

City of Clayton

Clayton, California

*Basic Financial Statements
and Independent Auditors' Report*

For the fiscal year ended June 30, 2007

City of Clayton
Basic Financial Statements
June 30, 2007
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INTRODUCTORY SECTION



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INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council of the
City of Clayton
Clayton, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clayton, California (City) as of and for the fiscal year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 *Governmental 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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, each major fund, and the aggregate remaining fund information of the City of Clayton as of June 30, 2007, and the respective changes in the financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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MEMBER AMERICAN INSTITUTE OF C.P.A.'S • CALIFORNIA SOCIETY OF C.P.A.'S • CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS • CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

The accompanying Required Supplementary Information, such as the Management's Discussion and Analysis, budgetary comparison schedule for the General Fund, and other information as listed in the table of contents, is not a required part of the City's basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, 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 on financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 nonmajor fund financial statements and schedules, budgetary comparison schedules of the major capital projects funds, and budgetary comparison schedule of the major debt service fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules of the major capital projects funds and the major debt service fund have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 31, 2008

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City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2007

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, 2007. 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 Assets - The assets of the City of Clayton exceeded its liabilities at the close of the most recent fiscal year by \$33,924,743. Of this amount, \$4,400,800 was reported as "unrestricted net assets" and may be used to meet the on going obligations to citizens and creditors.

Changes in Net Assets - The City's total net assets increased by \$4,073,436 in fiscal year 2007. Net assets of governmental activities increased by \$4,107,522, while net assets of business type activities decreased by \$34,086.

Major Fund Highlights

Governmental Funds - As of the close of fiscal year 2007, the City's governmental funds reported a combined ending fund balance of \$17,268,292. Of this amount \$3,128,868 represents "unreserved fund balances" (or working equity) available for appropriation.

General Fund - The unreserved fund balance of the general fund on June 30, 2007 was \$ 3,128,868, a decrease of \$ 134,063 from the prior fiscal year.

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.

The *statement of net assets* presents information on all of the City of Clayton'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.

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2007

The *statement of activities* presents information showing how the City's *net assets* changed during the most recent fiscal year. All changes in net assets 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.

City of Clayton
Management's Discussion and Analysis
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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 37-60 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 assets 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 \$33,977,862 at the close of the most recent fiscal year. This is an increase of \$4,073,436 or 14% from the previous fiscal year after the restatements of net assets.

The largest portion of the City of Clayton's net assets 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.

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2007

The following is the condensed Statement of Net Assets for the fiscal year ended June 30, 2007:

	Governmental Activities 2007	Governmental Activities 2006	Business- Type Activities 2007	Business- Type Activities 2006	Total 2007	Total 2006
Current Assets	\$ 17,471,352	\$ 13,417,973	\$ 18,641	\$ 18,300	\$ 17,489,993	\$ 13,436,273
Non-Current Assets	4,879,357	6,671,678	-	-	4,879,357	6,671,678
Capital Assets	25,015,515	24,850,832	1,356,696	1,286,350	26,372,211	26,137,182
Total Assets	\$ 47,366,224	\$ 44,940,483	\$ 1,375,337	\$ 1,304,650	\$ 48,741,561	\$ 46,245,133
Current Liabilities	\$ 1,224,491	\$ 1,140,430	\$ 19,886	\$ 21,024	\$ 1,244,377	\$ 1,161,454
Long-term Liabilities	13,519,322	15,234,458	-	-	13,519,322	15,234,458
Total Liabilities	\$ 14,743,813	\$ 16,374,888	\$ 19,886	\$ 21,024	\$ 14,763,699	\$ 16,395,912
Investment in Capital Assets, Net of Related Debt	\$ 11,045,256	\$ 9,308,729	\$ 1,356,696	\$ -	\$ 12,401,952	\$ 9,308,729
Restricted	17,175,110	14,331,604	-	-	17,175,110	14,331,604
Unrestricted	4,402,045	4,925,262	(1,245)	1,283,626	4,400,800	6,208,888
Total Net Assets	\$ 32,622,411	\$ 28,565,595	\$ 1,355,451	\$ 1,283,626	\$ 33,977,862	\$ 29,849,221

An additional portion of the City of Clayton's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* (\$4,400,800) may be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets

The City's net assets have increased by \$4,073,436 or 14%, from the prior fiscal year. In fiscal year 2006-2007, City revenues, which include both governmental and business-type activities, totaled \$11,997,095, while expenses totaled \$7,923,659. 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, 2007

City of Clayton's Statement of Activities and Changes in Net Assets for the fiscal year ended June 30, 2007:

	Governmental Activities 2007	Governmental Activities 2006	Business Type Activities 2007	Business Type Activities 2006	Total 2007	Total 2006
Revenues:						
Program revenues:						
Charges for services	\$ 623,309	\$ 803,108	\$ 57,280	\$ 58,603	\$ 680,589	\$ 861,711
Operating grants and contributions	-	-	-	-	-	-
Total program revenues	<u>623,309</u>	<u>803,108</u>	<u>57,280</u>	<u>58,603</u>	<u>680,589</u>	<u>861,711</u>
General revenues:						
Property taxes	6,924,249	6,216,576	-	-	6,924,249	6,216,576
Sales and other taxes	329,520	270,370	-	-	329,520	270,370
Special assessments	823,478	822,174	-	-	823,478	822,174
Other taxes	1,494,347	1,720,154	-	-	1,494,347	1,720,154
Investment income	712,459	435,402	(373)	(219)	712,703	435,183
Miscellaneous	580,698	418,141	-	-	580,698	418,141
Gain (loss) on sale of assets	452,128	-	-	-	452,128	-
Total general revenues	<u>11,316,879</u>	<u>9,882,817</u>	<u>(373)</u>	<u>(219)</u>	<u>11,316,506</u>	<u>9,882,598</u>
Total revenues	<u>11,940,188</u>	<u>10,685,925</u>	<u>56,907</u>	<u>58,384</u>	<u>11,997,095</u>	<u>10,744,309</u>
Expenses						
Legislative	53,195	63,512	-	-	53,195	63,512
Administrative	775,930	818,096	-	-	775,930	818,096
Community services and facilities	491,989	419,999	-	-	491,989	419,999
Economic development	519,234	1,509,621	-	-	519,234	1,509,621
General support	716,113	858,488	-	-	716,113	858,448
Police	1,845,359	1,657,919	-	-	1,845,359	1,657,919
Library	129,153	175,172	-	-	129,153	175,172
Engineering	88,179	94,557	-	-	88,179	94,557
Highway and streets	1,589,322	326,493	-	-	1,589,322	326,493
Landscape maintenance	499,091	517,367	-	-	499,091	517,367
Planning and development	374,770	-	-	-	374,770	-
Community gym	-	-	36,501	37,520	36,501	37,520
Endeavor hall	-	-	54,492	49,677	54,492	49,677
Total expenses	<u>7,082,335</u>	<u>6,441,184</u>	<u>90,993</u>	<u>87,197</u>	<u>7,173,328</u>	<u>6,528,381</u>
Increase in Net Assets before						
Transfers and Interest on Long-						
Term Debt	4,857,853	4,244,741	(34,086)	(28,813)	4,823,767	4,215,928
Interest on Long-Term Debt	(750,331)	(830,536)	-	-	(750,331)	(830,536)
Capital Contributions	-	82,680	-	-	-	82,680
Change in Net Assets	4,107,522	3,496,885	(34,086)	(28,813)	4,073,436	3,468,072
Net Assets - Beginning, restated						
	28,514,889	25,068,710	1,389,537	1,312,439	29,904,426	26,381,149
Net Assets - Ending	<u>\$ 32,622,411</u>	<u>\$ 28,565,595</u>	<u>\$ 1,355,451</u>	<u>\$ 1,283,626</u>	<u>\$ 33,977,862</u>	<u>\$ 29,849,221</u>

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2007

Governmental Activities

Governmental activities increased the City's net assets by \$4,107,522 accounting for all of the City's total growth in net assets of \$4,073,436. A comparison of the cost of services by function for the City's governmental activities is shown above, along with the revenues used to cover the net expenses of the governmental activities.

Total governmental activities expenses were \$7,832,666 in fiscal year 2007 compared to \$7,271,720 in the prior year. The largest expenses were incurred for Administrative Support, Police, and Highways and Streets. These three activities combined account for 54% of all general activity expenses.

Total program revenues from governmental activities were \$623,309 in fiscal year 2007. 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. 100% 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. 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 from governmental activities were \$11,316,879, in fiscal year 2007 of which \$6,924,249 or 61% 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 \$17,268,292. Approximately 18.1 percent of this total amount (\$3,128,868) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. It is the City's policy to only expense these monies on necessary one-time capital expenditures so as not to incur on-going operational expenditures in future years. The remainder of fund balance is reserved to indicate what is not available for new spending because it has already been committed: 1) to liquidate contracts and purchases of the prior period (\$3,273,430); 2) to pay debt service (\$1,999,094); 3) to complete Capital Improvement Projects (\$2,231,258); 4) to complete RDA Housing Requirement (\$2,462,148); 5) Special Revenue Fund restrictions (\$1,152,090); 6) for advances receivable (\$535,000); and 7) for land held for resale (\$1,019,795). There is also a designation for contingencies of \$1,466,609.

The general fund is the chief operating fund of the City of Clayton. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,128,868 while total fund balance reached \$4,407,304.

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2007

The fund balance of the City of Clayton's general fund increased by \$352,449 during the current fiscal year despite a prior period adjustment of \$62,492. Key factors in this growth are as follows:

- An increase in property tax revenues of \$212,163
- An increase in business license tax of \$7,130
- An increase in fines, forfeitures and penalties \$15,023
- An increase in permits, licenses and fees \$42,082
- An increase in franchise fees of \$25,335

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 assets of the Major Enterprise Funds at the end of the year amounted to (\$1,245), and those for the Internal Service Fund amounted to \$313,074. 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 amended general fund budget totaled \$4,214,690 with three budget amendments to the originally adopted budget. The first increase was for miscellaneous and police officer association contract changes of \$40,421. The second amendment increased the Capital Equipment Replacement Fund (CERF) depreciation expense by \$13,369. The third amendment was for encumbrances from 2005-06 approved for \$479,432 which funded contractual obligations and outstanding purchases in this fiscal year plus setting aside \$350,000 for a deferred maintenance program.

