
Library	150,969	129,944	-	-	150,969	129,944
Engineering	93,246	91,218	-	-	93,246	91,218
Highway and streets	323,500	312,827	-	-	323,500	312,827
Landscape maintenance	781,003	2,521,689	-	-	781,003	2,521,689
Planning and development	294,186	2,171,344	-	-	294,186	2,171,344
Community gym	-	-	18	93,398	18	93,398
Endeavor hall	-	-	61,497	66,110	61,497	66,110
Total expenses	<u>5,875,590</u>	<u>9,619,719</u>	<u>61,515</u>	<u>159,508</u>	<u>5,937,105</u>	<u>9,779,227</u>
Increase (decrease) in Net Position before interest on long-term debt, extraordinary losses and transfers						
Interest on Long-Term Debt	(129,047)	(414,113)	-	-	(129,047)	(414,113)
Extraordinary loss on RDA dissolution	(6,100,352)	-	-	-	(6,100,352)	-
Transfers in (out)	250,000	-	-	-	250,000	-
Change in Net Position	(1,796,847)	971,525	(45,580)	(132,970)	(1,842,427)	838,555
Net Position - Beginning, restated	41,938,242	41,157,266	1,283,270	1,416,240	43,221,512	42,573,506
Net Position - Ending	<u>\$ 40,141,395</u>	<u>\$ 42,128,791</u>	<u>\$ 1,237,690</u>	<u>\$ 1,283,270</u>	<u>\$ 41,379,085</u>	<u>\$ 43,412,061</u>

Governmental Activities

Excluding the effect of the extraordinary loss on the dissolution of the RDA, governmental activities would have increased the City's net position by \$4,303,505 while Business Type activities decreased the City's net position by \$(45,580). The increase in the City's total net position before considering the effect of the extraordinary loss was \$4,257,925. Upon the recognition of the extraordinary loss of \$(6,100,352), the City had a net decrease in its net position of \$(1,842,427). The comparison of the cost of services by function for the City's governmental activities is shown on the previous page, along with the revenues used to cover the net expenses of the governmental activities.

Total governmental expenses were \$6,004,637 in fiscal year 2012 compared to \$10,033,832 in the prior year. The decrease in expenses was nearly all within the RDA funds, which were dissolved on February 1, 2012, and accounted for \$4,064,609 or 98% of the decrease. The largest expenses for fiscal year 2012 were incurred for Police Services (33%), Administration (17%), Landscape Maintenance (13%), and Community Services and Facilities (12%). These four activities combined account for 74% of all general activity expenses. Police Services expenses increased by \$131,432 or 7% and Community Services and Facilities expenses increased by \$154,822 or 27% over the prior fiscal year; while Planning and Development, Landscape Maintenance, and Administrative expenses decreased by \$1,877,158 (-86%), \$1,740,686 (-69%) and \$380,471 (-27%), respectively.

Total program revenues from governmental activities were \$1,872,555 in fiscal year 2012. Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from government's general revenues. 53% of the governmental program revenues came from Charges for Services, which includes park use fees, rental fees, licenses and permits, plan checking fees, police service fees, planning services fees, and other revenues. The remaining 47% of the governmental program revenues came from grant funding. General revenues are all other revenues not categorized as program revenues such as property taxes, sales taxes, motor vehicle in-lieu fees, investment earnings, special assessments, fines, franchise fees, use of money and property, service charges, and other revenues. Total general revenues (excluding transfers) from governmental activities were \$8,185,587 in fiscal year 2012 of which \$4,488,417 or 55% is related to property taxes.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As noted earlier, the City of Clayton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Clayton's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Clayton's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clayton's governmental funds reported combined ending fund balances of \$11,689,567. Of this amount \$6,775,688 (58%) is assigned for specific expenditures in the future and \$4,913,879 (42%) is unassigned.

The fund balance of the City of Clayton's general fund, as restated for the prior period adjustment of \$(102,734), increased by \$182,671 during the current fiscal year. Considering the volatility of the economy, we were fortunate to have a positive impact on our fund balance. While this could not have been possible without additional cost reduction due to staff furloughs, it shows that our City has a good handle on budgeting expenditures that align with available revenues.

Proprietary Funds

The City of Clayton's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Major Enterprise Funds at the end of the year amounted to \$(121,193), and those for the Internal Service Fund amounted to \$195,093. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Clayton's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final general fund budget for expenditures totaled \$3,845,272. There was one budget amendment to the originally adopted budget. The increase was for encumbrances from 2010-11 approved for \$192,546 which funded contractual obligations and outstanding purchases in this fiscal year.

General fund revenues exceeded budget by \$273,162 (9%). General Fund expenditures were under the final budget including encumbrances by \$51,901 (1%).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Clayton's investment in capital assets for its governmental and business type activities as of June 30, 2012, amounted to \$29,689,735 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, corporate yard building, and roads.

Major capital asset events during the current fiscal year included the following:

- Construction on CIP 10413 the Community Park Lighting, Resurfacing and Parking project was completed with a cost of \$1,074,720. This project was to construct 100 additional parking spaces in the lower parking lot, add infiltration planters, lighting and a monument sign. The project scope was revised by the City Council to include only the expansion of the parking along the lower field from the existing lot to the Gym driveway.

Additional information on the City of Clayton's capital assets can be found in Note 5 of this report.

**City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2012**

Debt Administration

The remaining debt of the former RDA of \$5,835,000 was transferred to the Successor Agency on February 1, 2012. The City has no outstanding general obligation debt. The former RDA maintains a "AAA" rating for Tax Allocation Bonds from Standard & Poor's. Additional information on the City's long-term debt obligations can be found in Note 6 of the notes to the financial statements.

ECONOMIC CLIMATE

The City's budgetary history during the past 11 years clearly demonstrates an ability to provide necessary services within a limited and sometimes restrictive revenue source. There is a continued decrease in the General Fund's actual expenditure plan for Fiscal Year 2011-12 to \$3,652,726, a figure slightly more than in the fiscal year 2002-03 when the budget was adopted for \$3,537,893. Actual General Fund revenues increased by \$123,867 to \$3,976,042 compared to the prior fiscal year.

General Fund revenues, including transfers-in at June 30, 2012, exceeded expenditures by \$182,671. The difficulty facing the City over the next few years will be dependent upon how much more the State of California will continue to siphon local monies from the City coffers. On December 31, 2012 the State Supreme Court ruled that California lawmakers had the authority to eliminate all 400 of the State's redevelopment agencies, as was proposed earlier in the year. The elimination of the Clayton redevelopment agency will have a severe impact on the community. Funding for the agency came from local property taxes paid within the redevelopment area boundaries, which were then put back into projects and programs to improve the area. For example the agency facilitated the construction of Low to Moderate Income Housing at Diamond Terrace and the Stranahan development. Clayton's sewer infrastructure was updated in several communities that had previously been on septic systems. The popular "Concerts in the Grove" and the "Farmers Market" were events partially funded by the Agency.

On the positive side, the City's unassigned fund balance \$4,913,662 is equal to 130% of its annual General Fund operations for Fiscal Year 2011-12.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Clayton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of the Finance Manager, 6000 Heritage Trail, Clayton, California 94517.

FINANCIAL SECTION

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

City of Clayton
Statement of Net Position
June 30, 2012

ASSETS	Governmental Activities	Business-Type Activites	Total
Current Assets:			
Cash and investments	\$ 10,242,817	\$ -	\$ 10,242,817
Accounts receivable (net of allowances)	1,398,337	2,120	1,400,457
Interest receivable	42,547	1	42,548
Internal balances	80,040	(80,040)	-
Prepaid expenses	6,698	-	6,698
Total Current Assets	11,770,439	(77,919)	11,692,520
Noncurrent Assets:			
Notes receivable	1,004,835	-	1,004,835
Nondepreciable assets	2,034,300	167,738	2,202,038
Depreciable assets, net	26,296,552	1,191,145	27,487,697
TOTAL ASSETS	41,106,126	1,280,964	42,387,090
LIABILITIES			
Current liabilities:			
Accounts payable	463,046	525	463,571
Deposits payable	-	4,750	4,750
Accrued payroll	113,769	-	113,769
Compensated absences payable (current portion)	74,117	-	74,117
Other accrued liabilities	51,730	37,999	89,729
Deferred revenue	119,045	-	119,045
Total Current Liabilities	821,707	43,274	864,981
Noncurrent Liabilities:			
Compensated absences payable (long-term portion)	74,117	-	74,117
OPEB Liability	68,907	-	68,907
Total Noncurrent Liabilities	143,024	-	143,024
TOTAL LIABILITIES	964,731	43,274	1,008,005
NET POSITION			
Invested in capital assets, net of related debt	28,330,852	1,358,883	29,689,735
Special projects and programs	6,775,688	-	6,775,688
Unrestricted	5,034,855	(121,193)	4,913,662
TOTAL NET POSITION	\$ 40,141,395	\$ 1,237,690	\$ 41,379,085

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Activities
For the Fiscal Year Ended June 30, 2012

For the fiscal year ended June 30, 2012	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
Legislative	\$ 48,420	\$ -	\$ -	\$ -	\$ (48,420)	\$ -	\$ (48,420)
Administrative	1,009,135	154,681	-	-	(854,454)	-	(854,454)
Community service and facilities	721,272	183,031	-	-	(538,241)	-	(538,241)
Community park	194,376	-	-	-	(194,376)	-	(194,376)
Economic development	143,255	-	-	-	(143,255)	-	(143,255)
Planning and development	294,186	99,922	-	-	(194,264)	-	(194,264)
General support	143,768	267,185	-	-	123,417	-	123,417
Police	1,972,460	64,364	136,488	-	(1,771,608)	-	(1,771,608)
Library	150,969	-	-	-	(150,969)	-	(150,969)
Engineering	93,246	219,346	-	-	126,100	-	126,100
Highway and streets	323,500	-	635,741	-	312,241	-	312,241
Landscape maintenance	781,003	-	111,797	-	(669,206)	-	(669,206)
Interest and fiscal charges	129,047	-	-	-	(129,047)	-	(129,047)
Total Governmental Activities	6,004,637	988,529	884,026	-	(4,132,082)	-	(4,132,082)
Business-Type Activities							
Community Gym	18	-	-	-	-	(18)	(18)
Endeavor Hall	61,497	16,294	-	-	-	(45,203)	(45,203)
Total Business-Type Activities	61,515	16,294	-	-	-	(45,221)	(45,221)
Total Primary Government	\$ 6,066,152	\$ 1,004,823	\$ 884,026	\$ -	(4,132,082)	(45,221)	(4,177,303)
General revenues:							
Taxes:							
Property taxes					4,488,417		4,488,417
Sales taxes					307,887		307,887
Special assessments					1,220,460		1,220,460
Other taxes					792,726		792,726
Total Taxes					6,809,490		6,809,490
Investment income (loss)					242,539	(359)	242,180
Escheat recapture- deposits					376,648	-	376,648
Loss on fixed asset disposal					(116,339)	-	(116,339)
Miscellaneous					873,249	-	873,249
Transfers from fiduciary funds					250,000	-	250,000
Total general revenues and transfers					8,435,587	(359)	8,435,228
Extraordinary loss on RDA dissolution					(6,100,352)	-	(6,100,352)
Change in net position					(1,796,847)	(45,580)	(1,842,427)
Net position - beginning of year, as previously reported					42,128,791	1,283,270	43,412,061
Prior period adjustment to correct error					(190,549)	-	(190,549)
Net position - beginning of year, as restated					41,938,242	1,283,270	43,221,512
Net position - end of year					\$ 40,141,395	\$ 1,237,690	\$ 41,379,085

The accompanying notes are an integral part of the financial statements

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GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this fund are property taxes, sales taxes, unrestricted revenues from the State, fines and forfeitures, and interest income. Expenditures are made for administration, legislation, public safety, parks and recreation and other services.

Clayton Redevelopment Agency Capital Projects

This fund accounts for the projects funded through the property tax increment generated within the project area.

Clayton Redevelopment Agency Low/Moderate Income Housing

This fund accounts for the low and moderate income housing projects funded through a mandatory 20% set aside of the property tax increment generated with the project area.

Capital Improvements Projects

This fund accounts for the projects identified in the capital improvement program funded by various federal and state grants as well as through transfers from the General Fund.

Clayton Redevelopment Agency Debt Service

This fund accounts for the 1996A and 1999 Tax Allocation Bonds debt service payments.

(Other Governmental Funds)

This column accounts for all non-major governmental funds including special revenue, capital projects and debt service fund types.