General fund revenues exceeded budget by \$298,812 (9%). Included in this increase was \$10,086 (16%) for motor vehicle in lieu fees, \$97,207 (5.7%) for property taxes, \$10,267 (10.7%) for fines and forfeitures, \$4,523 (1.3%) for permits and fees, and \$41,350 (13%) for franchise fees.

General Fund expenditures were less than amended budget excluding encumbrances (\$493,436) by \$70,827 (2%) even with increased fuel and vehicle repair costs in the Police Department of \$7,052 (19%), overtime costs in the Police Department of \$15,165 (18%), increased water usage costs of \$20,267 (22%), and increased property tax administration fees of \$5,375 (82.7%).

City of Clayton
Management's Discussion and Analysis
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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, 2007, amounted to \$25,015,515 (net accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, corp yard building, and roads.

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

- Construction was completed on a pavement rehabilitation project that included 40 streets throughout the city with overlays and reconstruction costing \$411,795, and additional repairs and maintenance during the street project that totaled \$673,062.
- Construction was continued on the downtown park officially named "The Grove" with costs totaling \$366,215.
- Construction was completed on the Pine Hollow area installation of sewer mains and laterals to properties within the Redevelopment Area. Construction of the frontage improvements along Pine Hollow Road was also completed with a total cost of \$133,570.
- Land was purchased for the development of additional parking next to Endeavor Hall for a cost of \$242,072.

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

Debt Administration

At the end of the current fiscal year, the City had \$14,015,000 in debt outstanding all held in the Redevelopment Agency. The City has no outstanding general obligation debt. The Redevelopment Agency 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

Our City's budgetary history during the past 6 years clearly demonstrates our ability to provide necessary services within a limited and sometimes restrictive revenue source. We can see a gradual increase in the General Fund's actual expenditure plan to \$3,650,427 a figure slightly higher than in the prior fiscal year 2005-06. Overall since 2001 expenditures have increased by 8.7% while during the same time period the consumer price index increased by 15.8%. General Fund actual revenues increased to \$4,002,876 a slight increase of only 1.5% from 2001 to 2007. General Fund revenues exceeded expenditures by \$1,680,665 or 10.1% during this same time period. The General Fund unreserved balance increased by \$1,090,964 and an additional \$350,000 was set aside to provide for a deferred maintenance program. Although this reserve may seem adequate, it would take only one small slide disaster like the one experience on Clayton Road south of Peacock Creek Drive in 2000 that cost \$1,142,293 to completely wipe it out. As was stated in the City Manager's 2007-08 budget message, "Our City's budgetary history during the decade of 2000 clearly demonstrates we can ride-out the economic movements, provided the State of California stays out of our wallet." In the adoption of our City Budget message the City Manager further stated that, "Although the State of California's proposed budget does not call for additional local (City) revenues as a result of its full treasury this year, there remains an on-going structural shift in local funds to the state from our General Fund in the growing amount of \$440,000 per year." As a City we desire to provide services and opportunities that enhance our community and lifestyle. Our new downtown "Grove" park is an example of this commitment, however because of the shift of local funds it has required the citizens to help provide for these services through assessments.

City of Clayton
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The City's reserve equity is equal to 89.6% of our annual General Fund operations for Fiscal Year 2007-2008. Folding in the untouchable \$250,000 reserve and an additional \$493,436 set aside for encumbrances and deferred maintenance projects brings our total reserve equity to a position of 116%. This is 66% greater than the expressed Policy Goal of the City Council.

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.

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FINANCIAL SECTION

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

City of Clayton
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 15,260,348	\$ 12,305	\$ 15,272,653
Cash with fiscal agent	1,507,387	-	1,507,387
Accounts receivable (net of allowances)	388,456	17,144	405,600
Interest receivable	110,974	88	111,062
Internal balances	10,896	(10,896)	-
Prepaid expenses	193,291	-	193,291
Total Current Assets	17,471,352	18,641	17,489,993
Noncurrent Assets:			
Notes receivable	3,859,562	-	3,859,562
Land held for resale	1,019,795	-	1,019,795
Total Noncurrent Assets	4,879,357	-	4,879,357
Capital Assets:			
Nondepreciable assets	1,526,225	-	1,526,225
Depreciable assets, net	23,489,290	1,356,696	24,845,986
TOTAL ASSETS	47,313,105	1,375,337	48,688,442
LIABILITIES			
Current Liabilities:			
Accounts payable	326,614	8,513	335,127
Other payables	13,956	5,795	19,751
Deposits payable	-	5,500	5,500
Accrued payroll	82,255	-	82,255
Insurance claims payable	19	-	19
Interest payable	181,082	78	181,160
Long-term debt due within one year	595,000	-	595,000
Compensated absences due within one year	25,565	-	25,565
Total Current Liabilities:	1,224,491	19,886	1,244,377
Noncurrent Liabilities:			
Long-term debt due in more than one year	13,420,000	-	13,420,000
Compensated absences payable	99,322	-	99,322
Total Noncurrent Liabilities	13,519,322	-	13,519,322
TOTAL LIABILITIES	14,743,813	19,886	14,763,699
NET ASSETS			
Invested in capital assets, net of related debt	11,045,256	1,356,696	12,401,952
Restricted for:			
Capital projects	4,690,478	-	4,690,478
Debt service	2,649,348	-	2,649,348
Community development	4,905,513	-	4,905,513
Special projects and programs	4,929,771	-	4,929,771
Total Restricted	28,220,366	1,356,696	29,577,062
Unrestricted	4,402,045	(1,245)	4,400,800
TOTAL NET ASSETS	\$ 32,622,411	\$ 1,355,451	\$ 33,977,862

See accompanying Notes to Basic Financial Statements.

City of Clayton
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities							
Legislative	\$ 53,195	\$ -	\$ -	\$ -	\$ (53,195)	\$ -	\$ (53,195)
Administrative	775,930	41,061	-	-	(734,869)	-	(734,869)
Community services and facilities	491,989	140,341	-	-	(351,648)	-	(351,648)
Economic development	519,234	-	-	-	(519,234)	-	(519,234)
General support	716,113	255,986	-	-	(460,127)	-	(460,127)
Police	1,845,359	40,980	-	-	(1,804,379)	-	(1,804,379)
Library	129,153	3,810	-	-	(125,343)	-	(125,343)
Engineering	88,179	75,809	-	-	(12,370)	-	(12,370)
Highway and streets	1,589,322	-	-	-	(1,589,322)	-	(1,589,322)
Landscape maintenance	499,091	-	-	-	(499,091)	-	(499,091)
Planning and development	374,770	65,322	-	-	(309,448)	-	(309,448)
Interest and fiscal charges	750,331	-	-	-	(750,331)	-	(750,331)
Total governmental activities	7,832,666	623,309	-	-	(7,209,357)	-	(7,209,357)
Business-Type Activities							
Community gym	36,501	36,445	-	-	-	(56)	(56)
Endeavor Hall	54,492	20,835	-	-	-	(33,657)	(33,657)
Total Business-Type Activities	90,993	57,280	-	-	-	(33,713)	(33,713)
Total Primary Government	\$ 7,923,659	\$ 680,589	\$ -	\$ -	(7,209,357)	(33,713)	(7,243,070)
General revenues:							
Taxes:							
Property taxes					6,924,249	-	6,924,249
Sales taxes					329,520	-	329,520
Special assessments					823,478	-	823,478
Other taxes					1,494,347	-	1,494,347
Total taxes					9,571,594	-	9,571,594
Investment income (loss)					712,459	(373)	712,086
Miscellaneous					580,698	-	580,698
Gain (loss) on sale of assets					452,128	-	452,128
Total general revenues					11,316,879	(373)	11,316,506
Change in Net Assets					4,107,522	(34,086)	4,073,436
Net assets - beginning of year, as restated (See Note 12)					28,514,889	1,389,537	29,904,426
Net assets - end of year					\$ 32,622,411	\$ 1,355,451	\$ 33,977,862

See accompanying Notes to Basic 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 1993, 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, 2007

Major Funds

	General Fund	RDA Capital Projects Fund	RDA Low/Moderate Capital Projects Fund	Capital Improvements Fund
ASSETS				
Cash and investments	\$ 3,848,006	\$ 514,455	\$ 3,636,125	\$ 4,634,37
Cash and investments with fiscal agent	-	-	-	-
Accounts receivable	153,477	-	-	-
Interest receivable	29,103	3,860	26,026	33,19
Notes receivable	-	353,122	3,506,440	-
Prepaid expenditures	6,291	187,000	-	-
Due from other funds	508,441	-	-	-
Land held for resale	-	92,154	927,641	-
Advance to other funds	535,000	-	-	-
TOTAL ASSETS	\$ 5,080,318	\$ 1,150,591	\$ 8,096,232	\$ 4,667,56
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 97,316	\$ 6,745	\$ 3	\$ 129,679
Other payables	6,506	-	-	-
Accrued payroll	82,255	-	-	-
Deferred revenue	486,937	353,122	3,506,440	-
Due to other funds	-	-	-	-
Advance from other funds	-	475,000	-	-
TOTAL LIABILITIES	673,014	834,867	3,506,443	129,679
FUND BALANCES				
Reserved for:				
Encumbrances	493,436	-	-	2,671,037
Land held for resale	-	92,154	927,641	-
Advances	535,000	-	-	-
Capital projects	-	223,570	2,462,148	1,866,850
Special projects	-	-	-	-
Debt service	-	-	-	-
Unreserved, designated for:				
Contingencies	250,000	-	1,200,000	-
Unreserved, undesignated reported in:				
General fund	3,128,868	-	-	-
TOTAL FUND BALANCES	4,407,304	315,724	4,589,789	4,537,887
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,080,318	\$ 1,150,591	\$ 8,096,232	\$ 4,667,566

See accompanying Notes to Basic Financial Statements.

Major Funds

RDA Debt Service Fund	Other Governmental Funds	Total
\$ -	\$ 2,315,576	\$ 14,948,536
1,507,387	-	1,507,387
-	234,979	388,456
-	16,553	108,734
-	-	3,859,562
-	-	193,291
-	-	508,441
-	-	1,019,795
-	-	535,000
\$ 1,507,387	\$ 2,567,108	\$ 23,069,202
\$ -	\$ 91,912	\$ 325,655
2,409	5,041	13,956
-	-	82,255
-	-	4,346,499
337,220	160,325	497,545
-	60,000	535,000
339,629	317,278	5,800,910
-	108,957	3,273,430
-	-	1,019,795
-	-	535,000
-	140,838	4,693,406
-	1,152,090	1,152,090
1,167,758	831,336	1,999,094
-	16,609	1,466,609
-	-	3,128,868
1,167,758	2,249,830	17,268,292
\$ 1,507,387	\$ 2,567,108	\$ 23,069,202

City of Clayton
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2007

Total Fund Balances - Total Governmental Funds	\$ 17,268,292
Amounts reported for governmental activities in the Statement of Net Assets 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	1,526,225
Depreciable capital assets, net (net of internal service fund assets of \$369,271)	23,120,019
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.	
	(181,082)
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.	
Long-term debt due within one year	(595,000)
Long-term liabilities - due in more than one year	(13,420,000)
Compensated absences payable	(124,887)
Revenues which are deferred on the Governmental Funds Balance Sheet because they are not available currently are taken into revenue in the Statement of Activities and accordingly increases the net assets on the Statement of Net Assets.	
	4,346,499
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 Assets.	
	<u>682,345</u>
Net Assets of Governmental Activities	<u>\$ 32,622,411</u>

See accompanying Notes to Basic Financial Statements.

City of Clayton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2007

	Major Funds		
	General Fund	RDA Capital Projects Fund	RDA Low/Moderate Capital Projects Fund
REVENUES			
Property taxes	\$ 1,789,092	\$ 4,178,767	\$ 1,044,692
Program income	-	617	84,300
Special assessments	-	-	-
Sales tax	241,218	-	-
Permits, licenses and fees	348,490	-	-
Fines, forfeitures and penalties	106,067	-	-
From other agencies	138,948	-	-
Motor vehicle in-lieu fees	73,086	-	-
Other in-lieu fees	216,206	-	-
Franchise fees	358,350	-	-
Service charges	60,157	-	-
Use of money and property	232,016	(13,841)	158,222
Other revenue	49,984	-	-
TOTAL REVENUES	3,613,614	4,165,543	1,287,214
EXPENDITURES			
General Government			
Legislative	53,195	-	-
Administrative	795,035	-	-
Community services and facilities	486,772	-	-
Economic development	279,544	-	-
Planning and development	-	620,599	362,617
General support	136,644	-	-
Police	1,681,905	-	-
Library	129,153	-	-
Engineering	88,179	-	-
Highway and streets	-	-	-
Landscape maintenance	-	-	-
Debt Service			
Principal	-	-	-
Interest and fiscal charges	-	30,875	-
TOTAL EXPENDITURES	3,650,427	651,474	362,617
REVENUES OVER (UNDER) EXPENDITURES	(36,813)	3,514,069	924,597
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	-	-
Transfers in	389,262	-	-
Transfers out	-	(3,199,799)	(50,000)
TOTAL OTHER FINANCING SOURCES (USES)	389,262	(3,199,799)	(50,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	352,449	314,270	874,597
FUND BALANCES:			
Beginning of fiscal year, as restated (see Note 12)	4,054,855	1,454	3,715,192
End of fiscal year	\$ 4,407,304	\$ 315,724	\$ 4,589,789

See accompanying Notes to Basic Financial Statements.

Major Funds

Capital Improvements Fund	RDA Debt Service Fund	Other Governmental	Total
\$ -	\$ -	\$ -	\$ 7,012,551
-	-	-	84,917
-	-	823,478	823,478
-	-	-	241,218
-	-	-	348,490
-	-	-	106,067
-	-	850,341	989,289
-	-	-	73,086
-	-	-	216,206
-	-	-	358,350
-	-	63,121	123,278
205,349	39,785	90,928	712,459
-	-	-	49,984
205,349	39,785	1,827,868	11,139,373
-	-	-	53,195
-	-	-	795,035
-	10,825	-	497,597
-	-	228,357	507,901
-	-	-	983,216
-	-	-	136,644
-	-	-	1,681,905
-	-	-	129,153
-	-	-	88,179
-	-	331,600	331,600
1,865,380	-	588,234	2,453,614
-	1,200,000	-	1,200,000
-	754,686	-	785,561
1,865,380	1,965,511	1,148,191	9,643,600
(1,660,031)	(1,925,726)	679,677	1,495,773
-	-	800,815	800,815
1,300,000	1,944,799	89,143	3,723,204
(89,143)	-	(384,262)	(3,723,204)
1,210,857	1,944,799	505,696	800,815
(449,174)	19,073	1,185,373	2,296,588
4,987,061	1,148,685	1,064,457	14,971,704
\$ 4,537,887	\$ 1,167,758	\$ 2,249,830	\$ 17,268,292

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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 2,296,588
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 and Changes in Net Assets, 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 expense of \$83,773).	(491,732)
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 change in compensated absences.	(25,565)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.	
Long-term debt repayments:	1,200,000
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.	15,180
Capital asset activity, excluding internal service fund asset acquisitions.	1,042,569
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.	<u>70,482</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,107,522</u>

See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUNDS

City of Clayton
Statement of Net Assets
Proprietary Funds
June 30, 2007

	<u>Major Enterprise Funds</u>			<u>Governmental Activities Internal Service Funds</u>
	<u>Community Gym</u>	<u>Endeavor Hall</u>	<u>Total</u>	
ASSETS				
Current Assets:				
Cash and investments	\$ -	\$ 12,305	\$ 12,305	\$ 311,812
Receivables:				
Accounts	17,144	-	17,144	-
Interest	-	88	88	2,240
Noncurrent Assets:				
Depreciable assets, net	-	1,356,696	1,356,696	369,271
TOTAL ASSETS	17,144	1,369,089	1,386,233	683,323
LIABILITIES				
Current Liabilities:				
Accounts payable	7,290	1,223	8,513	959
Other payables	78	5,795	5,873	-
Deposits payable	-	5,500	5,500	-
Due to other funds	10,896	-	10,896	-
Insurance claims payable	-	-	-	19
TOTAL LIABILITIES	18,264	12,518	30,782	978
NET ASSETS				
Investment in capital assets, net of related debt	-	1,356,696	1,356,696	369,271
Unrestricted	(1,120)	(125)	(1,245)	313,074
TOTAL NET ASSETS	\$ (1,120)	\$ 1,356,571	\$ 1,355,451	\$ 682,345

See accompanying Notes to Basic Financial Statements.

City of Clayton
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2007

	Major Enterprise Funds			Governmental Activities Internal Service Funds
	Community Gym	Endeavor Hall	Total	
OPERATING REVENUES				
Charges for current services	\$ 36,545	\$ 20,735	\$ 57,280	\$ 84,595
TOTAL OPERATING REVENUES	<u>36,545</u>	<u>20,735</u>	<u>57,280</u>	<u>84,595</u>
OPERATING EXPENSES				
Personnel	15,791	7,689	23,480	-
General and administrative	20,710	11,238	31,948	4,636
Depreciation	-	35,565	35,565	83,773
TOTAL OPERATING EXPENSES	<u>36,501</u>	<u>54,492</u>	<u>90,993</u>	<u>88,409</u>
OPERATING INCOME (LOSS)	<u>44</u>	<u>(33,757)</u>	<u>(33,713)</u>	<u>(3,814)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income (loss)	(777)	404	(373)	14,572
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(777)</u>	<u>404</u>	<u>(373)</u>	<u>14,572</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>(733)</u>	<u>(33,353)</u>	<u>(34,086)</u>	<u>10,758</u>
Capital contributions	-	-	-	59,724
CHANGE IN NET ASSETS	<u>(733)</u>	<u>(33,353)</u>	<u>(34,086)</u>	<u>70,482</u>
NET ASSETS:				
Beginning of fiscal year, as restated (See Note 12)	(387)	1,389,924	1,389,537	611,863
End of fiscal year	<u>\$ (1,120)</u>	<u>\$ 1,356,571</u>	<u>\$ 1,355,451</u>	<u>\$ 682,345</u>

See accompanying Notes to Basic Financial Statements.

City of Clayton
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2007

	Major Enterprise Funds			Governmental Activities Internal Service Funds
	Community Gym	Endeavor Hall	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 35,105	\$ 20,735	\$ 55,840	\$ 84,595
Cash payments to suppliers for goods and services	(18,537)	(10,792)	(29,329)	(8,871)
Cash payment to employees for services	(15,791)	(7,689)	(23,480)	(1,672)
Net cash provided (used) by operating activities	<u>777</u>	<u>2,254</u>	<u>3,031</u>	<u>74,052</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Cash paid for capital acquisitions	-	-	-	(148,407)
Capital Contributions	-	-	-	59,724
Net cash provided (used) by capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(88,683)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	(777)	352	(425)	16,139
Net cash provided (used) by investing activities	<u>(777)</u>	<u>352</u>	<u>(425)</u>	<u>16,139</u>
Net increase (decrease) in cash and cash equivalents	0	2,606	2,606	1,508
CASH AND CASH EQUIVALENTS:				
Fiscal year end June 30, 2006	-	9,699	9,699	310,304
Fiscal year end June 30, 2007	<u>\$ -</u>	<u>\$ 12,305</u>	<u>\$ 12,305</u>	<u>\$ 311,812</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 44	\$ (33,757)	\$ (33,713)	\$ (3,814)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	35,565	35,565	83,773
Changes in operating assets and liabilities:				
Accounts receivable	1,440	-	1,440	-
Accounts payable	(1,573)	156	(1,417)	-
Other payables	(11)	1,130	1,119	-
Deposits payable	-	200	200	-
Due to other funds	877	-	877	-
Insurance claims payable	-	-	-	(5,907)
Unearned revenue	-	(1,040)	(1,040)	-
Total adjustments	<u>733</u>	<u>36,011</u>	<u>36,744</u>	<u>77,866</u>
Net cash provided (used) by operating activities	<u>\$ 777</u>	<u>\$ 2,254</u>	<u>\$ 3,031</u>	<u>\$ 74,052</u>

See accompanying Notes to Basic 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.

City of Clayton
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

Agency Funds

ASSETS

Cash and investments	\$ 1,919,376
Cash and investments with fiscal agents	10,855,721
Interest receivable	1,044
Other receivables	785,971

TOTAL ASSETS 13,562,112

LIABILITIES

Accounts payable	785,143
Interest payable	23,673
Other payables	21,233
Other deposits	964,664
Due to bondholders	<u>11,767,399</u>

TOTAL LIABILITIES 13,562,112

NET ASSETS \$ -

See accompanying Notes to Basic Financial Statements.