City of Clayton
Balance Sheet
Governmental Funds
June 30, 2012

	Major Funds		
	General Fund	Clayton Landscape Maintenance	Measure J Fund
ASSETS			
Cash and investments	\$ 4,182,633	\$ 769,171	\$ -
Accounts receivable	339,909	-	463,072
Interest receivable	42,547	-	-
Notes receivable	1,004,835	-	-
Prepaid expenses	6,559	-	-
Due from other funds	242,193	-	-
Advance to other funds	60,000	-	-
TOTAL ASSETS	<u>\$ 5,878,676</u>	<u>\$ 769,171</u>	<u>\$ 463,072</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 154,398	\$ 255,462	\$ -
Other payables	110,922	6,430	-
Accrued payroll	113,769	-	-
Accrued vacation	74,117	-	-
Deferred revenue	69,045	-	-
Due to other funds	-	-	159,603
Advance from other funds	-	-	-
TOTAL LIABILITIES	<u>522,251</u>	<u>261,892</u>	<u>159,603</u>
FUND BALANCE			
Committed	442,546	507,279	303,469
Unassigned	4,913,879	-	-
TOTAL FUND BALANCE	<u>5,356,425</u>	<u>507,279</u>	<u>303,469</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,878,676</u>	<u>\$ 769,171</u>	<u>\$ 463,072</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Balance Sheet
Governmental Funds
June 30, 2012

Major Funds					
Capital Improvements Fund	RDA Capital Projects Fund	RDA Low/ Moderate Capital Projects	RDA Debt Service Fund	Other Governmental	Total
\$ 2,656,702	\$ -	\$ -	\$ -	\$ 2,435,977	\$ 10,044,483
492,883	-	-	-	102,473	1,398,337
-	-	-	-	-	42,547
-	-	-	-	-	1,004,835
-	-	-	-	139	6,698
-	-	-	-	-	242,193
-	-	-	-	-	60,000
<u>\$ 3,149,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,538,589</u>	<u>\$ 12,799,093</u>
\$ 2,271	\$ -	\$ -	\$ -	\$ 47,674	459,805
-	-	-	-	3,285	120,637
-	-	-	-	-	113,769
-	-	-	-	-	74,117
-	-	-	-	50,000	119,045
-	-	-	-	2,550	162,153
-	-	-	-	60,000	60,000
<u>2,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,509</u>	<u>1,109,526</u>
3,147,314	-	-	-	2,375,080	6,775,688
-	-	-	-	-	4,913,879
<u>3,147,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375,080</u>	<u>11,689,567</u>
<u>\$ 3,149,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,538,589</u>	<u>\$ 12,799,093</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Reconciliation of Governmental Funds Balance Sheet with the Statement of Net Position
June 30, 2012

For the fiscal year ended June 30, 2012	
Total Fund Balances - Governmental Funds	\$ 11,689,567
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet:	
Non-depreciable capital assets	2,034,300
Depreciable capital assets, net (net of internal service fund assets of \$504,533)	25,792,019
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet:	
Compensated absences payable	(74,117)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Government-wide Statement of Net Position.	
	<u>699,626</u>
Net Position of Governmental Activities	<u>\$ 40,141,395</u>

The accompanying notes are an integral part of the financial statements

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City of Clayton
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Major Funds				
	General Fund	Clayton Landscape Maintenance Fund	Measure J Fund	RDA Capital Projects Fund	RDA Low/ Moderate Capital Projects Fund
REVENUES					
Property taxes	\$ 1,732,916	\$ -	\$ -	\$ 2,204,401	\$ 551,100
Program income	11,470	-	-	-	61,400
Special assessments	-	935,850	-	-	-
Sales taxes	307,887	-	-	-	-
Permits, licenses and fees	227,264	-	-	-	-
Fines, forfeitures and penalties	114,313	-	-	-	-
From other agencies	80,174	-	487,947	-	-
Motor vehicle in-lieu fees	11,074	-	-	-	-
Other in-lieu fees	143,060	-	-	-	-
Franchise fees	454,871	-	-	-	-
Service charges	131,053	-	-	-	-
Use of money and property	70,989	15,117	(5,011)	17,321	57,021
Other revenue	14,613	2,726	-	-	-
TOTAL REVENUES	<u>3,299,684</u>	<u>953,693</u>	<u>482,936</u>	<u>2,221,722</u>	<u>669,521</u>
EXPENDITURES					
General Government					
Legislative	48,420	-	-	-	-
Administrative	836,531	-	-	-	-
Community services and facilities	139,545	-	-	-	-
Community park	194,376	-	-	-	-
Economic development	-	-	-	-	-
Planning and development	270,514	-	-	14,278	9,394
General support	143,768	-	-	-	-
Police	1,916,002	-	-	-	-
Library	150,969	-	-	-	-
Engineering	93,246	-	-	-	-
Highway and streets	-	-	392	-	-
Landscape maintenance	-	691,111	-	-	-
Debt Service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	15,438	-
Capital Outlay	-	260,102	-	-	-
TOTAL EXPENDITURES	<u>3,793,371</u>	<u>951,213</u>	<u>392</u>	<u>29,716</u>	<u>9,394</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(493,687)</u>	<u>2,480</u>	<u>482,544</u>	<u>2,192,006</u>	<u>660,127</u>
OTHER FINANCING SOURCES					
Transfers in	622,428	-	-	-	135,761
Transfers out	-	(30,756)	(128,000)	(1,314,693)	(75,048)
TOTAL OTHER FINANCING SOURCES (USES)	<u>622,428</u>	<u>(30,756)</u>	<u>(128,000)</u>	<u>(1,314,693)</u>	<u>60,713</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	128,741	(28,276)	354,544	877,313	720,840
Escheat recapture- deposits	53,930	-	-	-	-
Extraordinary gain (loss) on RDA dissolution	-	-	-	(695,264)	(6,904,680)
CHANGE IN FUND BALANCES	<u>182,671</u>	<u>(28,276)</u>	<u>354,544</u>	<u>182,049</u>	<u>(6,183,840)</u>
FUND BALANCES:					
Beginning of year, as previously reported	5,276,488	535,555	(51,075)	(50,038)	6,183,840
Prior period adjustment to correct error (See Note 13)	(102,734)	-	-	(132,011)	-
Beginning of fiscal year, as restated	<u>5,173,754</u>	<u>535,555</u>	<u>(51,075)</u>	<u>(182,049)</u>	<u>6,183,840</u>
End of fiscal year	<u>\$ 5,356,425</u>	<u>\$ 507,279</u>	<u>\$303,469</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Major Funds			
Capital Improvements Fund	RDA Debt Service Fund	Other Governmental	Total
\$ -	\$ -	\$ -	\$ 4,488,417
-	-	-	72,870
-	-	284,610	1,220,460
-	-	-	307,887
-	-	307,182	534,446
-	-	-	114,313
838,450	-	579,900	1,986,471
-	-	-	11,074
-	-	-	143,060
-	-	-	454,871
-	-	-	131,053
38,623	1,417	45,722	241,199
-	-	10,615	27,954
<u>877,073</u>	<u>1,417</u>	<u>1,228,029</u>	<u>9,734,075</u>
-	-	-	48,420
-	-	-	836,531
-	7,860	-	147,405
-	-	-	194,376
-	-	143,255	143,255
-	-	-	294,186
-	-	-	143,768
-	-	-	1,916,002
-	-	-	150,969
-	-	-	93,246
-	-	323,108	323,500
-	-	89,892	781,003
-	610,000	-	610,000
-	308,013	-	323,451
<u>1,267,975</u>	<u>-</u>	<u>3,900</u>	<u>1,531,977</u>
<u>1,267,975</u>	<u>925,873</u>	<u>560,155</u>	<u>7,538,089</u>
<u>(390,902)</u>	<u>(924,456)</u>	<u>667,874</u>	<u>2,195,986</u>
289,500	991,242	-	2,038,931
-	-	(240,434)	(1,788,931)
<u>289,500</u>	<u>991,242</u>	<u>(240,434)</u>	<u>250,000</u>
(101,402)	66,786	427,440	2,445,986
-	-	-	53,930
-	(700,038)	-	(8,299,982)
<u>(101,402)</u>	<u>(633,252)</u>	<u>427,440</u>	<u>(5,800,066)</u>
3,290,608	633,252	1,947,640	17,766,270
(41,892)	-	-	(276,637)
<u>3,248,716</u>	<u>633,252</u>	<u>1,947,640</u>	<u>17,489,633</u>
<u>\$ 3,147,314</u>	<u>\$ -</u>	<u>\$ 2,375,080</u>	<u>\$ 11,689,567</u>

The accompanying notes are an integral part of the financial statements

City of Clayton

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ (5,800,066)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (Net of internal service fund depreciation of \$74,097). (655,273)

Certain long-term assets, such as notes receivable, developer receivable, and investment in low and moderate income housing are reported as expenditures in the governmental funds and then are offset by a deferred revenue as they are not available to pay current expenditures. When the long-term assets are collected, they are reflected as revenue. This amount is the net change in the long-term assets for the current period. 62,418

Long-term compensated absences are reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, long-term compensated absences are not reported as expenditures in governmental funds. The program expenses are adjusted for the current year net changes in compensated absences. 98,060

Difference in extraordinary loss on dissolution of Redevelopment Agency 2,199,630

Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Position

 Long-term debt repayments 610,000

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in the governmental funds. The following amount represents the change in accrued interest from prior year. 194,404

Capital asset acquisition, excluding internal service fund asset acquisitions. 1,528,077

Loss on disposal of fixed assets (116,339)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net gain or loss of the internal service funds is reported with governmental activities. 168,330

Change in Net Position of Governmental Activities on Statement of Activities **\$ (1,710,759)**

The accompanying notes are an integral part of the financial statements

PROPRIETARY FUNDS

City of Clayton
Statement of Net Position
Proprietary Funds
June 30, 2012

	Community Gym	Endeavor Hall	Total	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ -	\$ -	\$ -	\$ 198,334
Receivables:				
Accounts	2,000	120	2,120	-
Interest		1	1	-
Noncurrent Assets				
Land	-	167,738	167,738	-
Depreciable assets, net	-	1,191,145	1,191,145	504,533
TOTAL ASSETS	<u>2,000</u>	<u>1,359,004</u>	<u>1,361,004</u>	<u>702,867</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	-	525	525	3,241
Other payables	34,489	3,510	37,999	-
Deposits payable	-	4,750	4,750	-
Due to other funds	63,465	16,575	80,040	-
TOTAL LIABILITIES	<u>97,954</u>	<u>25,360</u>	<u>123,314</u>	<u>3,241</u>
NET POSITION				
Invested in capital assets, net of related debt	-	1,358,883	1,358,883	504,533
Restricted for payment of claims	-	-	-	-
Unrestricted	(95,954)	(25,239)	(121,193)	195,093
TOTAL NET POSITION	<u>\$ (95,954)</u>	<u>\$ 1,333,644</u>	<u>\$ 1,237,690</u>	<u>\$ 699,626</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Community Gym	Endeavor Hall	Total	Governmental Activities Internal Services Funds
OPERATING REVENUES				
Charges for current services	\$ -	\$ 16,294	\$ 16,294	\$ 16,200
TOTAL OPERATING REVENUES	<u>-</u>	<u>16,294</u>	<u>16,294</u>	<u>16,200</u>
OPERATING EXPENSES				
Personnel	-	12,171	12,171	-
General and administrative	-	13,259	13,259	55,106
Computer software upgrades	-	-	-	15,808
Bad Debt Expense	18	-	18	-
Depreciation and amortization	-	36,067	36,067	101,014
TOTAL OPERATING EXPENSES	<u>18</u>	<u>61,497</u>	<u>61,515</u>	<u>171,928</u>
OPERATING INCOME (LOSS)	<u>(18)</u>	<u>(45,203)</u>	<u>(45,221)</u>	<u>(155,728)</u>
NONOPERATING REVENUES (EXPENSES)				
Escheat recapture- deposits	-	-	-	322,718
Investment income (loss)	(93)	(266)	(359)	1,340
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(93)</u>	<u>(266)</u>	<u>(359)</u>	<u>324,058</u>
CHANGE IN NET ASSETS	(111)	(45,469)	(45,580)	168,330
NET ASSETS:				
Beginning of fiscal year	(95,843)	1,379,113	1,283,270	531,296
End of fiscal year	<u>\$ (95,954)</u>	<u>\$ 1,333,644</u>	<u>\$ 1,237,690</u>	<u>\$ 699,626</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Major Enterprise Funds			Governmental Activities Internal Service Funds
	Community Gym	Endeavor Hall	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 7,972	\$ 16,174	\$ 24,146	\$ 16,200
Cash payments to suppliers for goods and services	(7,879)	(3,737)	(11,616)	(74,662)
Cash payment to employees for services	-	(12,171)	(12,171)	-
Net cash provided (used) by operating activities	<u>93</u>	<u>266</u>	<u>359</u>	<u>(58,462)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Transfer from trust and agency funds- write-off of deposits	-	-	-	322,718
Cash paid for capital acquisition	-	-	-	(277,181)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	(93)	(266)	(359)	1,340
Net Cash provided (used) by investing activities	<u>(93)</u>	<u>(266)</u>	<u>(359)</u>	<u>1,340</u>
Net increase (decrease) in cash and cash equivalents	-	-	-	(11,585)
CASH AND CASH EQUIVALENTS:				
Fiscal year end June 30, 2011	-	-	-	209,919
Fiscal year end June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,334</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (18)	\$ (45,203)	\$ (45,221)	\$ (155,728)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	36,067	36,067	101,014
Changes in current assets and liabilities:				
Accounts receivable	7,990	(120)	7,870	-
Accounts payable	22,000	2,275	24,275	(3,748)
Other payables	-	900	900	-
Due to other funds	(29,879)	6,347	(23,532)	-
Insurance claims payable	-	-	-	-
Net cash provided (used) by operating activities	<u>\$ 93</u>	<u>\$ 266</u>	<u>\$ 359</u>	<u>\$ (58,462)</u>

The accompanying notes are an integral part of the financial statements

FIDUCIARY FUNDS

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. They are used to account for assets held in an agency capacity for others and therefore cannot be used to support the City's program. Agency funds are accounted for using the modified accrual basis of accounting.