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City of Clayton

Notes to Basic Financial Statements

June 30, 2007

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 10,781.

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 26 full time equivalent employees, of which 11 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 builds and 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 (Agency) was established pursuant to the State of California Health and Safety Code Section 33000. The agency is responsible for the rehabilitation and economic revitalization of certain areas within the City.

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* as further amended by GASB Statement No. 39. 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 Agency 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.

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

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

- The members of the City Council also act as the governing bodies of the Agency.
- The Agency is managed by employees of the City. A portion of the City's salary and overhead expenses is billed to the Agency each year.
- The City and the Agency are financially interdependent. The City makes loans to the Agency to use for redevelopment purposes. Property tax revenues of the Agency are used to repay the loans to the City.

Detailed financial statements are available for the Agency 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 Assets 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 Assets. The Statement of Activities presents changes in net assets.

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

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

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 Assets 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:

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

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 assets as presented in these statements to the net assets 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

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 Agency Capital Projects Fund - This fund accounts for the projects funded through the property tax increment generated with 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 Agency Debt Service Fund - This fund accounts for the 1993, 1996 A, and the 1999 Tax Allocation Bonds debt service payments.

Clayton Redevelopment Agency Low/Mod Fund - This accounts for the low and moderate income housing projects funded through a mandatory 20% set aside of the property tax increment.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Fund Net Assets, 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.

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 Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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 nonoperating 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 the YMCA.

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.

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Fiduciary Net Assets. The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for using the accrual basis of accounting.

C. Use of Restricted and Unrestricted Net Assets

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

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 July 2002. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Investments, Continued

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.

E. Land Held for Resale

The Agency has acquired a parcel of land on Center Street and 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.

F. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets, Continued

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.

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 Assets.

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.

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.

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. *Compensated Absences, Continued*

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 absence includes vacation and sick leaves. It is the policy of the City to pay 100% of the accumulated vacation leave when an employee retires or terminates.

I. *Net Assets / Fund Balances*

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets 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 Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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

Fund Financial Statements

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditures.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

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. 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.

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 revenues and expenses/expenditures. 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. Implementation of New GASB Pronouncements

In the fiscal year ended June 30, 2007, the City did not adopt any new accounting standards.

2. CASH AND INVESTMENTS

Statement of Net Assets:	
Cash and investments	\$ 15,272,653
Restricted cash and investments	1,507,387
Statement of Fiduciary Net Assets:	
Cash and investments	1,919,376
Cash and investments with fiscal agents	<u>10,855,721</u>
Total	<u>\$ 29,555,137</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	1,201,360
Investments	<u>28,352,777</u>
Total	<u>\$ 29,555,137</u>

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

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 City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
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

Investment of debt proceeds held by trustees is 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 trustee. 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
Local Agency Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
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

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

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 moneys represented by the particular investment will be needed for withdrawal from such fund. Moneys 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 to 24 Months	25-60 Months	More Than 60 Months
Local Agency Investment Fund	\$ 9,959,927	\$ 9,959,927	\$ -	\$ -	\$ -
U.S. Government Securities	3,619,315	753,986	399,908	2,465,421	
Time Deposits	2,410,434	932,099	1,186,738	291,597	
Held by Bond Trustees:					
Money Market Funds	2,130,656	2,130,656			
U.S. Government Securities	5,526,445	5,526,445			
Clayton CFD 1990-1	4,706,000	187,000	203,000	685,000	3,631,000
Totals	\$ 28,352,777	\$ 19,490,113	\$ 1,789,646	\$ 3,442,018	\$ 3,631,000

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	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund	\$ 9,959,927	N/A	\$ -	\$ -	\$ -	\$ -	\$ 9,959,927
U.S. Government Securities	3,619,315			3,619,315			
Time Deposits	2,410,434	N/A					2,410,434
Held by Bond Trustees:							
Money Market Funds	2,130,656			2,130,656			
U.S. Government Securities	5,526,445			5,526,445			
Clayton CFD 1990-1	4,706,000	N/A					4,706,000
Total	\$ 28,352,777		\$ -	\$ 11,276,416	\$ -	\$ -	\$ 17,076,361

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 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 counterparty (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
June 30, 2007

3. RECEIVABLE

Notes Receivables

As of June 30, 2007, notes receivable consisted of the following:

<i>Major Funds:</i>	Notes Receivable
RDA Capital Project Fund:	
Loans to Assessment Districts.	\$ 353,122
RDA Low/Mod Capital Projects Fund:	
Professional Apartment Management Inc.	2,713,200
Eden Housing Inc. (formerly Peace Grove)	567,000
Second Mortgage Program	226,240
Total notes receivable	\$ 3,859,562

The Agency has provided assistance to special assessment districts within the City, to fund repairs and improvements. There are three districts which received loans from the Agency. As of June 30, 2007, the outstanding balance of the loans was **\$353,122**.

On September 21, 1999, the Agency 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 Agency 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 Agency 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, 2007, the outstanding balance of the loan was **\$2,713,200**.

On October 13, 1992, the Agency 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, 2007, the outstanding balance of the loan was **\$567,000**.

The Agency participates 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 nine individual loans outstanding. As of June 30, 2007, the outstanding balance of the loans was **\$226,240**

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

4. INTERFUND TRANSACTIONS

A. Due To, Due From

At June 30, 2007, the City had the following short-term interfund receivables and payables:

DUE FROM	DUE TO			Total
	Governmental Activities		Business-Type	
	Redevelopment Agencies Debt Service	Non-major Governmental Funds	Community Gym	
Governmental Activities:				
General Fund	\$ 337,220	\$ 160,325	\$ 10,896	\$ 508,441
Total	\$ 337,220	\$ 160,325	\$ 10,896	\$ 508,441

The City of Clayton has loaned from the General Fund to the Redevelopment Agency Debt Service Fund **\$337,220**, to assist in paying expenditures for debt service. The loan is expected to be paid in full within the following year. Other interfund activity resulted from temporary reclassifications made at June 30, 2007 to cover cash shortfalls.

B. Interfund Transfers

At June 30, 2007, the City had the following transfers:

TRANSFERS OUT	General Fund	Capital Improvement	RDA Debt Service	Non-major Governmental Funds	Total
RDA Capital Projects	\$ 255,000	\$ 1,000,000	\$ 1,944,799	\$ -	\$ 3,199,799
RDA Low & Moderate Income Housing	50,000	-	-	-	50,000
Capital Improvements Fund	-	-	-	89,143	89,143
Non-major Governmental Funds	84,262	300,000	-	-	384,262
Total	\$ 389,262	\$ 1,300,000	\$ 1,944,799	\$ 89,143	\$ 3,723,204

The Redevelopment Agency transferred **\$1,944,799** from the capital projects fund to the debt service fund for the current debt service payments.

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

4. INTERFUND TRANSACTIONS, Continued

B. Interfund Transfers, Continued

The City transferred \$389,262 into the General Fund from the RDA Capital Projects fund (\$255,000), from Low/Moderate Income Housing Fund (\$50,000), and Non-major Governmental Funds \$84,262 to reimburse the City for administrative expenses. In addition, the Agency transferred \$1,000,000 to the City Capital Improvement Fund for various capital projects.

C. Advance to other funds

On June 17, 1999 the Agency purchased a parcel of land for \$475,000, from the City. In exchange for the parcel of land the Agency issued a note in the amount of \$475,000 to the City. The principal amount is payable on or before January 1, 2023. As of June 30, 2007 the outstanding balance of the note was \$475,000.

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, 2007, the outstanding balance of the advance was \$60,000.

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2007, the City's capital assets consisted of the following:

	Governmental Activities	Business - Type Activities	Total
<i>Nondepreciable Assets:</i>			
Land	\$ 1,138,520	\$ -	\$ 1,138,520
Construction in progress	387,705	-	387,705
Total nondepreciable assets	<u>1,526,225</u>	<u>-</u>	<u>1,526,225</u>
<i>Depreciable Assets:</i>			
Buildings	5,346,032	1,400,744	6,746,776
Improvements	2,017,597	151,004	2,168,601
Machinery and equipment	828,913	-	828,913
Infrastructure	25,643,564	-	25,643,564
Total depreciable assets	<u>33,836,106</u>	<u>1,551,748</u>	<u>35,387,854</u>
Total accumulated depreciation	<u>(10,346,816)</u>	<u>(195,052)</u>	<u>(10,541,868)</u>
Depreciable assets, net	<u>23,489,290</u>	<u>1,356,696</u>	<u>24,845,986</u>
Total governmental activities capital assets, net	<u>\$ 25,015,515</u>	<u>\$ 1,356,696</u>	<u>\$ 26,372,211</u>

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2006	Additions	Deletions	Transfers	Prior Period Adjustments	Balance June 30, 2007
<i>Nondepreciable Assets:</i>						
Land	\$ 1,245,135	\$ 242,072	\$ (348,687)	\$ -	\$ -	\$ 1,138,520 ✓
Construction in progress	132,573	800,497		(553,391)	8,026	387,705
Total nondepreciable assets	<u>1,377,708</u>	<u>1,042,569</u>	<u>(348,687)</u>	<u>(553,391)</u>	<u>8,026</u>	<u>1,526,225</u>
<i>Depreciable Assets:</i>						
Buildings	5,346,032	-	-	-	-	5,346,032 ✓
Improvements	2,168,599	-	-	-	(151,002)	2,017,597 ✓
Machinery and equipment	697,121	148,407	(16,615)	-	-	828,913 ✓
Infrastructure	25,090,173			553,391	-	25,643,564 ✓
Total depreciable assets	<u>33,301,925</u>	<u>148,407</u>	<u>(16,615)</u>	<u>553,391</u>	<u>(151,002)</u>	<u>33,836,106</u>
<i>Accumulated depreciation:</i>						
Buildings	(1,279,993)	(106,757)	-	-	-	(1,386,750)
Improvements	(877,022)	(50,436)	-	-	45,093	(882,365)
Machinery and equipment	(392,482)	(83,773)	16,615	-	-	(459,640)
Infrastructure	(7,283,522)	(334,539)				(7,618,061)
Total accumulated depreciation	<u>(9,833,019)</u>	<u>(575,505)</u>	<u>16,615</u>	<u>-</u>	<u>45,093</u>	<u>(10,346,816) ✓</u>
Depreciable assets, net	<u>23,468,906</u>	<u>(427,098)</u>	<u>-</u>	<u>553,391</u>	<u>(105,909)</u>	<u>23,489,290</u>
Total governmental activities capital assets, net	<u>\$ 24,846,614</u>	<u>\$ 615,471</u>	<u>\$ (348,687)</u>	<u>\$ -</u>	<u>\$ (97,883)</u>	<u>\$ 25,015,515</u>

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

Public Works and Facilities	\$ 32,375
General support	503,445
Police	39,685
Total depreciation expense - governmental activities	<u>\$ 575,505</u>

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

	Balance July 1, 2006	Additions	Prior Period Adjustments	Balance June 30, 2007
<i>Depreciable Assets:</i>				
Buildings	\$ 1,400,744	\$ -	\$ -	\$ 1,400,744 ✓
Improvements			151,004	151,004 ✓
Total depreciable assets	<u>1,400,744</u>	<u>-</u>	<u>151,004</u>	<u>1,551,748</u>
Accumulated Depreciation	(114,394)	(35,565)	(45,093)	(195,052) ✓
Depreciable assets, net	<u>1,286,350</u>	<u>(35,565)</u>	<u>105,911</u>	<u>1,356,696</u>
Total business-type activities capital assets, net	<u>\$ 1,286,350</u>	<u>\$ (35,565)</u>	<u>\$ 105,911</u>	<u>\$ 1,356,696</u>

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2007 were as follows:

Endeavor hall	\$	35,565
Total depreciation expense	\$	35,565

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 Assets.

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, 2007:

Description	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts Due Within One Year	Amounts Due in More Than One Year
<i>Governmental Activities:</i>						
1993 Tax Allocation Bonds	\$ 3,015,000	\$ -	\$ (720,000)	\$ 2,295,000	\$ 90,000	\$ 2,205,000
1996 Refund Tax Allocation Bonds	5,850,000	-	(265,000)	5,585,000	280,000	5,305,000
1999 Tax Allocation Bonds	6,350,000	-	(215,000)	6,135,000	225,000	5,910,000
Total governmental activities	\$ 15,215,000	\$ -	\$ (1,200,000)	\$ 14,015,000	\$ 595,000	\$ 13,420,000

1993 Tax Allocation Bonds

1993 Tax Allocation Bonds in the principal amount of \$4,905,000 were issued on December 17, 1993 by the Agency. 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, 2003 are subject to call on any interest payment date at par, plus a premium of 1 % to 2% of the principal amount. On August 1, 2006 the City called bonds totaling \$665,000. The bonds are special obligations of the Agency and are secured by the Agency's tax increment revenues. The annual debt service requirements to amortize the 1993 Tax Allocation Bonds outstanding at June 30, 2007, were as follows:

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

6. LONG-TERM DEBT, Continued

1993 Tax Allocation Bonds, Continued

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 90,000	\$ 124,045	\$ 214,045
2009	60,000	120,175	180,175
2010	70,000	116,568	186,568
2011	70,000	112,683	182,683
2012	75,000	108,659	183,659
2013-2017	335,000	475,584	810,584
2018-2022	520,000	334,398	854,398
2023-2025	<u>1,075,000</u>	<u>69,850</u>	<u>1,144,850</u>
Total	<u>\$ 2,295,000</u>	<u>\$ 1,461,962</u>	<u>\$ 3,756,962</u>

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 Agency. 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, 2009 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 Agency and are secured by the Agency's tax increment revenue.

The annual debt service requirements to amortize the 1996 Refunding Tax Allocation Bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 280,000	\$ 294,900	\$ 574,900
2009	295,000	280,448	575,448
2010	305,000	264,995	569,995
2011	325,000	248,453	573,453
2012	340,000	230,745	570,745
2013-2017	2,000,000	840,290	2,840,290
2018-2021	<u>2,040,000</u>	<u>226,556</u>	<u>2,266,556</u>
Total	<u>\$ 5,585,000</u>	<u>\$ 2,386,387</u>	<u>\$ 7,971,387</u>

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

6. LONG-TERM DEBT, Continued

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 Agency. 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 Agency and are secured by the Agency's tax increment revenues.

The annual debt service requirements to amortize the 1999 Tax Allocation Bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 225,000	\$ 291,633	\$ 516,633
2009	235,000	282,085	517,085
2010	245,000	271,883	516,883
2011	255,000	260,878	515,878
2012	270,000	248,920	518,920
2013-2017	1,540,000	1,035,938	2,575,938
2018-2022	1,950,000	606,500	2,556,500
2023-2025	1,415,000	108,384	1,523,384
Total	<u>\$ 6,135,000</u>	<u>\$ 3,106,221</u>	<u>\$ 9,241,221</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 an employee retires or terminates. 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, 2007:

	Beginning Balance July 1, 2006	Additions	Deletions	Ending Balance June 30, 2007
Compensated Absences	\$ <u>99,322</u>	\$ <u>89,292</u>	\$ <u>(63,727)</u>	\$ <u>124,887</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, 2007 the outstanding balance of the non-city bond obligation was **\$5,065,000**.

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

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 million 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, 2007 the outstanding balance of the non-city bond obligation was **\$857,000**.

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, 2007 the outstanding balance of the non-city bond obligation was **\$213,325**.

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 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, 2007, the outstanding balance of the non-city bond obligation was **\$5,060,000**.

8. OTHER FUND DISCLOSURES

A. Expenditures over Appropriations

No funds had an excess of expenditures over appropriations in the current fiscal year.

B.. Deficit Fund Balances

At June 30, 2007, the funds below had the following deficit fund balance or net assets:

	Deficit
<i>Non Major Governmental Funds</i>	
Storm water Treatment District	\$ 2,384
Downtown Park CFD	936
Total Governmental Funds	\$ 3,320
<i>Proprietary Fund</i>	
Community Gym	\$ 1,120
Total Proprietary Fund	\$ 1,120

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

8. OTHER FUND DISCLOSURES, Continued

B.. Deficit Fund Balances, continued

The deficit in the Proprietary and Governmental funds are expected to be recovered from future charges for services and/or other revenues.

9. RISK MANAGEMENT

The City participates in the Municipal Pooling Authority of Northern California (MPA), a joint powers agreement between nineteen 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 \$15,000,000. 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. The MPA is self-insured up to \$1,000,000 per claim and has excess coverage to a maximum of \$25,000,000.

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 **\$62,682** for fiscal year 2006-2007 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, 2007.

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.

During the year, the City received a dividend from the MPA based on results of prior year's activities.

At June 30, 2006 (most recent), the MPA's audited condensed financial information showed:

Total assets	\$ 52,048,407
Total liabilities	\$ 33,315,508
Total equities	\$ 18,732,899
Total revenues	\$ 16,192,010
Total expenses	\$ 11,713,095
Revenues over expenses	\$ 4,478,915

Detailed financial information may be obtained from the MPA.

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

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

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 \$133,957 for the year ended June 30, 2007.

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.

Annual Pension Cost - For fiscal year 2006-07 the City's annual pension costs of \$529,049 for PERS was equal to the City's required contribution. The required contribution was determined as a part of the June 30, 2004, actuarial valuation using the entry age method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that range from 3.25% to 14.45% for miscellaneous and 3.25% to 15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments for retirees. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. In order to dampen the effect of short term market fluctuations on employer contribution rates, the asset smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However in no case will the Actuarial Value of Assets be less than 80% nor greater than 120% of the actual Market Value of Assets.

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$ 312,799	100%	-
6/30/2005	\$ 398,766	100%	-
6/30/2006	\$ 518,568	100%	-
6/30/2007	\$ 529,049	100%	-

11. CONTINGENCIES

The City participates in several federal and state grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the federal Single Audit Act, as amended, and applicable state requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

City of Clayton

Notes to Basic Financial Statements

June 30, 2007

11. CONTINGENCIES, Continued

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.

12. PRIOR PERIOD ADJUSTMENTS

A. Government-Wide Statements

During the fiscal year 2007, the City made an accounting adjustment to record an investment in a non-city obligation which was purchased during the prior year and to reclassify governmental type activities to fiduciary type activities, since the nature of the type of activity had changed to that of an agency. This resulted in the following adjustments.

	Net Assets as Previously Reported	Accounting Adjustments		Net Assets as Restated
		Capital Assets	Accruals	
<i>Governmental Activities:</i>				
Net assets	\$ 28,565,595	\$ (97,883)	\$ 47,177	\$ 28,514,889
Total governmental activities	<u>\$ 28,565,595</u>	<u>\$ (97,883)</u>	<u>\$ 47,177</u>	<u>\$ 28,514,889</u>

The prior period adjustment for the Governmental activities (government wide basis) is less than the adjustment for the Governmental funds (fund basis) because a number of the accruals implemented on the fund basis in the current year were already being done on the government wide basis. Thus the adjustment to the Governmental activities (government wide basis) is significantly less than the adjustment to the Governmental funds (fund basis).

	Net Assets as Previously Reported	Accounting Adjustments		Net Assets as Restated
		Capital Assets		
<i>Business Type Activities:</i>				
Net assets	\$ 1,283,626	\$ 105,911	\$ 1,389,537	
Total Business Type activities	<u>\$ 1,283,626</u>	<u>\$ 105,911</u>	<u>\$ 1,389,537</u>	

B. Fund Financial Statements

During the fiscal year 2007, the City made an accounting adjustment to record an investment in a non-city obligation which was purchased during the prior year. The City also elected to reclassify four Special Revenue Funds to Agency funds, since the nature of the type of fund activity had changed to that of an agency fund. This resulted in the following adjustments.