Private Purpose Trust Funds account for resources held by the City as trustee for third party beneficiaries, and are used to report both the Fiduciary Net Position and Changes in Fiduciary Net Position for the Successor Agency for the former Redevelopment Agency. Private Purpose Trust Funds are accounted for under the full accrual basis of accounting.

City of Clayton
Statement of Fiduciary Net Position
Agency Funds
(Excludes Successor Agency Funds)
June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 1,702,396
Cash with fiscal agents	358,224
Investment in bonds	3,800,000
Other receivables	<u>413,953</u>
TOTAL ASSETS	<u>\$ 6,274,573</u>
LIABILITIES	
Accounts payable	\$ 444,519
Interest payable	-
Other payables	19,865
Other deposits	577,973
Due to bondholders	<u>5,232,216</u>
TOTAL LIABILITIES	<u>\$ 6,274,573</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Fiduciary Net Position
Private Purpose Trust Fund - Successor Agency
June 30, 2012

<u>ASSETS</u>	Redevelopment Retirement Trust Fund	Redevelopment LMI Retirement Trust Fund	Eliminations	Total
Current assets:				
Cash and investments	\$ 1,913,695	\$ 5,422,247	\$ -	\$ 7,335,942
Cash and investments with fiscal agents	925,006	-	-	925,006
Total current assets	<u>2,838,701</u>	<u>5,422,247</u>	<u>-</u>	<u>8,260,948</u>
Noncurrent assets:				
Advance to other funds	-	592,412	(592,412)	-
Loans to other funds	196,073	4,160,650	-	4,356,723
Total noncurrent assets	<u>196,073</u>	<u>4,753,062</u>	<u>(592,412)</u>	<u>4,356,723</u>
Total assets	<u>\$ 3,034,774</u>	<u>\$ 10,175,309</u>	<u>\$ (592,412)</u>	<u>\$ 12,617,671</u>
<u>LIABILITIES AND NET POSITION</u>				
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 1,117	560	\$ -	\$ 1,677
Accrued interest payable	106,284	-	-	106,284
Current portion of long term debt	280,000	-	-	280,000
Due to other funds	976,899	-	-	976,899
Total current liabilities	<u>1,364,300</u>	<u>560</u>	<u>-</u>	<u>1,364,860</u>
Noncurrent liabilities:				
Deferred revenue	196,073	3,406,200	-	3,602,273
Long term debt, net of current portion	4,855,000	-	-	4,855,000
Advance from LMI fund	592,412	-	(592,412)	-
Total noncurrent liabilities	<u>5,643,485</u>	<u>3,406,200</u>	<u>(592,412)</u>	<u>8,457,273</u>
Total liabilities	<u>7,007,785</u>	<u>3,406,760</u>	<u>(592,412)</u>	<u>9,822,133</u>
<u>NET POSITION</u>				
Held in trust for other governments	(3,973,011)	6,768,549	-	2,795,538
Total liabilities and net position	<u>\$ 3,034,774</u>	<u>\$ 10,175,309</u>	<u>\$ (592,412)</u>	<u>\$ 12,617,671</u>

The accompanying notes are an integral part of the financial statements

City of Clayton
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund - Successor Agency
For the Pd. February 1, 2012 through June 30, 2012

	Redevelopment Retirement Trust Fund	Redevelopment LMI Retirement Trust Fund	Total
Additions			
Tax increment revenue	\$ 828,915	\$ -	\$ 828,915
Investment income	<u>38,929</u>	<u>38,273</u>	<u>77,202</u>
Total additions	<u>867,844</u>	<u>38,273</u>	<u>906,117</u>
Deductions			
Interest expense	106,284	-	106,284
Project costs	-	200,000	200,000
Other expenses	<u>6,013</u>	<u>13,264</u>	<u>19,277</u>
Total deductions	<u>112,297</u>	<u>213,264</u>	<u>325,561</u>
Extraordinary gain (loss)	<u>(4,439,698)</u>	<u>6,904,680</u>	<u>2,464,982</u>
Transfers	<u>(288,860)</u>	<u>38,860</u>	<u>(250,000)</u>
Change in net position	(3,973,011)	6,768,549	2,795,538
Net position held in trust - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Net position held in trust - ending	<u>\$ (3,973,011)</u>	<u>\$ 6,768,549</u>	<u>\$ 2,795,538</u>

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Clayton, California (City) have been prepared in conformity with generally accepted accounting principles (US GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Clayton (City) is primarily a residential community nestled in the foothills of Mount Diablo in Contra Costa County, California. The City was incorporated as a municipal corporation in 1964, and encompasses four square miles with a population of 10,996.

The City operates under the Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. The City's staff of 24 full time equivalent employees, of which 10 are sworn officers in the Police Department, are under contract with the City and responsible for the following City services:

- Public Safety - The City provides 24-hour police services from a central station, using trained personnel.
- Streets and Roads - The City maintains its streets, curbs, gutters and related public property using City employees. Major projects may be contracted to reduce costs.
- In addition, the City employs a varying number of seasonal personnel for maintenance.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following is a brief review of the component units included in the accompanying basic financial statements of the City:

Clayton Redevelopment Agency ("RDA") was established pursuant to the State of California Health and Safety Code Section 33000. The RDA is responsible for the rehabilitation and economic revitalization of certain areas within the City.

The former RDA was dissolved as of February 1, 2012. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets, liabilities and activities of the Successor Agency to the RDA are reported in a fiduciary fund in the financial statements of the City, however the Successor Agency's activities and net position do not roll-up to the government-wide financial statements. See Note 8.C. for more detail.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. The City is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The RDA has been accounted for as a "blended" component unit of the City. Despite being legally separate, this entity is so intertwined with the City that it is, in substance, part of the City's operations. Accordingly, the balances and transactions of this component unit are reported within the funds of the City.

The following specific criteria were used in determining that the RDA was a blended component unit:

- The members of the City Council also acted as the governing bodies of the RDA.
- The RDA was managed by employees of the City. A portion of the City's salary and overhead expenses was billed to the RDA each year.
- The City and the RDA were financially interdependent. The City made loans to the RDA to use for redevelopment purposes. Tax increment (Property tax) revenues of the RDA were used to repay the loans to the City.

Detailed financial statements are available for the former RDA from the City's Finance Department.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business type activities for the City, the primary government. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and related infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated in the Statement of Activities; internal service fund transactions have been eliminated. However, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Advances to/from other funds
- Due to/from other funds
- Transfers in/out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

B. Basis of Accounting and Measurement Focus, Continued

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34. The City has the following major funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Clayton Redevelopment RDA Capital Projects Fund - This fund accounted for the projects funded through the property tax increment generated with the project area.

Clayton Redevelopment RDA Low/Moderate Income Housing Fund - This fund accounted for the low and moderate income housing projects funded through a mandatory 20% set aside of the property tax increment generated within the project area.

Capital Improvement Projects Fund - This accounts for the projects identified in the capital improvement program funded by various federal and state grants as well as through transfers from the General Fund.

Clayton Redevelopment RDA Debt Service Fund - This fund accounted for the 1996 and the 1999 Tax Allocation Bonds debt service payments.

Landscape Maintenance Fund - This fund was created through a real property special tax to fund the operation and maintenance of citywide public landscaped areas.

Measure J Fund - This special revenue fund accounts for the \$0.005 sales tax levy approved by Measure J in 2004 and related expenditures.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Fund Net Position, and a Statement of Cash Flows for all proprietary funds.

Internal service funds are presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City has the following major enterprise funds:

Community Gym - This fund accounts for all activities located at the Community Gym and managed by All Out Sports League.

Endeavor Hall - This fund accounts for all activities related to use of the facility. The primary use has been for Wedding Receptions.

The City has the following internal service funds:

Capital Replacement - This fund accounts for the operation, maintenance, and replacement of the City vehicles and equipment.

Self-Insurance Liability - This fund accounts for the administration of the City's self-insurance programs, payment of Employee Assistance Programs, and liability claims payments.

Fiduciary Fund Financial Statements

The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, therefore only the Statement of Fiduciary Net Position is presented. Agency funds are accounted for using the modified accrual basis of accounting.

Private Purpose Trust Funds account for resources held by the City as trustee for third party beneficiaries, and are used to report both the Fiduciary Net Position and Changes in Fiduciary Net Position for the Successor Agency for the former Redevelopment Agency. Private Purpose Trust Funds are accounted for under the full accrual basis of accounting.

C. Use of Restricted and Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

D. Cash and Investments

The City pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Interest income on investments is allocated to the funds on the basis of average month-end cash and investment balances.

The City reviews and refines its Investment Policy (Policy) annually, with the most recent revision in August 2011. The Policy states that the primary investment objective is safety with investments being legally permitted and sufficiently liquid to meet forecasted needs. Maximization of interest earnings is a secondary objective. Further, the Policy states that the City Treasurer has the ultimate responsibility to protect, preserve and maintain cash and investments. The Policy also established internal controls and reporting requirements. The Policy stipulates "Permitted Investments and Limitation on Investments."

The City invests in the California Local Agency Investment Fund ("LAIF"), which is part of the Pooled Money Investment Account operated by the California State Treasurer. LAIF funds are invested in high quality money market securities and are managed to insure the safety of the portfolio. A portion of LAIF's investments are in structured notes and asset-backed securities.

LAIF determines fair value on its investment portfolio based on market quotations for these securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

In accordance with GASB Statement No. 31, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Land Held for Resale/Investment in low and moderate income housing

The City had acquired two parcels of land in Stranahan Circle as part of its primary purpose to develop or redevelop City properties. The property is being carried at the lower of cost or net realizable value. The former RDA had also purchased and re-sold various properties to low and moderate income households. At the time the former RDA bought back the property the cost was written down (expensed) to the new lower purchase price. The City participated in the profits on any sales to an outside party in the same proportion as what the low and moderate income purchaser purchased the property from the former RDA at below the market value.

F. Capital Assets

Capital assets are valued at cost or, during the initial implementation, estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting infrastructure at \$100,000; all other capital assets are set at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings	50 years
Improvements other than buildings	20 - 75 years
Machinery and equipment	5 - 10 years
Infrastructure	20 - 75 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructure into the current basic financial statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, park lands, and buildings. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2003. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

G. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

Fiduciary funds that are Private Purpose Trust Funds have an "economic resources" measurement focus, which is the accrual basis of accounting. The trust fund reports all of the assets (including capital assets) and liabilities (including long term indebtedness). Effective February 1, 2012, the Successor Agency to the former Clayton RDA began reporting on this basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Compensated Absences

Government-Wide Financial Statements

Compensated absences are recorded as incurred and the related expenses and liabilities are reported in the appropriate activity.

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. Compensated absences include vacation. It is the policy of the City to pay 100% of the accumulated vacation leave when a public safety employee retires or terminates, and up to 18 months of a general employee's maximum annual accrual allowed upon the same leave of employment action.