City of Clayton
Notes to Basic Financial Statements
June 30, 2007

12. PRIOR PERIOD ADJUSTMENTS, Continued

	Fund Balance as Previously Reported	Accounting Adjustments		Fund Balance as Restated
		Accruals	Reclassify Funds	
<i>Governmental Funds:</i>				
<i>Major Funds</i>				
General Fund	\$ 3,992,363	\$ 62,492	\$ -	\$ 4,054,855
RDA Capital Projects	500,547	(499,093)	-	1,454
RDA Low/Moderate Capital Projects	6,651,784	(2,936,592)	-	3,715,192
<i>Non-major Fund</i>				
Gas Tax	47,342	20,930	-	68,272

	Fund Balance as Previously Reported	Accounting Adjustments		Fund Balance as Restated
		Accruals	Capital Assets	
<i>Proprietary Funds:</i>				
<i>Major Funds</i>				
Endeavor Hall	\$ 1,284,013	\$ -	\$ 105,911	\$ 1,389,924

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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 special revenue fund is not budgeted. There are not budget to actual schedules presented for those special revenue funds that were reclassified to fiduciary funds since no budgets were adopted.
- 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, 2007

	Budget	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,691,885	\$ 1,691,885	\$ 1,789,092	\$ 97,207
Sales tax	293,515	293,515	241,218	(52,297)
Permits, licenses and fees	343,967	343,967	348,490	4,523
Fines, forfeitures and penalties	95,800	95,800	106,067	10,267
From other agencies	71,700	71,700	138,948	67,248
Motor vehicle in-lieu fees	63,000	63,000	73,086	10,086
Other in-lieu fees	216,410	216,410	216,206	(204)
Franchise fees	317,000	317,000	358,350	41,350
Service charges	51,000	51,000	60,157	9,157
Use of money and property	143,000	143,000	232,016	89,016
Other revenue	27,525	27,525	49,984	22,459
TOTAL REVENUES	3,314,802	3,314,802	3,613,614	298,812
EXPENDITURES				
Legislative	66,369	68,667	53,195	15,472
Administrative	772,330	801,169	795,035	6,134
Community services and facilities	463,549	789,914	486,772	303,142
Economic development	266,414	383,992	279,544	104,448
General support	151,181	151,181	136,644	14,537
Police	1,719,871	1,749,787	1,681,905	67,882
Library	157,449	158,080	129,153	28,927
Engineering	111,900	111,900	88,179	23,721
TOTAL EXPENDITURES	3,709,063	4,214,690	3,650,427	564,263
REVENUES OVER (UNDER) EXPENDITURES	(394,261)	(899,888)	(36,813)	863,075
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	5,000	5,000	-	5,000
Transfers in	389,262	518,694	389,262	(129,432)
TOTAL OTHER FINANCING SOURCES (USES)	394,262	523,694	389,262	(134,432)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 1	\$ (376,194)	352,449	\$ 8,643
FUND BALANCE:				
Beginning of fiscal year			4,054,855	
End of fiscal year			\$ 4,407,304	

City of Clayton
Required Supplementary Information, Continued
For the year ended June 30, 2007

PENSION TREND ANALYSIS

Miscellaneous Employees

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Overfunded) Liability as a Percentage of Covered Payroll</u>
June 30, 2002	\$ 2,110,738	\$ 2,087,211	\$ (23,527)	101.1%	\$ 830,128	(2.8)%
CalPERS Risk Pool Information (See note below)						
June 30, 2003	2,372,879,034	2,596,966,545	224,087,511	91.4%	725,020,458	30.9%
June 30, 2004	2,460,944,656	2,746,095,668	285,151,012	89.6%	743,691,970	38.3%
June 30, 2005	2,588,713,000	2,891,460,651	302,747,651	89.5%	755,046,679	40.1%
June 30, 2006	2,492,226,176	2,754,396,608	262,170,432	90.5%	699,897,835	37.5%

Safety Employees

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Overfunded) Liability as a Percentage of Covered Payroll</u>
June 30, 2002	\$ 3,410,898	\$ 4,196,102	\$ 785,204	81.3%	\$ 600,546	130.7%
CalPERS Risk Pool Information (See note below)						
June 30, 2003	1,045,895,860	1,248,172,736	202,276,876	83.8%	154,384,703	131.0%
June 30, 2004	1,026,500,742	1,252,474,736	225,973,994	82.0%	154,903,754	145.9%
June 30, 2005	1,105,298,221	1,325,510,754	220,212,533	83.4%	161,446,071	136.4%
June 30, 2006	1,252,059,468	1,473,284,852	221,225,384	85.0%	177,088,890	124.9%

As of the actuarial valuation date of June 30, 2003, the City's miscellaneous and safety plans became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The schedules of funding progress presented above starting the fiscal year ending June 30, 2003, are for the whole pool and not that of the City individually.

SUPPLEMENTAL INFORMATION

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MAJOR CAPITAL PROJECTS FUNDS

City of Clayton
Budgetary Comparison Schedule
RDA Capital Projects Fund
For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 3,652,005	\$ 4,178,767	\$ 526,762
Program income	-	617	617
Use of money and property	15,287	(13,841)	(29,128)
TOTAL REVENUES	<u>3,667,292</u>	<u>4,165,543</u>	<u>498,251</u>
EXPENDITURES			
Planning and development	655,049	620,599	34,450
Interest and fiscal charges	30,875	30,875	-
TOTAL EXPENDITURES	<u>685,924</u>	<u>651,474</u>	<u>34,450</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,981,368</u>	<u>3,514,069</u>	<u>532,701</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(3,199,799)	(3,199,799)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,199,799)</u>	<u>(3,199,799)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (218,431)</u>	<u>314,270</u>	<u>\$ 532,701</u>
FUND BALANCE:			
Beginning of fiscal year		1,454	
End of fiscal year		<u>\$ 315,724</u>	

City of Clayton
Budgetary Comparison Schedule
Capital Improvements Fund
For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ -	\$ 205,349	\$ 205,349
TOTAL REVENUES	-	205,349	205,349
EXPENDITURES			
Landscape maintenance	4,625,160	1,865,380	2,759,780
TOTAL EXPENDITURES	4,625,160	1,865,380	2,759,780
REVENUES OVER (UNDER) EXPENDITURES	(4,625,160)	(1,660,031)	2,965,129
OTHER FINANCING SOURCES (USES)			
Transfers in	1,100,000	1,300,000	200,000
Transfers out		(89,143)	(89,143)
TOTAL OTHER FINANCING SOURCES (USES)	1,100,000	1,210,857	110,857-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (3,525,160)	(449,174)	\$ 3,075,986
FUND BALANCE:			
Beginning of fiscal year		4,987,061	
End of fiscal year		\$ 4,537,887	

City of Clayton
Budgetary Comparison Schedule
RDA Low/Moderate Capital Projects Fund
For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 913,001	\$ 1,044,692	\$ 131,691
Program income	-	84,300	84,300
Use of money and property	122,199	158,222	36,023
TOTAL REVENUES	1,035,200	1,287,214	252,014
EXPENDITURES			
Planning and development	169,139	362,617	(193,478)
TOTAL EXPENDITURES	169,139	362,617	(193,478)
REVENUES OVER (UNDER) EXPENDITURES	866,061	924,597	58,536
OTHER FINANCING SOURCES (USES)			
Transfers out	(50,000)	(50,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(50,000)	(50,000)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 816,061	874,597	\$ 58,536
FUND BALANCE:			
Beginning of fiscal year		3,715,192	
End of fiscal year		<u>\$ 4,589,789</u>	

MAJOR DEBT SERVICE FUND

City of Clayton
Budgetary Comparison Schedule
RDA Debt Service Fund
For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Use of money and property	\$ 39,000	\$ 39,785	\$ 785
TOTAL REVENUES	39,000	39,785	785
EXPENDITURES			
Community services and facilities	10,825	10,825	-
Principal	1,200,000	1,200,000	-
Interest and fiscal charges	772,974	754,686	18,288
TOTAL EXPENDITURES	1,983,799	1,965,511	18,288
REVENUES OVER (UNDER) EXPENDITURES	(1,944,799)	(1,925,726)	19,073
OTHER FINANCING SOURCES (USES)			
Transfers in	1,944,799	1,944,799	-
TOTAL OTHER FINANCING SOURCES (USES)	1,944,799	1,944,799	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	19,073	\$ 19,073
FUND BALANCE:			
Beginning of fiscal year		1,148,685	
End of fiscal year		\$ 1,167,758	

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:

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.

Clayton Landscape Maintenance - accounts for assessments collected to maintain arterial landscaping and open space within the City.

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.

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

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

Measure C - accounts for a \$0.05 sales tax approved by voters in 1988 to provide transportation and street improvements, a growth management process, and a regional planning process to address quality of life

Stormwater District Special Assessment - 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.

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

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

Clayton Downtown Park (CFD 2006-1) - accounts for assessments collected for operation and maintenance of a new downtown park..

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 a projects related to the Financing Authority.

City of Clayton
Combining Balance Sheet
Non-Major Capital Projects Funds
June 30, 2007

Special Revenue

	Street Lighting	Stormwater Treatment District Assessment	Stormwater Assessment	Presley Settlement
ASSETS				
Cash and investments	\$ 142,495	\$ -	\$ 139,890	\$ 287,995
Accounts receivable	-	-	-	-
Interest receivable	1,022	-	1,002	2,062
TOTAL ASSETS	<u>\$ 143,517</u>	<u>\$ -</u>	<u>\$ 140,892</u>	<u>\$ 290,057</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 8,277	\$ -	\$ 482	\$ -
Other payables	-	15	-	-
Due to other funds	-	2,369	-	-
Advance from other funds	-	-	-	-
TOTAL LIABILITIES	<u>8,277</u>	<u>2,384</u>	<u>482</u>	<u>-</u>
FUND BALANCES				
Reserved for:				
Encumbrances	5,857	-	-	-
Capital projects	-	-	-	-
Special projects	129,383	(2,384)	140,410	290,057
Debt service	-	-	-	-
Unreserved, designated for:				
Contingencies	-	-	-	-
TOTAL FUND BALANCES	<u>135,240</u>	<u>(2,384)</u>	<u>140,410</u>	<u>290,057</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 143,517</u>	<u>\$ -</u>	<u>\$ 140,892</u>	<u>\$ 290,057</u>

Special Revenue						Capital Projects
Oakhurst Geological Hazard Abatement District	Measure C	Grants	Gas Tax	Downtown Park CFD	Clayton Landscape Maintenance	Clayton Development Impact Fees
\$ 10,595	\$ -	\$ 316,326	\$ 205,818	\$ -	\$ 175,916	\$ 211,102
-	209,883	4,258	20,838	-	-	-
82	-	2,265	1,472	-	1,262	1,489
<u>\$ 10,677</u>	<u>\$ 209,883</u>	<u>\$ 322,849</u>	<u>\$ 228,128</u>	<u>\$ -</u>	<u>\$ 177,178</u>	<u>\$ 212,591</u>
\$ 2,366	\$ -	\$ 1,791	\$ 6,170	\$ -	\$ 72,826	\$ -
-	1,122	-	-	7	3,897	-
-	157,027	-	-	929	-	-
-	-	-	-	-	-	60,000
<u>2,366</u>	<u>158,149</u>	<u>1,791</u>	<u>6,170</u>	<u>936</u>	<u>76,723</u>	<u>60,000</u>
-	-	-	84,019	-	7,328	11,753
-	-	-	-	-	-	140,838
8,311	51,734	304,449	137,939	(936)	93,127	-
-	-	-	-	-	-	-
-	-	16,609	-	-	-	-
<u>8,311</u>	<u>51,734</u>	<u>321,058</u>	<u>221,958</u>	<u>(936)</u>	<u>100,455</u>	<u>152,591</u>
<u>\$ 10,677</u>	<u>\$ 209,883</u>	<u>\$ 322,849</u>	<u>\$ 228,128</u>	<u>\$ -</u>	<u>\$ 177,178</u>	<u>\$ 212,591</u>

(Continued)

City of Clayton
Combining Balance Sheet (Continued)
Non-Major Capital Projects Funds
June 30, 2007

	Debt Service	
	Clayton Financing Authority	Total
ASSETS		
Cash and investments	\$ 825,439	\$ 2,315,576
Accounts receivable	-	234,979
Interest receivable	5,897	16,553
TOTAL ASSETS	\$ 831,336	\$ 2,567,108
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ -	\$ 91,912
Other payables	-	5,041
Due to other funds	-	160,325
Advance from other funds	-	60,000
TOTAL LIABILITIES	-	317,278
FUND BALANCES		
Reserved for:		
Encumbrances	-	108,957
Capital projects	-	140,838
Special projects	-	1,152,090
Debt service	831,336	831,336
Unreserved, designated for:		
Contingencies	-	16,609
TOTAL FUND BALANCES	831,336	2,249,830
TOTAL LIABILITIES AND FUND BALANCES	\$ 831,336	\$ 2,567,108

City of Clayton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the fiscal year ended June 30, 2007

	Special Revenue			
	Street Lighting	Stormwater Treatment District Assessment	Stormwater Assessment	Presley Settlement
REVENUES				
Special assessments	\$ 125,445	\$ -	\$ 88,510	\$ -
From other agencies	-	-	-	-
Service charges	-	-	-	-
Use of money and property	6,259	(113)	5,381	13,854
TOTAL REVENUES	<u>131,704</u>	<u>(113)</u>	<u>93,891</u>	<u>13,854</u>
EXPENDITURES				
General Government				
Economic development	-	-	-	-
Highway and streets	110,055	450	51,513	1,900
Landscape maintenance	-	-	-	-
TOTAL EXPENDITURES	<u>110,055</u>	<u>450</u>	<u>51,513</u>	<u>1,900</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>21,649</u>	<u>(563)</u>	<u>42,378</u>	<u>11,954</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(9,000)	-	(31,605)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,000)</u>	<u>-</u>	<u>(31,605)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>12,649</u>	<u>(563)</u>	<u>10,773</u>	<u>11,954</u>
FUND BALANCES:				
Beginning of fiscal year, as restated (see Note 12)	122,591	(1,821)	129,637	278,103
End of fiscal year	\$ 135,240	\$ (2,384)	\$ 140,410	\$ 290,057

Special Revenue						Capital Projects
Oakhurst Geological Hazard Abatement District	Measure C	Grants	Gas Tax	Downtown Park CFD	Clayton Landscape Maintenance	Clayton Development Impact Fees
\$ 30,328	\$ -	\$ -	\$ 27,881	\$ -	\$ 551,314	\$ -
-	209,844	339,053	301,444	-	-	-
-	-	-	-	-	-	63,121
1,359	(498)	13,204	7,555	(35)	5,613	7,828
31,687	209,346	352,257	336,880	(35)	556,927	70,949
75,490	-	152,867	-	-	-	-
-	2,032	-	165,650	-	-	-
-	-	-	-	901	587,333	-
75,490	2,032	152,867	165,650	901	587,333	-
(43,803)	207,314	199,390	171,230	(936)	(30,406)	70,949
-	-	-	-	-	-	-
-	-	-	89,143	-	-	-
(6,000)	(204,000)	-	(106,687)	-	(26,970)	-
(6,000)	(204,000)	-	(17,544)	-	(26,970)	-
(49,803)	3,314	199,390	153,686	(936)	(57,376)	70,949
58,114	48,420	121,668	68,272	-	157,831	81,642
\$ 8,311	\$ 51,734	\$ 321,058	\$ 221,958	\$ (936)	\$ 100,455	\$ 152,591

(Continued)

City of Clayton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Non-Major Governmental Funds

For the fiscal year ended June 30, 2007

	Debt Service	
	Clayton Financing Authority	Total
REVENUES		
Special assessments	\$ -	\$ 823,478
From other agencies	-	850,341
Service charges	-	63,121
Use of money and property	30,521	90,928
TOTAL REVENUES	<u>30,521</u>	<u>1,827,868</u>
EXPENDITURES		
General Government		
Economic development	-	228,357
Highway and streets	-	331,600
Landscape maintenance	-	588,234
TOTAL EXPENDITURES	-	<u>1,148,191</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>30,521</u>	<u>679,677</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of capital assets	800,815	800,815
Transfers in	-	89,143
Transfers out	-	(384,262)
TOTAL OTHER FINANCING SOURCES (USES)	800,815	505,696
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	831,336	1,185,373
FUND BALANCES:		
Beginning of fiscal year, as restated (see Note 12)	-	1,064,457
End of fiscal year	\$ 831,336	\$ 2,249,830

City of Clayton
Budgetary Comparison Schedule
Special Revenue Fund
Street Lighting Fund
For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 125,962	\$ 125,445	\$ (517)
Use of money and property	2,500	6,259	3,759
TOTAL REVENUES	128,462	131,704	3,242
EXPENDITURES			
Highway and streets	126,571	110,055	16,516
TOTAL EXPENDITURES	126,571	110,055	16,516
REVENUES OVER (UNDER) EXPENDITURES	1,891	21,649	19,758
OTHER FINANCING SOURCES (USES)			
Transfers out	(9,000)	(9,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(9,000)	(9,000)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (7,109)	12,649	\$ 19,758
FUND BALANCE:			
Beginning of fiscal year		122,591	
End of fiscal year		\$ 135,240	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Stormwater Assessment Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 88,358	\$ 88,510	\$ 152
Use of money and property	2,405	5,381	2,976
TOTAL REVENUES	90,763	93,891	3,128
EXPENDITURES			
Highway and streets	64,088	51,513	12,575
TOTAL EXPENDITURES	64,088	51,513	12,575
REVENUES OVER (UNDER) EXPENDITURES	26,675	42,378	15,703
OTHER FINANCING SOURCES (USES)			
Transfers out	(31,605)	(31,605)	-
TOTAL OTHER FINANCING SOURCES (USES)	(31,605)	(31,605)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (4,930)	10,773	\$ 15,703
FUND BALANCE:			
Beginning of fiscal year		129,637	
End of fiscal year		\$ 140,410	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Oakhurst Geological Hazard Abatement District Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 30,336	\$ 30,328	\$ (8)
Use of money and property	1,506	1,359	(147)
TOTAL REVENUES	31,842	31,687	(155)
EXPENDITURES			
Economic development	66,162	75,490	(9,328)
TOTAL EXPENDITURES	66,162	75,490	(9,328)
REVENUES OVER (UNDER) EXPENDITURES	(34,320)	(43,803)	(9,483)
OTHER FINANCING SOURCES (USES)			
Transfers out	(6,000)	(6,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,000)	(6,000)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (40,320)	(49,803)	\$ (9,483)
FUND BALANCE:			
Beginning of fiscal year		58,114	
End of fiscal year		\$ 8,311	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Measure C Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
From other agencies	\$ 202,000	\$ 209,844	\$ 7,844
Use of money and property	1,500	(498)	(1,998)
TOTAL REVENUES	203,500	209,346	5,846
EXPENDITURES			
Highway and streets	3,100	2,032	1,068
TOTAL EXPENDITURES	3,100	2,032	1,068
REVENUES OVER (UNDER) EXPENDITURES	200,400	207,314	6,914
OTHER FINANCING SOURCES (USES)			
Transfers out	(204,000)	(204,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(204,000)	(204,000)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (3,600)	3,314	\$ 6,914
FUND BALANCE:			
Beginning of fiscal year		48,420	
End of fiscal year		\$ 51,734	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Grants Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
From other agencies	\$ 100,000	\$ 339,053	\$ 239,053
Use of money and property	3,500	13,204	9,704
TOTAL REVENUES	103,500	352,257	248,757
EXPENDITURES			
Economic development	214,236	152,867	61,369
TOTAL EXPENDITURES	214,236	152,867	61,369
REVENUES OVER (UNDER) EXPENDITURES	\$ (110,736)	199,390	\$ 310,126
FUND BALANCE:			
Beginning of fiscal year		121,668	
End of fiscal year		\$ 321,058	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Gas Tax Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 25,123	\$ 27,881	\$ 2,758
From other agencies	260,000	301,444	41,444
Use of money and property	500	7,555	7,055
TOTAL REVENUES	285,623	336,880	51,257
EXPENDITURES			
Highway and streets	283,290	165,650	117,640
TOTAL EXPENDITURES	283,290	165,650	117,640
REVENUES OVER (UNDER) EXPENDITURES	2,333	171,230	168,897
OTHER FINANCING SOURCES (USES)			
Transfers in	-	89,143	89,143
Transfers out	(106,687)	(106,687)	-
TOTAL OTHER FINANCING SOURCES (USES)	(106,687)	(17,544)	89,143
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (104,354)	153,686	\$ 258,040
FUND BALANCE:			
Beginning of fiscal year		68,272	
End of fiscal year		\$ 221,958	