I. Net Position / Fund Balances

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

Fund Financial Statements

The City has implemented the GASB No. 54 Fund Balance Reporting and Governmental Fund Type Definitions that improves financial reporting by providing fund balance categories and classifications that will be more easily understood. The fund balance classification approach in this Statement requires governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the process under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. Fund balances for governmental funds are reported in classifications that form a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The City Council, as the highest level of decision-making authority of the City, commits fund balances through resolutions. The Council has designated certain members of management staff to assign fund balances.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Property Taxes

Property tax revenues are recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Costa (County) levies, bills and collects property taxes and special assessments for the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties (under the Teeter Plan). Secured and unsecured property taxes are levied on July 1 based on January 1 assessed valuation and are payable in two installments, becoming delinquent on December 10 and April 10.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

L. Interfund Balances/Internal Balances

Outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "Internal balances."

M. New Accounting Pronouncements

- In December of 2009, GASB issued GASBS No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The City is required to implement the provisions of the Statement for the current fiscal year. This Statement did not result in a change in current practice because the City does not use the alternative measurement method.
- In November of 2010, GASB issued GASBS No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The City is required to implement the provisions of this Statement for the year ended June 30, 2013 (effective for periods beginning after December 15, 2011). The City has no known SCAs that would require disclosure, or have a material effect on the financial statements of the City.
- In November of 2010, GASB issued GASBS No. 61, *The Financial Reporting Entity: Omnibus*. This Statement amends Statements No. 14 and 34, to modify certain requirements for inclusion of component units in the financial reporting entity. The City is required to implement the provisions of this Statement for the year ended June 30, 2013 (effective for periods beginning after June 15, 2012). The City no longer has a component unit that would require disclosure, or have a material effect on the financial statements of the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. New Accounting Pronouncements, Continued

- In December of 2010, GASB issued GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:
 1. Financial Accounting Standards Board (FASB) Statements and Interpretations
 2. Accounting Principles Board Opinions
 3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The City is required to implement the provisions of this Statement for the year ended June 30, 2013 (effective for periods beginning after December 15, 2011). This Statement will not result in a change in current practice, or have a material effect on the financial statements of the City.

- In June of 2011, GASB issued GASBS No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The City is required to implement the provisions of this Statement for the year ended June 30, 2013 (effective for periods beginning after December 15, 2011). This Statement most likely will not result in a change in current practice, or have a material effect on the financial statements of the City.
- In June of 2011, GASB issued GASBS No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement amends Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The City is required to implement the provisions of this Statement for the current fiscal year. This Statement did not result in a change in current practice, or have a material effect on the financial statements of the City.
- In March of 2012, GASB issued GASBS No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City is required to implement the provisions of this Statement for the year ended June 30, 2014 (effective for periods beginning after December 31, 2012). This Statement will not result in a change in current practice, or have a material effect on the financial statements of the City.

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. New Accounting Pronouncements, Continued

- In March of 2012, GASB issued GASBS No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. The City is required to implement the provisions of this Statement for the year ended June 30, 2014 (effective for periods beginning after December 31, 2012). This Statement will not result in a change in current practice, or have a material effect on the financial statements of the City.

- In June of 2012, GASB issued GASBS No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The City is required to implement to provisions of this Statement for the year ended June 30, 2014 (effective for periods beginning after June 15, 2013). This Statement will result in a change in current practice, or have a material effect on the financial statements of the City.

- In June of 2012, GASB issued GASBS No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The City is required to implement to provisions of this Statement for the year ended June 30, 2015 (effective for periods beginning after June 15, 2014). This Statement will result in a change in current practice, or have a material effect on the financial statements of the City.

2. CASH AND INVESTMENTS

Statement of Net Position:	
Cash and investments	\$ 10,242,817
Statement of Fiduciary Net Position, excluding S.A. funds:	
Cash and investments	1,702,396
Cash with fiscal agents	358,224
Bonds held in refunding	4,567,838
Statement of Fiduc. Net Position, Priv. Purp. Trust Fund- Successor Agency:	
Cash and investments	7,335,942
Cash with fiscal agents	925,006
Total	<u>\$ 25,132,223</u>
Cash and investments as of June 30, 2012 consist of the following:	
Cash on hand	\$ 1,000
Deposits with financial institutions	1,389,595
Investments	23,741,628
Total	<u>\$ 25,132,223</u>

2. CASH AND INVESTMENTS, Continued

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City of Clayton by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
Money Market Funds	N/A	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	20%	None
Insured Deposits with Banks and Savings and Loans	N/A	None	None
Negotiable Time Certificates of Deposit	5 years	None	None
Medium Term Corporate Bonds	5 years	20%	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Money Market Mutual Funds	N/A	N/A	N/A
U.S. Government Agency Issues	5 years	20%	None
Federal Housing Administration debentures	N/A	N/A	N/A
Commercial paper	92 Days	N/A	N/A
Demand or time deposits	366 Days	N/A	N/A

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Interest Rate Risk

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The investments are restricted to securities which will by their terms mature not later than the date the Agency estimates the monies represented by the particular investment will be needed for withdrawal from such fund. Monies invested in a reserve account shall be invested in Investment Securities which will by their terms mature prior to the date which is the final maturity date of the bonds.

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months or Less	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months	More than 60 Months
State Investment Pool	\$ 6,490,799	\$ 6,490,799	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	118,350	118,350	-	-	-	-	-
Certificates of Deposit	11,281,413	2,962,004	4,053,016	2,261,579	1,212,175	792,639	-
Held by bond trustees:							
Money Market Funds	1,031,245	1,031,245	-	-	-	-	-
Bonds	251,984	251,984	-	-	-	-	-
Bonds held in refunding	4,567,837	589,951	334,682	362,331	380,183	419,709	2,480,981
	<u>\$ 23,741,628</u>	<u>\$ 11,444,333</u>	<u>\$ 4,387,698</u>	<u>\$ 2,623,910</u>	<u>\$ 1,592,358</u>	<u>\$ 1,212,348</u>	<u>\$ 2,480,981</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Minimum Legal Rating	Exempt from Disclosure	Rating			
			AAA	AA	A	Not Rated
State Investment Pool	N/A	\$ -	\$ -	\$ -	\$ -	6,490,799
Money Market Funds	N/A	-	-	-	-	118,350
Certificates of Deposit	N/A	-	-	-	-	11,281,413
Held by bond trustees:						
Money Market Funds	N/A	-	-	-	-	1,031,245
Bonds	N/A	-	-	-	-	251,984
Bonds held in refunding	N/A	-	-	-	-	4,567,837
Total		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>23,741,628</u>

2. CASH AND INVESTMENTS, Continued

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are no investments that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

3. RECEIVABLES

Notes Receivables

As of June 30, 2012, notes receivable consisted of the following:

Description	Ending Balance June 30, 2011	Additions	Deletions	Transfers from (to) Successor Agency	Ending Balance June 30, 2012
Professional Apartment Management.	\$ 3,267,600	\$ 200,000	\$ 61,400	\$ (3,406,200)	\$ -
Eden Housing (formerly Peace Grove)	567,000	-	-	(567,000)	-
Second Mortgage Program	187,450	-	-	(187,450)	-
Assessment District Loans	244,380	-	15,210	(229,170)	-
Oak Street Bridge	-	-	-	27,936	27,936
SA to RDA Retirement Trust Fund	-	-	-	501,899	501,899
SA to LMI RDA Retirement Trust Fund	-	-	-	475,000	475,000
Total	<u>\$ 4,266,430</u>	<u>\$ 200,000</u>	<u>\$ 76,610</u>	<u>\$ (3,384,985)</u>	<u>\$ 1,004,835</u>

On June 17, 1999, the former RDA purchased a parcel of land for \$475,000, from the City. In exchange for the parcel of land the former RDA issued a note in the amount of \$475,000 to the City. The principal amount is payable by the Successor Agency on or before January 1, 2023. As of June 30, 2012, the outstanding balance of the note was **\$475,000**.

On February 16, 2010, the former RDA recognized a debt owed to the City in the amount of \$501,899. The debt resulted from the former RDA omitting payment to the City of an annual 2% election payment for twenty-one fiscal years. The City recognized this note receivable and the former RDA agreed to pay back this note in four annual installments of \$125,475. As of June 30, 2012, the balance due from the Successor Agency is **\$501,899**.

In fiscal year 1999, the General Fund provided \$48,310 in funding for a portion of the Oak Street Bridge project and recorded a note receivable from the Oak Street Bridge Assessment District. The note, which bears interest at 6% is being paid off over 20 years. As of June 30, 2012, the outstanding balance due to the General Fund was **\$27,936**.

Notes Receivable transferred from former RDA to Successor Agency, effective February 1, 2012:

The former RDA provided assistance to special assessment districts within the City, to fund repairs and improvements. There are three districts which received loans from the former RDA. As of June 30, 2012, the outstanding balance of the loans due to the Successor Agency was **\$229,170**.

3. RECEIVABLES, Continued

Notes Receivable transferred from former RDA to Successor Agency, Continued

On September 21, 1999, the former RDA made a loan to the Professional Apartment Management, Inc. ("PAM") in the amount of \$750,000, at a non-interest bearing rate, to construct and develop an affordable senior assisted living center on the site known as "Diamond Terrace." The note is secured by the Deed of Trust. The former RDA loaned an additional \$1,286,000 on October 24, 2001. On December 1, 2003, PAM began drawing on a \$2,000,000 loan from the former RDA in the amount of \$200,000 annually. The principal balance is payable commencing on October 1, 2005 through October 1, 2030. As of June 30, 2012, the outstanding balance of the loan due to the Successor Agency was **\$3,406,200**.

On October 13, 1992, the former RDA made a loan to the Peace Grove, Inc. in the amount of \$567,000, at a non-interest bearing rate, for the purchase of land for a redevelopment and housing project for low-income mental health system clients. The loan is secured by the Deed of Trust. The principal balance is payable on December 18, 2052. As of June 30, 2012, the outstanding balance of the loan due to the Successor Agency was **\$567,000**.

The former RDA participated in a second mortgage assistance program, whereby qualified applicants are loaned money for a "silent second" down payment to purchase a home in the Stranahan Development within the City. There are seven individual loans outstanding. As of June 30, 2012, the outstanding balance of the loans due to the Successor Agency was **\$187,450**.

See Note 8.C. for more detail on the dissolution of the former RDA and the transfer of its assets and liabilities to the Successor Agency.

4. INTERFUND TRANSACTIONS

A. Due To, Due From

At June 30, 2012, the City had the following short-term interfund receivables and payables:

DUE TO	DUE FROM				Total
	Governmental		Business-Type		
	RDA Debt Service Fund	Non-major Governmental Funds	Community Gym	Endeavor Hall	
Governmental Activities:					
General Fund	\$ -	\$ 162,153	\$ 63,465	\$ 16,575	\$ 242,193
Total	\$ -	\$ 162,153	\$ 63,465	\$ 16,575	\$ 242,193

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

4. INTERFUND TRANSACTIONS, Continued

B. Interfund Transfers

At June 30, 2012, the City had the following transfers:

TRANSFERS OUT	TRANSFERS IN				Total
	General Fund	Capital Improvement	RDA Debt Service	Non-major Governmental Funds	
RDA Capital Projects	\$ 187,690	\$ -	\$ 991,242	\$ 135,761	\$ 1,314,693
RDA Low/Moderate	75,048	-	-	-	75,048
Non-major Governmental Funds	<u>109,690</u>	<u>289,500</u>	<u>-</u>	<u>-</u>	<u>399,190</u>
Total	\$ 372,428	\$ 289,500	\$ 991,242	\$ 135,761	\$ 1,788,931

The Redevelopment Agency transferred **\$991,242** from the capital projects fund to the debt service fund for the current debt service payments.

The City transferred **\$372,428** into the General Fund from Low/Moderate Income Capital Project Fund (**\$75,048**), RDA Capital Projects (**\$187,690**), and Non-major Governmental Funds (**\$109,690**) to reimburse the City for administrative expenses. The City transferred **\$289,500** into the Capital Non-Major Governmental Funds for various capital projects.

C. Advance to other funds

On September 30, 2004, the City transferred \$35,000 into the Development Impact Fees Fund to provide funding necessary to retain a consultant to prepare a sewer master plan for the potential annexation that is currently being processed by the City. It is the City's intent to recover the sewer master plan fees upon annexation. Additional funding by the City in the amount of \$25,000 was advanced to the Development Impact Fees Fund on May 17, 2005. As of June 30, 2012, the outstanding balance of the advance was **\$60,000**.

D. Note payable

On May 10, 2011, the former Redevelopment Agency received a loan from the Low to Moderate Income Housing Fund in the amount of \$592,412 to partially cover a demand from the California Department of Finance for property tax revenues to K-12 schools during the 2011-12 fiscal year via the Supplemental Educational Revenue Augmentation Funds (SERAF). The loan is to be repaid by the Successor Agency without interest by June 30, 2015.

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2012, the City's capital assets consisted of the following:

	Governmental Activities	Business - Type Activities	Total
<i>Non depreciable Assets:</i>			
Land	\$ 1,046,366	\$ 167,738	\$ 1,214,104
Construction in progress	748,254	-	748,254
Total non depreciable assets	1,794,620	167,738	1,962,358
<i>Depreciable Assets:</i>			
Buildings	5,895,576	1,400,744	7,296,320
Improvements	5,824,834	151,004	5,975,838
Machinery and equipment	1,306,917	5,024	1,311,941
Infrastructure	27,242,441	-	27,242,441
Total depreciable assets	40,269,768	1,556,772	41,826,540
Total accumulated depreciation	(13,733,536)	(365,627)	(14,099,163)
Depreciable assets, net	26,536,232	1,191,145	27,727,377
Total governmental activities capital assets, net	\$ 28,330,852	\$ 1,358,883	\$ 29,689,735

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2011	Additions	Deletions	Transfers and Adjustments	Balance June 30, 2012
<i>Non depreciable Assets:</i>					
Land	\$ 1,046,366	\$ -	\$ -	\$ -	\$ 1,046,366
Construction in progress	987,934	1,528,077	(1,651,418)	(116,339)	748,254
Total non depreciable assets	2,034,300	1,528,077	(1,651,418)	(116,339)	1,794,620
<i>Depreciable Assets:</i>					
Buildings	5,895,576	-	-	-	5,895,576
Improvements	4,295,841	1,528,993	-	-	5,824,834
Machinery and equipment	1,076,401	277,180	(46,664)	-	1,306,917
Infrastructure	27,120,016	122,425	-	-	27,242,441
Total depreciable assets	38,387,834	1,928,598	(46,664)	-	40,269,768
<i>Accumulated depreciation:</i>					
Buildings	(1,897,138)	(117,746)	-	-	(2,014,884)
Improvements	(1,234,419)	(140,862)	-	-	(1,375,281)
Machinery and Equipment	(748,031)	(54,349)	-	-	(802,384)
Infrastructure	(9,144,326)	(396,661)	-	-	(9,540,987)
Total accumulated depreciation	(13,023,914)	(709,278)	-	-	(13,733,536)
Depreciable assets, net	25,363,920	1,219,320	(46,664)	-	26,536,232
Total governmental activities capital assets, net	\$ 27,398,220	\$ 2,747,053	\$ (1,698,082)	\$ (116,339)	\$ 28,330,852

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Administrative	\$ 24,948
Community services and facilities	573,867
Police	56,458
Internal service	101,014
Total depreciation expense - governmental activities	\$ <u>756,287</u>

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<i>Non depreciable Assets:</i>				
Land	\$ 167,738	\$ -	\$ -	\$ 167,738
<i>Depreciable Assets:</i>				
Buildings	\$ 1,400,744	\$ -	\$ -	\$ 1,400,744
Improvements	151,004	-	-	151,004
Machinery & Equipment	5,024	-	-	5,024
Total depreciable assets	<u>1,556,772</u>	<u>-</u>	<u>-</u>	<u>1,556,772</u>
Accumulated Depreciation	(329,560)	(36,067)	-	(365,627)
Depreciable assets, net	<u>1,227,212</u>	<u>(36,067)</u>	<u>-</u>	<u>1,191,145</u>
Total business-type activities capital assets, net	\$ <u>1,394,950</u>	\$ <u>(36,067)</u>	\$ -	\$ <u>1,358,883</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2012 was as follows:

Endeavor hall	\$ 36,067
Total depreciation expense	\$ <u>36,067</u>

B Fund Financial Statements

The Governmental Fund Financial Statements do not present General Government Capital Assets, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' capital assets are combined with governmental activities.

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2012:

Description	Beginning Balance July 1, 2011	Additions	Reductions	Transfer to Successor Agency	Ending Balance June 30, 2012
<i>Governmental Activities:</i>					
1996 Refund Tax Allocation Bonds	\$ 1,270,000	-	\$ (1,040,000)	\$ (230,000)	-
1999 Tax Allocation Bonds	5,175,000	-	(270,000)	(4,905,000)	-
Total governmental activities	\$ 6,445,000	\$ -	\$ (1,310,000)	\$ (5,135,000)	\$ -

1996 Series A Refunding Tax Allocation Bonds

1996 Series A Refunding Tax Allocation Bonds in the principal amount of \$7,225,000 were issued on November 16, 1996 by the former RDA. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing after August 1, 2011 are subject to call on any interest payment date at par, plus a premium 1 % to 2% of the principal amount. The bonds are special obligations of the Successor Agency to the RDA and are secured by the Successor Agency to the RDA's tax increment revenue.

The annual debt service requirements to amortize the Successor Agency's 1996 Refunding Tax Allocation Bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	-	12,181	12,181
2014	-	12,181	12,181
2015	-	12,181	12,181
2016	-	12,181	12,181
2017	55,000	12,181	67,181
2018-2022	175,000	25,265	200,265
Total	\$ 230,000	\$ 86,170	\$ 316,170

1999 Tax Allocation Bonds

1999 Issue Tax Allocation Bonds in the principal amount of \$7,460,000 were issued on June 15, 1999 by the former RDA. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. The bonds are special obligations of the Successor Agency to the RDA and are secured by the Successor Agency to the RDA's tax increment revenues.

City of Clayton
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2012

6. LONG-TERM DEBT, Continued

The annual debt service requirements to amortize the Successor Agency's 1999 Tax Allocation Bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 280,000	\$ 236,140	\$ 516,140
2014	295,000	222,554	517,554
2015	310,000	208,030	518,030
2016	320,000	192,672	512,672
2017	335,000	176,541	511,541
2018-2022	1,950,000	606,500	2,556,500
2023-2025	1,415,000	108,375	1,523,375
Total	<u>\$ 4,905,000</u>	<u>\$ 1,750,812</u>	<u>\$ 6,665,812</u>

Compensated Absences

Compensated absences include vacation and sick leave. It is the policy of the City to pay 100% of the accumulated vacation leave when a public safety employee retires or terminates, and up to 18 months of a general employee's maximum annual accrual allowed upon the same leave of employment action. The City recognizes the liability for its compensated absences in the governmental activities. The following is a summary of compensated absences transactions during the fiscal year ended June 30, 2012:

	Beginning Balance July 1, 2011	Deletions	Ending Balance June 30, 2012
Compensated Absences	\$ <u>172,177</u>	\$ <u>(23,943)</u>	\$ <u>148,234</u>

7. NON-CITY OBLIGATIONS

Middle School Community Facilities District- Original Issue \$6,400,000

Middle School Community Facilities District Bonds in the principal amount of \$6,400,000 were issued on September 2, 1990 by the City. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non-city obligations and are secured by facility district revenue. As of June 30, 2012, the outstanding balance of the non-city bond obligation was **\$3,800,000**.

7. NON-CITY OBLIGATIONS, Continued

Clayton Station Community Facilities District- Original Issue \$1,269,000

Clayton Station Community Facilities District Bonds in the principal amount of \$1,269,000 were issued on September 2, 2000 by the City. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non city obligations and are secured by facility district revenue. As of June 30, 2012 the outstanding balance of the non-city bond obligation was **\$445,000**.

Lydia Lane Sewer Assessment District-Original Issue \$228,325

Lydia Lane Sewer Assessment District Bonds in the principal amount of \$228,325 were issued on August 5, 2002 by the City. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non city obligations and are secured by sewer assessment district revenue. As of June 30, 2012, the outstanding balance of the non-city bond obligation was **\$188,325**.

Clayton Financing Authority 2007 Special Tax Revenue Refunding Bonds-Original Issue \$5,060,000

Refunding bonds were issued on May 17, 2007 by the Clayton Financing Authority in the principal amount of \$5,060,000 to assist the City of Clayton to refund the Authority's 1997 Special Tax Revenue Refunding Bonds (the "1997 Bonds"), finance the acquisition and construction of certain public capital improvements (the Project), establish a reserve fund for the Bonds (funded part in cash and part from a reserve fund surety bond), and to pay the costs of issuance of the Bonds. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non city obligations and are secured by revenues received by the Authority as the result of the payment of debt service on the Community School Local Obligations. As of June 30, 2012, the outstanding balance of the non-city bond obligation was **\$3,750,000**.

8. OTHER FUND DISCLOSURES

A. Expenditures over Appropriations

The following funds had an excess of expenditures over appropriations in the current fiscal year:

	Amount in excess of appropriation
General Fund	\$ 34,188
Restricted Grants Fund	13,586
Street Lightning Fund	6,116
Oakhurst GHAD Fund	1,454
Endeavor Hall Enterprise Fund	34,996

8. OTHER FUND DISCLOSURES, Continued

B. Deficit Fund Balances

At June 30, 2012, the funds below had the following deficit fund balance or net position:

	<u>Amount</u>
Non-major – Stormwater Treatment District	\$ 2,550
Total Governmental Funds	<u>\$ 2,550</u>
Community Gym	\$ 95,954
Total Proprietary Funds	<u>\$ 95,954</u>

The deficits in the Community Gym and Stormwater Treatment District are expected to be recovered from future revenues.

C. Dissolution of Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the City of Clayton which previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “Successor Agency” to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the Bill as a part of a Council resolution.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the California State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the Successor Agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss of \$(8,299,982) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the private-purpose trust fund as an extraordinary loss of \$(6,100,352).

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the Bill. A trailer bill recognizes that debts to the City for non-bonded indebtedness such as General Fund loans are enforceable obligations, however it provides that interest rates could be adjusted downward, which could cause a reduction in the total obligations due to the City.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary gain recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the fiduciary fund financial statements.

Following is a reconciliation of the extraordinary loss upon dissolution of the redevelopment agency between the governmental fund statement of revenues, expenditures and changes in fund balances and both the government-wide statement of activities and the Successor Agency's statement of changes in fiduciary net position for the Successor Agency:

Transfer of fund balance (reported as extraordinary loss on governmental financial statements)	\$ (8,299,982)
Decrease in governmental funds basis liabilities (decrease to net position):	
Deferred revenues for former RDA recognized on governmental funds basis balance sheet but not on government- wide statement of net position	(3,635,370)
Decrease in government-wide liabilities (increase in net position)	
Long-term debt transferred to the Successor Agency which were recognized on the government-wide statement of activities, but not on the governmental funds basis balance sheet	<u>5,835,000</u>
Net assets received by Successor Agency upon dissolution of the former RDA (reported as an extraordinary gain on the Successor Agency's statement of changes in fiduciary net position and the government-wide statement of net position)	<u>\$ (6,100,352)</u>

9. RISK MANAGEMENT

The City participates in the Municipal Pooling Authority of Northern California (MPA), a joint powers agreement between twenty cities, which provides insurance coverage for liability, auto, property and workers' compensation claims. Claims liabilities are accrued when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The MPA covers claims in an amount up to \$29,000,000. The City has a deductible of \$5,000 per claim for liability cases and no deductible for workers' compensation claims. Once the City's deductible is met, the MPA becomes responsible for payment of all claims and legal defense.

The MPA is governed by a board consisting of representatives from each member municipality. The Board controls the operations of the MPA including selection of management, approval of operating budgets, and is independent of any influence by member municipalities beyond their representation on the Board.

The City's general liability premium payments to the MPA in the amount of **\$81,736** for fiscal year 2011-2012 are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

The City has had no settlements which exceeded insurance coverage during fiscal year ending June 30, 2012.

Estimates of incurred, but not reported, liability claims are included in the City's claims estimates and based upon historical experiences as calculated by the MPA.

At June 30, 2012, the MPA's audited condensed financial information showed:

Total assets	\$ <u>50,502,435</u>
Total liabilities	\$ <u>38,317,096</u>
Total equities	\$ <u>12,185,339</u>
Total revenues	\$ <u>18,702,497</u>
Total expenses	\$ <u>24,769,292</u>
Revenues over (under) expenses	\$ <u>(6,066,795)</u>

Detailed financial information may be obtained from the MPA.

Municipal Pooling Authority of Northern California
1911 San Miguel Drive, Suite 200
Walnut Creek, CA 94596

10. PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description - The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy - Active plan members are required by state statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$137,002 for the fiscal year ended June 30, 2012.

The City as employer is required to contribute an actuarially determined payment that is reflected as a percentage of annual covered payroll for miscellaneous and safety employees. The required employer contribution rates for the fiscal year 2011-12 was 14.883% for miscellaneous employees and 35.858% for safety employees.