City of Clayton

Budgetary Comparison Schedule

Special Revenue Fund

Clayton Landscape Maintenance Fund

For the fiscal year ended June 30, 2007

	Final Budget	Actual	Variance from Final Budget Positive (Negative)
REVENUES			
Special assessments	\$ 552,717	\$ 551,314	\$ (1,403)
Use of money and property	4,000	5,613	1,613
TOTAL REVENUES	556,717	556,927	210
EXPENDITURES			
Landscape maintenance	590,063	587,333	2,730
TOTAL EXPENDITURES	590,063	587,333	2,730
REVENUES OVER (UNDER) EXPENDITURES	(33,346)	(30,406)	2,940
OTHER FINANCING SOURCES (USES)			
Transfers out	(26,970)	(26,970)	-
TOTAL OTHER FINANCING SOURCES (USES)	(26,970)	(26,970)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (60,316)	(57,376)	\$ 2,940
FUND BALANCE:			
Beginning of fiscal year		157,831	
End of fiscal year		\$ 100,455	

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 Liability – 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, 2007

	Capital Replacement	Self Insurance	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 133,614	\$ 178,198	\$ 311,812
Receivables:			
Interest	961	1,279	2,240
Noncurrent Assets:			
Depreciable assets, net	369,271	-	369,271
TOTAL ASSETS	503,846	179,477	683,323
LIABILITIES			
Current Liabilities:			
Accounts payable	-	959	959
Insurance claims payable	-	19	19
TOTAL LIABILITIES	-	978	978
NET ASSETS			
Invested in capital assets, net of related debt	369,271	-	369,271
Unrestricted	134,575	178,499	313,074
TOTAL NET ASSETS	\$ 503,846	\$ 178,499	\$ 682,345

City of Clayton

Statement of Revenues, Expenses, and Changes in Net Assets

Internal Service Funds

For the fiscal year ended June 30, 2007

	Capital Replacement	Self Insurance	Total
OPERATING REVENUES			
Charges for current services	\$ 84,595	\$ -	\$ 84,595
TOTAL OPERATING REVENUES	84,595	-	84,595
OPERATING EXPENSES			
General and administrative	1,672	2,964	4,636
Depreciation and amortization	83,773	-	83,773
TOTAL OPERATING EXPENSES	85,445	2,964	88,409
OPERATING INCOME (LOSS)	(850)	(2,964)	(3,814)
NONOPERATING REVENUES (EXPENSES)			
Investment income (loss)	5,786	8,786	14,572
TOTAL NONOPERATING REVENUES (EXPENSES)	5,786	8,786	14,572
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	4,936	5,822	10,758
Capital contributions	59,724	-	59,724
CHANGE IN NET ASSETS	64,660	5,822	70,482
NET ASSETS:			
Beginning of fiscal year	439,186	172,677	611,863
End of fiscal year	\$ 503,846	\$ 178,499	\$ 682,345

City of Clayton
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2007

	Capital Replacement	Self-Insurance Liability	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipt from customers/other funds	\$ 84,595	\$ -	\$ 84,595
Cash payment to suppliers for good and services	-	(8,871)	(8,871)
Cash payment to employees for services	(1,672)	-	(1,672)
Net cash provided (used) by operating activities	<u>82,923</u>	<u>(8,871)</u>	<u>74,052</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of fixed assets	(148,407)	-	(148,407)
Capital Contributions	59,724	-	59,724
Net cash provided (used) by capital and related financing activities	<u>(88,683)</u>	<u>-</u>	<u>(88,683)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	6,753	9,386	16,139
Net cash provided (used) by investing activities	<u>6,753</u>	<u>9,386</u>	<u>16,139</u>
Net increase (decrease) in cash and cash equivalents	993	515	1,508
CASH AND CASH EQUIVALENTS:			
Beginning of fiscal year	132,621	177,683	310,304
End of fiscal year	<u>\$ 133,614</u>	<u>\$ 178,198</u>	<u>\$ 311,812</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (850)	\$ (2,964)	\$ (3,814)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	83,773	-	83,773
Changes in current assets and liabilities:			
Claims liability payable	-	(5,907)	(5,907)
Total adjustments	<u>83,773</u>	<u>(5,907)</u>	<u>77,866</u>
Net cash provided (used) by operating activities	<u>\$ 82,923</u>	<u>\$ (8,871)</u>	<u>\$ 74,052</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 Fund – 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 Community Facilities District (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 Community Facilities District (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.

City of Clayton
Statements of Changes in Assets and Liabilities
Agency Funds
For the fiscal year ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Deposits				
Assets:				
Cash and investments	\$ 2,315,076	\$ 1,156,879	\$ (2,160,502)	\$ 1,311,453
Other receivables	10,598	9,430	(10,600)	9,428
Total assets	\$ 2,325,674	\$ 1,166,309	\$ (2,171,102)	\$ 1,320,881
Liabilities:				
Accounts payable	\$ 2,458	\$ 354,346	\$ (346,302)	\$ 10,502
Other payables	-	23,673	-	23,673
Other deposits	2,059,596	729,868	(1,824,800)	964,664
Due to bondholders	263,620	58,422	-	322,042
Total liabilities	\$ 2,325,674	\$ 1,166,309	\$ (2,171,102)	\$ 1,320,881
Oakhurst Assessment District				
Assets:				
Cash and investments	\$ 218,499	\$ 15,737	\$ (14,500)	\$ 219,736
Other receivables	6,399	1,617	(6,399)	1,617
Total assets	\$ 224,898	\$ 17,354	\$ (20,899)	\$ 221,353
Liabilities:				
Accounts payable	\$ -	\$ 6,500	\$ (6,500)	\$ -
Due to bondholders	224,898	10,854	(14,399)	221,353
Total liabilities	\$ 224,898	\$ 17,354	\$ (20,899)	\$ 221,353
Middle School CFD				
Assets:				
Cash and investments	\$ 773,120	\$ 580,129	\$ (5,622,226)	\$ (4,268,977)
Cash and investments with fiscal agent	5,653,277	5,897,596	(981,074)	10,569,799
Other receivables	12,472	1,913	(12,471)	1,914
Total assets	\$ 6,438,869	\$ 6,479,638	\$ (6,615,771)	\$ 6,302,736
Liabilities:				
Accounts payable	\$ -	\$ 2,107	\$ -	\$ 2,107
Due to bondholders	6,438,869	6,477,531	(6,615,711)	6,300,629
Total liabilities	\$ 6,438,869	\$ 6,479,638	\$ (6,615,711)	\$ 6,302,736

(Continued)

City of Clayton
Statements of Changes in Assets and Liabilities, Continued
Agency Funds
For the fiscal year ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Clayton Station CFD				
Assets:				
Cash and investments	\$ 144,391	\$ 140,067	\$ (138,860)	\$ 145,598
Interest receivables	(3,316)	5,759	(1,399)	1,044
Total assets	\$ 141,075	\$ 145,826	\$ (140,259)	\$ 146,642
Liabilities:				
Accounts payable	-	126,845	(126,845)	-
Due to bondholders	141,075	18,981	(13,414)	146,642
Total liabilities	\$ 141,075	\$ 145,826	\$ (140,259)	\$ 146,642
High Street Bridge				
Assets:				
Cash and investments	\$ (20,298)	\$ 78,369	\$ (75,144)	\$ (17,073)
Other receivables	47,980	41,430	(4,070)	85,340
Total assets	\$ 27,682	\$ 119,799	\$ (79,214)	\$ 68,267
Liabilities:				
Accounts payable	\$ 47,980	\$ 41,430	\$ (4,070)	\$ 85,340
Other payables	2,606	122	(506)	2,222
Due to bondholders	(22,904)	78,247	(74,638)	(19,295)
Total liabilities	\$ 27,682	\$ 119,799	\$ (79,214)	\$ 68,267
Oak Street Bridge				
Assets:				
Cash and investments	\$ (63,542)	\$ 96,368	\$ (92,500)	\$ (59,674)
Other receivables	63,855	-	(15,963)	47,892
Total assets	\$ 313	\$ 96,368	\$ (108,463)	\$ (11,782)
Liabilities:				
Accounts payable	\$ 63,854	-	\$ (15,962)	\$ 47,892
Other payables	18,506	426	(166)	18,766
Due to bondholders	(82,047)	95,942	(92,335)	(78,440)
Total liabilities	\$ 313	\$ 96,368	\$ (108,463)	\$ (11,782)

(Continued)

City of Clayton
Statements of Changes in Assets and Liabilities, Continued
Agency Funds
For the fiscal year ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Lydia Lane Sewer Assessment				
Assets:				
Cash and investments	\$ 64,410	\$ 23,025	\$ (20,953)	\$ 66,482
Cash and investments with fiscal agent	13,490	678	(60)	14,108
Other receivables	444,571	478	(25,159)	419,890
Total assets	\$ 522,471	\$ 24,181	\$ (46,172)	\$ 500,480
Liabilities:				
Accounts payable	\$ 443,912	\$ -	\$ (24,500)	\$ 419,412
Due to bondholders	78,559	24,181	(21,672)	81,068
Total liabilities	\$ 522,471	\$ 24,181	\$ (46,172)	\$ 500,480
Oak Street Sewer Assessment				
Assets:				
Cash and investments	\$ (27,908)	\$ 319,141	\$ (302,880)	\$ (11,647)
Other receivables	231,179	-	(11,289)	219,890
Total assets	\$ 203,271	\$ 319,141	\$ (314,169)	\$ 208,243
Liabilities:				
Accounts payable	\$ 231,179	\$ 21,950	\$ (33,239)	\$ 219,890
Other payables	2,178	245	(2,178)	245
Due to bondholders	(30,086)	296,946	(278,752)	(11,892)
Total liabilities	\$ 203,271	\$ 319,141	\$ (314,169)	\$ 208,243
CFA Clayton Financing Authority 2007				
Assets:				
Cash and investments	\$ -	\$ 4,540,460	\$ (6,982)	\$ 4,533,478
Cash and investments with fiscal agent	-	4,910,600	(4,638,786)	271,814
Total assets	\$ -	\$ 9,451,060	\$ (4,645,768)	\$ 4,805,292
Liabilities:				
Due to bondholders	-	9,451,060	(4,645,768)	4,805,292
Total liabilities	\$ -	\$ 9,451,060	\$ (4,645,768)	\$ 4,805,292



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Members of the City Council of the
City of Clayton
Clayton, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clayton, California (City) as of and for the fiscal year ended June 30, 2007 which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that, there is more than a remote likelihood that a misstatement of City's financial statements that is more than inconsequential will not be prevented or detected by City's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the City in a separate letter dated January 31, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 31, 2008