The City's contributions to PERS for the fiscal years ending June 30, 2012, 2011 and 2009 were \$591,387, \$540,095 and \$550,323, respectively and equal 100% of the required contributions for each fiscal year, and also included the contributions that the City made on behalf of the employees.

11. POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description - The City of Clayton Retired Employee Health Care Program is a single-employer defined benefit healthcare program administered by the City of Clayton. The Program provides medical insurance benefits to eligible retirees and their families through the same self-insured program coverage to active City employees. In connection with this, the City has established a plan to provide post-employment benefits other than pensions as defined in section 7500-7514.5 of the California Public Employees' Retirement Law.

Separate stand-alone statements are not issued for this plan.

Funding Policy - The contribution requirements of plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with the potential for additional amounts to pre fund benefits as determined annually by the City Council. For Fiscal Year 2012, there were five retired employees receiving retiree premium benefits. Their contributions totaled \$30,441 (85% of the total) monthly contributions. The City contributed retiree premiums of \$5,175 (15% of the total) and there was no additional pre funding contribution.

11. POST EMPLOYMENT HEALTH CARE BENEFITS

Annual OPEB Cost and Net OPEB Obligation - The City's annual other post employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's OPEB obligation for the program:

Annual required contribution (ARC)	\$ 50,667
Interest on net OPEB obligation	<u>2,131</u>
Annual OPEB cost	52,798
Contributions made by the City	(5,175)
Change in actuarial estimate	(1,569)
Contributions made by the retirees	<u>(30,441)</u>
Increase (decrease) in net OPEB obligation	15,613
Net OPEB obligation (asset) at beginning of 2012	<u>53,294</u>
Net OPEB obligation (asset) at end of 2012	<u>\$ 68,907</u>

The City's annual OPEB cost was \$52,798 resulting in a net OPEB obligation of \$68,907. The fiscal year ended June 30, 2010 was the first year for which an actuarially determined ARC of \$50,667 has been calculated for the City of Clayton Retired Employees Health Care Program. The total implied subsidies for the years ended June 30, 2011 and 2012 were \$29,856 and \$35,616, respectively.

Funded Status and Funding Progress- The City's actuarial Accrued Liability (AAL) and unfunded Actuarial Accrued Liability (UAAL) is \$400,257, which is 20% of the \$1,956,912 City payroll. There are no plan assets and as of June 30, 2012, since the OPEB trust has not yet been set up.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision every three years.

Actuarial Methods and Assumptions- The City of Clayton, in accordance with GASB 45, employed the Alternative Measurement Method to determine the OPEB obligation. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time valuation.

In the June 30, 2010 actuarial valuation, the Entry Age Normal method was used. The actuarial assumptions included a 4.0% investment rate of return, and an annual healthcare cost increase rate of 10% initially, reduced ultimately to 5% by 2020. The UAAL is being amortized using the level dollar method. The remaining amortization period at June 30, 2012 was 28 years.

12. CONTINGENCIES

The City is a defendant in a few lawsuits and claims which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the City Attorney, these actions, when finally adjudicated, will not have a material adverse effect on the financial position of the City.

13. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2012, the City determined that the recording of construction costs funded by loans payable, and other related transactions (including the collection of assessments due) had not been accounted for in prior years in conformity with the true nature of these transactions between certain agency funds and the former RDA Capital Projects Fund, the Capital Improvements Fund and the General Fund. In addition, it was determined that the current portion of accrued vacations payable should be recognized as a current liability of the General Fund. As a result of these analyses and the consequent restatement of account balances, the beginning fund balance of the former RDA Capital Projects Fund, the General Fund and the Capital Improvements Fund and were decreased by \$132,011, \$102,734 and \$41,892, respectively.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2013, the date on which the financial statements were available to be issued. There are no known material violations of finance-related legal and contractual provisions

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REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY PRINCIPLES

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- By June 30, the City Manager submits to the City Council a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the City Council as part of the adoption of subsequent year's budgets.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution during a City Council meeting in the month of June.
- The City Manager is authorized to transfer budgeted amounts within an activity, within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- Formal budgeting is employed as a management control device during the year for the general, certain special revenue and debt service funds. The Presley Settlement, Stormwater Treatment District Assessment, and Clayton Development Impact Fees funds are not budgeted for and thus do not have budget to actual comparison statements.
- Budgets for the general, certain special revenue and debt service funds are adopted on a basis consistent with generally accepted accounting principles (US GAAP).
- Budgets for capital projects funds are adopted on a project-life basis.

Budgeted amounts are as originally adopted or as amended by the City Council. Budget amendments were not material in relation to the original appropriations.

Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances.

City of Clayton
Budgetary Comparison Schedule
General Fund

For the fiscal year ended June 30, 2012

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,610,024	\$ 1,610,024	\$ 1,732,916	\$ 122,892
Program income	5,791	5,791	11,470	5,679
Sales tax	256,500	256,500	307,887	51,387
Permits, licenses and fees	227,629	227,629	227,264	(365)
Fines, forfeitures and penalties	59,500	59,500	114,313	54,813
From other agencies	125,257	125,257	80,174	(45,083)
Motor vehicle in-lieu fees	30,000	30,000	11,074	(18,926)
Other in-lieu fees	140,255	140,255	143,060	2,805
Franchise fees	368,153	368,153	454,871	86,718
Service charges	61,858	61,858	131,053	69,195
Use of money and property	85,000	85,000	70,989	(14,011)
Other revenue	56,555	56,555	14,613	(41,942)
TOTAL REVENUES	3,026,522	3,026,522	3,299,684	273,162
EXPENDITURES				
Legislative	59,448	71,830	48,420	23,410
Administrative	833,745	841,591	836,531	5,060
Community services and facilities	120,897	245,153	139,545	105,608
Community park	176,574	188,464	194,376	(5,912)
Planning and development	257,023	277,870	270,514	7,356
General Support	143,380	143,880	143,768	112
Police	1,834,622	1,846,640	1,916,002	(69,362)
Library	130,589	133,396	150,969	(17,573)
Engineering	96,448	96,448	93,246	3,202
TOTAL EXPENDITURES	3,652,726	3,845,272	3,793,371	51,901
REVENUES OVER (UNDER) EXPENDITURES	(626,204)	(818,750)	(493,687)	325,063
OTHER FINANCING SOURCES (USES)				
Transfers in	668,588	668,588	622,428	(46,160)
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	668,588	668,588	622,428	(46,160)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	42,384	(150,162)	128,741	278,903
Escheat recapture- deposits	-	-	53,930	53,930
CHANGE IN FUND BALANCES	\$ 42,384	\$ (150,162)	182,671	\$ 332,833
FUND BALANCES:				
Beginning of year, as previously reported			5,276,488	
Prior period adjustment to correct error (See Note 13)			(102,734)	
Beginning of year, as restated			5,173,754	
End of year			\$ 5,356,425	

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MAJOR FUNDS

City of Clayton
 Budgetary Comparison Schedule
 RDA Capital Projects Fund

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 4,006,933	\$ 2,204,401	\$ (1,802,532)
Use of money and property	5,000	17,321	12,321
Other revenue	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
TOTAL REVENUES	<u>4,016,933</u>	<u>2,221,722</u>	<u>(1,795,211)</u>
EXPENDITURES			
Planning and development	871,574	14,278	857,296
Interest and fiscal charges	30,875	15,438	15,437
Capital outlay	<u>15,000</u>	<u>-</u>	<u>15,000</u>
TOTAL EXPENDITURES	<u>917,449</u>	<u>29,716</u>	<u>887,733</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>3,099,484</u>	<u>2,192,006</u>	<u>(907,478)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	<u>(2,624,404)</u>	<u>(1,314,693)</u>	<u>1,309,711</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,624,404)</u>	<u>(1,314,693)</u>	<u>1,309,711</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	475,080	877,313	402,233
Extraordinary gain (loss) on RDA dissolution	<u>-</u>	<u>(695,264)</u>	<u>(695,264)</u>
CHANGE IN FUND BALANCES	<u>\$ 475,080</u>	<u>\$ 182,049</u>	<u>\$ (293,031)</u>
FUND BALANCES:			
Beginning of year, as previously reported		(50,038)	
Prior period adjustment to correct error (See Note 13)		<u>(132,011)</u>	
Beginning of year, as restated		<u>(182,049)</u>	
End of year		<u>\$ -</u>	

City of Clayton
 Budgetary Comparison Schedule
 RDA Low/Moderate Capital Projects Fund

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 991,267	\$ 551,100	\$ (440,167)
Program income	61,400	61,400	-
Use of money and property	<u>30,000</u>	<u>57,021</u>	<u>27,021</u>
TOTAL REVENUES	<u>1,082,667</u>	<u>669,521</u>	<u>(413,146)</u>
EXPENDITURES			
Planning and development	417,670	9,394	408,276
Loss on sale of land held for resale	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>417,670</u>	<u>9,394</u>	<u>408,276</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>664,997</u>	<u>660,127</u>	<u>(4,870)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	148,103	135,761	(12,342)
Transfers out	<u>(150,095)</u>	<u>(75,048)</u>	<u>75,047</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,992)</u>	<u>60,713</u>	<u>62,705</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	663,005	720,840	57,835
Extraordinary gain (loss) on RDA dissolution	<u>-</u>	<u>(6,904,680)</u>	<u>(6,904,680)</u>
CHANGE IN FUND BALANCES	<u>\$ 663,005</u>	<u>(6,183,840)</u>	<u>\$ (6,846,845)</u>
FUND BALANCES:			
Beginning of year		<u>6,183,840</u>	
End of year		<u>\$ -</u>	

**City of Clayton
 Budgetary Comparison Schedule
 Capital Improvements Fund**

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
From other agencies	\$ 523,000	\$ 838,450	\$ 315,450
Use of money and property	<u>-</u>	<u>38,623</u>	<u>38,623</u>
TOTAL REVENUES	<u>523,000</u>	<u>877,073</u>	<u>354,073</u>
EXPENDITURES			
Capital outlay	<u>1,524,988</u>	<u>1,267,975</u>	<u>257,013</u>
TOTAL EXPENDITURES	<u>1,524,988</u>	<u>1,267,975</u>	<u>257,013</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,001,988)</u>	<u>(390,902)</u>	<u>611,086</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,001,988</u>	<u>289,500</u>	<u>(712,488)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,001,988</u>	<u>289,500</u>	<u>(712,488)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	(101,402)	(101,402)
Extraordinary gain (loss) on RDA dissolution	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>(101,402)</u>	<u>\$ (101,402)</u>
FUND BALANCES:			
Beginning of year, as previously reported		3,290,608	
Prior period adjustment to correct error (See Note 13)		<u>(41,892)</u>	
Beginning of year, as restated		<u>3,248,716</u>	
End of year		<u>\$ 3,147,314</u>	

City of Clayton
 Budgetary Comparison Schedule
 RDA Debt Service Fund

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
REVENUES			
Use of money and property	\$ 1,500	\$ 1,417	\$ (83)
TOTAL REVENUES	<u>1,500</u>	<u>1,417</u>	<u>(83)</u>
EXPENDITURES			
Community services and facilities	8,265	7,860	405
Principal	3,110,000	610,000	2,500,000
Interest and fiscal charges	<u>413,663</u>	<u>308,013</u>	<u>105,650</u>
TOTAL EXPENDITURES	<u>3,531,928</u>	<u>925,873</u>	<u>2,606,055</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,530,428)</u>	<u>(924,456)</u>	<u>2,605,972</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>2,100,921</u>	<u>991,242</u>	<u>(1,109,679)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,100,921</u>	<u>991,242</u>	<u>(1,109,679)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(1,429,507)</u>	66,786	1,496,293
Extraordinary gain (loss) on RDA dissolution	<u>-</u>	<u>(700,038)</u>	<u>(700,038)</u>
CHANGE IN FUND BALANCES	<u>\$ (1,429,507)</u>	(633,252)	<u>\$ 796,255</u>
FUND BALANCES:			
Beginning of year		<u>633,252</u>	
End of year		<u>\$ -</u>	

City of Clayton
 Budgetary Comparison Schedule
 Clayton Landscape Maintenance Special Revenue Fund

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special Assessments	\$ 936,054	\$ 935,850	\$ (204)
Use of money and property	5,000	15,117	10,117
Other revenue	<u>-</u>	<u>2,726</u>	<u>2,726</u>
TOTAL REVENUES	<u>941,054</u>	<u>953,693</u>	<u>12,639</u>
EXPENDITURES			
Current:			
Landscape maintenance	799,967	691,111	108,856
Capital outlay	<u>330,000</u>	<u>260,102</u>	<u>69,898</u>
TOTAL EXPENDITURES	<u>1,129,967</u>	<u>951,213</u>	<u>178,754</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(188,913)</u>	<u>2,480</u>	<u>191,393</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	-	-	-
Transfers out	<u>(80,756)</u>	<u>(30,756)</u>	<u>50,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(80,756)</u>	<u>(30,756)</u>	<u>50,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (269,669)</u>	<u>(28,276)</u>	<u>\$ 241,393</u>
FUND BALANCES:			
Beginning of year		<u>535,555</u>	
End of year		<u>\$ 507,279</u>	

**City of Clayton
 Budgetary Comparison Schedule
 Measure J Revenue Fund**

For the fiscal year ended June 30, 2012			Variance from Final Budget Favorable (Unfavorable)
	<u>Final Budget</u>	<u>Actual</u>	
REVENUES			
From other agencies	\$ 209,748	\$ 487,947	\$ 278,199
Use of money and property	1,000	(5,011)	(6,011)
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>210,748</u>	<u>482,936</u>	<u>272,188</u>
EXPENDITURES			
Highway and streets	<u>4,500</u>	<u>392</u>	<u>4,108</u>
TOTAL EXPENDITURES	<u>4,500</u>	<u>392</u>	<u>4,108</u>
REVENUES OVER (UNDER) EXPENDITURES	206,248	482,544	276,296
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(198,824)</u>	<u>(128,000)</u>	<u>70,824</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(198,824)</u>	<u>(128,000)</u>	<u>70,824</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 7,424</u>	354,544	<u>\$ 347,120</u>
FUND BALANCES:			
Beginning of year		<u>(51,075)</u>	
End of year		<u>\$ 303,469</u>	

NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Special Revenue Funds:

Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by State statute or ordinance to finance particular functions or activities of government. The City's various special revenue funds are:

Street Lighting - accounts for assessments collected to maintain residential street lighting.

Stormwater Treatment District Assessment Fund - this fund was formed to provide a mechanism for the levying of private development (property) benefit assessments to fund the cost of inspections, maintenance and capital improvements related to the stormwater treatment requirements imposed upon the City by the Regional Water Quality Control Board as part of the City's General Stormwater Discharge Permit.

Stormwater Assessment - accounts for assessments collected to comply with the National Pollution Discharge Elimination System.

Presley Settlement - accounts for litigation settlement received for specific programs and projects.

Oakhurst Geological Hazard Abatement District - accounts for assessments collected from Oakhurst parcels to provide preventive maintenance measures within the district to mitigate potential landslides and other hazardous geological conditions within the district.

Grants - accounts for grants received for specific programs and projects.

Gas Tax - accounts for taxes raised under Street and Highway Code Sections 2106, 2107 and 2107.5, used for the maintenance and construction of City streets.

Downtown Park CFD - accounts for assessments collected to operate, maintain, repair and replace landscaping, irrigation, hardscape, lights, public restroom, gazebo, and playground equipment.

Non-Major Capital Projects Fund:

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. The following represents the City's non-major capital projects fund:

Clayton Development Impact Fees - accounts for projects funded with the Development Impact Fees.

Non-Major Debt Service Fund:

Debt Service Funds are used to account for financial resources to be used for the accounting of debt instruments other than those financed by proprietary funds. The following represents the City's non-major debt service fund:

Clayton Financing Authority - accounts for projects related to the Financing Authority

City of Clayton
Combining Balance Sheets
Non-Major Governmental Funds
For the fiscal year ended June 30, 2012

	Special Revenue				Oakhurst Geological Hazard Abatement District
	Street Lighting	Stormwater Treatment District Assessment Fund	Stormwater Assessment	Presley Settlement	
ASSETS					
Cash and investments	\$ 145,600	\$ -	\$ 165,558	\$ 117,566	\$ 7,310
Accounts receivable	-	-	15,411	-	-
Prepaid expenses	-	-	-	-	-
TOTAL ASSETS	<u>\$ 145,600</u>	<u>\$ -</u>	<u>\$ 180,969</u>	<u>\$ 117,566</u>	<u>\$ 7,310</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 16,418	\$ -	\$ 3,513	\$ -	\$ 1,927
Other payables	204	-	49	-	-
Deferred revenue	-	-	-	-	-
Due to other funds	-	2,550	-	-	-
Advance from other funds	-	-	-	-	-
TOTAL LIABILITIES	<u>16,622</u>	<u>2,550</u>	<u>3,562</u>	<u>-</u>	<u>1,927</u>
FUND BALANCE					
Committed	<u>128,978</u>	<u>(2,550)</u>	<u>177,407</u>	<u>117,566</u>	<u>5,383</u>
TOTAL FUND BALANCE	<u>128,978</u>	<u>(2,550)</u>	<u>177,407</u>	<u>117,566</u>	<u>5,383</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 145,600</u>	<u>\$ -</u>	<u>\$ 180,969</u>	<u>\$ 117,566</u>	<u>\$ 7,310</u>

City of Clayton
Combining Balance Sheets, Continued
Non-Major Governmental Funds
For the fiscal year ended June 30, 2012

Special Revenue			Capital Projects	Debt Service	
Grants	Gas Tax	Downtown Park CFD	Clayton Development Impact Fees	Clayton Financing Authority	Total Other Governmental Funds
\$210,295	\$ 111,452	\$253,136	\$ 652,076	\$ 772,984	\$ 2,435,977
4,043	33,019	50,000	-	-	102,473
139	-	-	-	-	139
<u>\$214,477</u>	<u>\$ 144,471</u>	<u>\$303,136</u>	<u>\$ 652,076</u>	<u>\$ 772,984</u>	<u>\$ 2,538,589</u>
\$ 8,699	\$ 10,158	\$ 6,959	\$ -	\$ -	47,674
2,033	455	544	-	-	3,285
-	-	50,000	-	-	50,000
-	-	-	-	-	2,550
-	-	-	60,000	-	60,000
<u>10,732</u>	<u>10,613</u>	<u>57,503</u>	<u>60,000</u>	<u>-</u>	<u>163,509</u>
<u>203,745</u>	<u>133,858</u>	<u>245,633</u>	<u>592,076</u>	<u>772,984</u>	<u>2,375,080</u>
<u>203,745</u>	<u>133,858</u>	<u>245,633</u>	<u>592,076</u>	<u>772,984</u>	<u>2,375,080</u>
<u>\$214,477</u>	<u>\$ 144,471</u>	<u>\$303,136</u>	<u>\$ 652,076</u>	<u>\$ 772,984</u>	<u>\$ 2,538,589</u>

City of Clayton
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2012

	Special Revenue			
	Street Lighting	Stormwater Treatment District Assessment Fund	Stormwater Assessment	Presley Settlement
REVENUES				
Special assessments	\$ 125,459	\$ -	\$ 101,194	\$ -
Permits, licenses and fees	-	-	50,532	-
From other agencies	-	-	-	-
Use of money and property	3,101	12	3,553	68
Other revenue	-	-	-	-
TOTAL REVENUES	128,560	12	155,279	68
EXPENDITURES				
General government				
Economic development	267	-	796	-
Highway and streets	125,054	-	82,778	-
Landscape maintenance	-	-	-	-
Capital outlay	-	-	381	-
TOTAL EXPENDITURES	125,321	-	83,955	-
REVENUES OVER (UNDER) EXPENDITURES	3,239	12	71,324	68
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(10,280)	-	(32,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	(10,280)	-	(32,500)	-
NET CHANGE IN FUND BALANCE	(7,041)	12	38,824	68
FUND BALANCES				
Beginning of year	136,019	(2,562)	138,583	117,498
End of year	\$ 128,978	\$ (2,550)	\$ 177,407	\$ 117,566

City of Clayton
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2012

Oakhurst Geological Hazard Abatement District	Special Revenue			Capital Projects	Debt Service	Total Other Governmental Funds
	Grants	Gas Tax	Downtown Park CFD	Clayton Development Impact Fees	Clayton Financing Authority	
\$ 33,972	\$ -	\$ 23,985	\$ -	\$ -	\$ -	284,610
-	-	-	-	256,650	-	307,182
-	136,488	331,615	111,797	-	-	579,900
949	3,063	1,043	6,583	13,847	13,503	45,722
80	-	415	10,120	-	-	10,615
<u>35,001</u>	<u>139,551</u>	<u>357,058</u>	<u>128,500</u>	<u>270,497</u>	<u>13,503</u>	<u>1,228,029</u>
13,304	128,888	-	-	-	-	143,255
-	-	115,276	-	-	-	323,108
-	-	-	89,892	-	-	89,892
<u>1,946</u>	<u>1,073</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,900</u>
<u>15,250</u>	<u>129,961</u>	<u>115,776</u>	<u>89,892</u>	<u>-</u>	<u>-</u>	<u>560,155</u>
<u>19,751</u>	<u>9,590</u>	<u>241,282</u>	<u>38,608</u>	<u>270,497</u>	<u>13,503</u>	<u>667,874</u>
-	-	-	-	-	-	-
<u>(19,200)</u>	<u>-</u>	<u>(172,187)</u>	<u>(6,267)</u>	<u>-</u>	<u>-</u>	<u>(240,434)</u>
<u>(19,200)</u>	<u>-</u>	<u>(172,187)</u>	<u>(6,267)</u>	<u>-</u>	<u>-</u>	<u>(240,434)</u>
551	9,590	69,095	32,341	270,497	13,503	427,440
<u>4,832</u>	<u>194,155</u>	<u>64,763</u>	<u>213,292</u>	<u>321,579</u>	<u>759,481</u>	<u>1,947,640</u>
<u>\$ 5,383</u>	<u>\$ 203,745</u>	<u>\$ 133,858</u>	<u>\$ 245,633</u>	<u>\$ 592,076</u>	<u>\$ 772,984</u>	<u>\$ 2,375,080</u>

City of Clayton
 Budgetary Comparison Schedule
 Downtown Park CFD Special Revenue Fund

For the fiscal year ended June 30, 2012	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Permits, licenses and fees	\$ -	\$ -	\$ -
From other agencies	112,062	111,797	(265)
Use of money and property	3,000	6,583	3,583
Other revenue	<u>10,000</u>	<u>10,120</u>	<u>120</u>
TOTAL REVENUES	<u>125,062</u>	<u>128,500</u>	<u>3,438</u>
EXPENDITURES			
Current:			
Landscape maintenance	<u>103,250</u>	<u>89,892</u>	<u>13,358</u>
TOTAL EXPENDITURES	<u>103,250</u>	<u>89,892</u>	<u>13,358</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>21,812</u>	<u>38,608</u>	<u>16,796</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(6,267)</u>	<u>(6,267)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,267)</u>	<u>(6,267)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 15,545</u>	32,341	<u>\$ 16,796</u>
FUND BALANCES:			
Beginning of year		<u>213,292</u>	
End of year		<u>\$245,633</u>	

**City of Clayton
 Budgetary Comparison Schedule
 Gas Tax Special Revenue Fund**

For the fiscal year ended June 30, 2012			Variance from Final Budget Favorable (Unfavorable)
	<u>Final Budget</u>	<u>Actual</u>	
REVENUES			
Special assessments	\$ 27,000	\$ 23,985	\$ (3,015)
From other agencies	250,900	331,615	80,715
Use of money and property	5,000	1,043	(3,957)
Other revenue	<u>-</u>	<u>415</u>	<u>415</u>
TOTAL REVENUES	<u>282,900</u>	<u>357,058</u>	<u>74,158</u>
EXPENDITURES			
Current:			
Highway and streets	137,954	115,276	22,678
Capital Outlay	<u>-</u>	<u>500</u>	<u>(500)</u>
TOTAL EXPENDITURES	<u>137,954</u>	<u>115,776</u>	<u>22,178</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>144,946</u>	<u>241,282</u>	<u>96,336</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(173,687)</u>	<u>(172,187)</u>	<u>1,500</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(173,687)</u>	<u>(172,187)</u>	<u>1,500</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (28,741)</u>	<u>69,095</u>	<u>\$ 97,836</u>
FUND BALANCES:			
Beginning of year		<u>64,763</u>	
End of year		<u>\$ 133,858</u>	

**City of Clayton
Budgetary Comparison Schedule
Grants Special Revenue Fund**

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
REVENUES			
From other agencies	\$ 112,395	\$ 136,488	\$ 24,093
Use of money and property	<u>2,000</u>	<u>3,063</u>	<u>1,063</u>
TOTAL REVENUES	<u>114,395</u>	<u>139,551</u>	<u>25,156</u>
EXPENDITURES			
Current:			
Economic development	116,374	128,888	(12,514)
Capital Outlay	<u>-</u>	<u>1,073</u>	<u>(1,073)</u>
TOTAL EXPENDITURES	<u>116,374</u>	<u>129,961</u>	<u>(13,587)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (1,979)</u>	9,590	<u>\$ 11,569</u>
FUND BALANCES:			
Beginning of year		<u>194,155</u>	
End of year		<u>\$203,745</u>	

City of Clayton
Budgetary Comparison Schedule
Oakhurst Geological Hazard Abatement District Special Revenue Fund

For the fiscal year ended June 30, 2012	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 33,972	\$ 33,972	\$ -
Use of money and property	-	949	949
Other revenue	<u>-</u>	<u>80</u>	<u>80</u>
TOTAL REVENUES	<u>33,972</u>	<u>35,001</u>	<u>1,029</u>
EXPENDITURES			
Current:			
Economic development	13,795	13,304	491
Capital outlay	<u>-</u>	<u>1,946</u>	<u>(1,946)</u>
TOTAL EXPENDITURES	<u>13,795</u>	<u>15,250</u>	<u>(1,455)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>20,177</u>	<u>19,751</u>	<u>(426)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(19,200)</u>	<u>(19,200)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(19,200)</u>	<u>(19,200)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 977</u>	551	<u>\$ (426)</u>
FUND BALANCES:			
Beginning of year		<u>4,832</u>	
End of year		<u>\$ 5,383</u>	

**City of Clayton
 Budgetary Comparison Schedule
 Stormwater Assessment Special Revenue Fund**

For the fiscal year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 81,370	\$101,194	\$ 19,824
Permits, licenses and fees	42,451	50,532	8,081
Use of money and property	<u>1,000</u>	<u>3,553</u>	<u>2,553</u>
TOTAL REVENUES	<u>124,821</u>	<u>155,279</u>	<u>30,458</u>
EXPENDITURES			
Current:			
Economic Development	-	796	(796)
Highway and streets	102,602	82,778	19,824
Capital Outlay	<u>3,000</u>	<u>381</u>	<u>2,619</u>
TOTAL EXPENDITURES	<u>105,602</u>	<u>83,955</u>	<u>21,647</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>19,219</u>	<u>71,324</u>	<u>52,105</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(32,500)</u>	<u>(32,500)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(32,500)</u>	<u>(32,500)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (13,281)</u>	38,824	<u>\$ 52,105</u>
FUND BALANCES:			
Beginning of year		<u>138,583</u>	
End of year		<u>\$177,407</u>	

City of Clayton
Budgetary Comparison Schedule
Street Lighting Special Revenue Fund

For the fiscal year ended June 30, 2012	<u>Final Budget</u>	<u>Actual</u>	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 125,459	\$ 125,459	\$ -
Use of money and property	<u>2,000</u>	<u>3,101</u>	<u>1,101</u>
TOTAL REVENUES	<u>127,459</u>	<u>128,560</u>	<u>1,101</u>
EXPENDITURES			
Current:			
Economic development	-	267	(267)
Highway and streets	<u>119,205</u>	<u>125,054</u>	<u>(5,849)</u>
TOTAL EXPENDITURES	<u>119,205</u>	<u>125,321</u>	<u>(6,116)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>8,254</u>	<u>3,239</u>	<u>(5,015)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(10,280)</u>	<u>(10,280)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,280)</u>	<u>(10,280)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (2,026)</u>	(7,041)	<u>\$ (5,015)</u>
FUND BALANCES:			
Beginning of year		<u>136,019</u>	
End of year		<u>\$128,978</u>	

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INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost reimbursement basis. Funds included are:

Capital Replacement – This fund accounts for the operation, maintenance, and replacement of City vehicles and equipment.

Self-Insurance – This fund accounts for the administration of the City's self-insurance program and payment of workers' compensation and liability claims.

City of Clayton
Combining Balance Sheet
Internal Service Funds
June 30, 2012

	<u>Capital Replacement</u>	<u>Self-Insurance Liability</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and investments	\$ 168,199	\$ 30,135	\$198,334
Noncurrent Assets:			
Depreciable assets, net	<u>504,533</u>	<u>-</u>	<u>504,533</u>
TOTAL ASSETS	<u>672,732</u>	<u>30,135</u>	<u>702,867</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	<u>2,885</u>	<u>356</u>	<u>3,241</u>
TOTAL LIABILITIES	<u>2,885</u>	<u>356</u>	<u>3,241</u>
NET			
Invested in capital assets, net of related debt	504,533	-	504,533
Unrestricted	<u>165,314</u>	<u>29,779</u>	<u>195,093</u>
TOTAL NET ASSETS	<u>\$ 669,847</u>	<u>\$ 29,779</u>	<u>\$699,626</u>

City of Clayton
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2012

	<u>Capital Replacement</u>	<u>Self-Insurance Liability</u>	<u>Total</u>
OPERATING REVENUES			
Charges for current services	\$ 16,200	\$ -	\$ 16,200
TOTAL OPERATING REVENUES	<u>16,200</u>	<u>-</u>	<u>16,200</u>
OPERATING EXPENSES			
General and administrative	47,671	7,435	55,106
Computer software upgrades	15,808	-	15,808
Depreciation and amortization	<u>101,014</u>	<u>-</u>	<u>101,014</u>
TOTAL OPERATING EXPENSES	<u>164,493</u>	<u>7,435</u>	<u>171,928</u>
OPERATING INCOME (LOSS)	(148,293)	(7,435)	(155,728)
NONOPERATING REVENUES (EXPENSES)			
Transfer from trust and agency funds- write-off of deposits	322,718	-	322,718
Investment income (loss)	<u>1,750</u>	<u>(410)</u>	<u>1,340</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>324,468</u>	<u>(410)</u>	<u>324,058</u>
CHANGE IN NET POSITION	176,175	(7,845)	168,330
Beginning of fiscal year	<u>493,672</u>	<u>37,624</u>	<u>531,296</u>
End of fiscal year	<u>\$ 669,847</u>	<u>\$ 29,779</u>	<u>\$ 699,626</u>

City of Clayton
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2012

	<u>Capital Replacement</u>	<u>Self-Insurance Liability</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipt from customers/other funds	\$ 16,200	\$ -	\$ 16,200
Cash payment to suppliers for good and services	<u>(60,652)</u>	<u>(14,010)</u>	<u>(74,662)</u>
Net cash provided (used) by operating activities	<u>(44,452)</u>	<u>(14,010)</u>	<u>(58,462)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfer from trust and agency funds- write-off of deposits	322,718	-	322,718
Acquisition of fixed assets	<u>(277,181)</u>	<u>-</u>	<u>(277,181)</u>
Net cash provided (used) by capital and related financing activities	<u>45,537</u>	<u>-</u>	<u>45,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	<u>1,750</u>	<u>(410)</u>	<u>1,340</u>
Net Cash provided (used) by investing activities	<u>1,750</u>	<u>(410)</u>	<u>1,340</u>
Net increase (decrease) in cash and cash equivalents	2,835	(14,420)	(11,585)
CASH AND CASH EQUIVALENTS:			
Beginning of fiscal year	<u>165,364</u>	<u>44,555</u>	<u>209,919</u>
End of fiscal year	<u>\$ 168,199</u>	<u>\$ 30,135</u>	<u>\$ 198,334</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (148,293)	\$ (7,435)	\$(155,728)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	101,014		101,014
Changes in current assets and liabilities:			
Accounts payable	<u>2,827</u>	<u>(6,575)</u>	<u>(3,748)</u>
Total Adjustments	<u>103,841</u>	<u>(6,575)</u>	<u>97,266</u>
Net cash provided (used) by operating activities	<u>\$ (44,452)</u>	<u>\$ (14,010)</u>	<u>\$ (58,462)</u>

AGENCY FUNDS

Agency Funds are used to account for assets held by the City in a fiduciary capacity or as an agent for individuals, government entities and others.

Deposits – represents funds held for:

Performance Deposits

Clayton Community Library Foundation Deposits

Clayton Community Gym Donation Deposits

Rental Deposits

Planning Services Deposits

Other Deposits

Oakhurst Assessment District (Debt Service Account) – consists of assessments accumulated to pay the obligations of the Oakhurst Assessment District on its 1998, 1989 bonds and 1997-1 bonds.

Middle School CFD (Debt Service Account – 1990-1) – consists of assessments accumulated to pay the obligations of the Middle School Community Facilities District on its 1990-1 Bonds.

Clayton Station CFD (Debt Service Account - 1990-2) – consists of assessments accumulated to pay the obligations of the Clayton Station Community Facilities District on its 1990-2 Bonds.

High Street Bridge – accounts for assessments collected to maintain bridges.

Oak Street Bridge – accounts for assessments collected to maintain bridges.

Lydia Lane Sewer Assessment – accounts for assessments to be collected for construction of a sewer system.

Oak Street Sewer Assessment – accounts for assessments to be collected for construction of a sewer system.

CFA Clayton Financing Authority 2007 - accounts for the refunding of the Authority's 1997 Special Tax Revenue Refunding Bonds payable from revenues received by the Authority as the result of payment of debt service on the local obligations of the Middle School CFD 1990-1 Bonds.

Diablo Estates Benefit Assessment – accounts for assessments collected to maintain certain infrastructure components (including street lighting) for the Diablo Estates development.

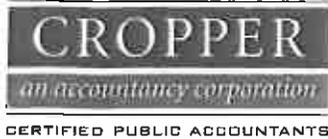
City of Clayton
Statements of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2012

	<u>Deposits</u>	<u>Oakhurst Assessment District</u>	<u>Middle School CFD</u>	<u>Clayton Station CFD</u>	<u>High Street Bridge</u>
Assets:					
Cash and investments	\$ 672,375	\$ 5,767	\$ 589,399	\$ 178,756	\$ 4,200
Cash with fiscal agent	-	-	68,807	-	-
Investment in bonds	-	-	3,800,000	-	-
Other receivables	<u>1,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,893</u>
Total assets	<u>\$ 673,994</u>	<u>\$ 5,767</u>	<u>\$ 4,458,206</u>	<u>\$ 178,756</u>	<u>\$ 36,093</u>
Liabilities:					
Accounts payable	\$ 32,063	\$ -	\$ -	\$ -	\$ 31,893
Other payables	-	-	-	-	4,200
Other deposits	577,973	-	-	-	-
Due to bondholders	<u>63,958</u>	<u>5,767</u>	<u>4,458,206</u>	<u>178,756</u>	<u>-</u>
Total liabilities	<u>\$ 673,994</u>	<u>\$ 5,767</u>	<u>\$ 4,458,206</u>	<u>\$ 178,756</u>	<u>\$ 36,093</u>

City of Clayton
Statements of Changes in Assets and Liabilities, Continued
Agency Funds
For the Fiscal Year Ended June 30, 2012

Oak Street Bridge	Lydia Lane Sewer Assessment	Oak Street Sewer Assessment	CFA- Clayton Financing Authority 2007	Diablo Estates Benefit District	June 30, 2012 Total	June 30, 2011 Total
\$ 15,665	\$ 72,445	\$ 4,440	\$ 133,968	\$ 25,381	\$ 1,702,396	\$ 2,271,034
-	14,633	-	274,784	-	358,224	232,858
-	-	-	-	-	3,800,000	4,231,000
<u>27,936</u>	<u>188,325</u>	<u>164,180</u>	<u>-</u>	<u>-</u>	<u>413,953</u>	<u>853,598</u>
<u>\$ 43,601</u>	<u>\$ 275,403</u>	<u>\$ 168,620</u>	<u>\$ 408,752</u>	<u>\$ 25,381</u>	<u>\$ 6,274,573</u>	<u>\$ 7,588,490</u>
\$ 27,936	\$ 188,325	\$ 164,180	\$ -	\$ 122	\$ 444,519	\$ 489,911
15,665	-	-	-	-	19,865	64,361
-	-	-	-	-	577,973	739,489
<u>-</u>	<u>87,078</u>	<u>4,440</u>	<u>408,752</u>	<u>25,259</u>	<u>5,232,216</u>	<u>6,294,729</u>
<u>\$ 43,601</u>	<u>\$ 275,403</u>	<u>\$ 168,620</u>	<u>\$ 408,752</u>	<u>\$ 25,381</u>	<u>\$ 6,274,573</u>	<u>\$ 7,588,490</u>

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

To the City Council
City of Clayton, California

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clayton (the City) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. We identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Please refer to our management letter dated October 30, 2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
October 30, 2013