

City of Clayton

Clayton, California

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

For the fiscal year ended June 30, 2008

City of Clayton
Financial Statements
June 30, 2008
Table of Contents

I. INTRODUCTORY SECTION	Page
Independent Auditor's Report	4
Management's Discussion and Analysis	7
II. FINANCIAL SECTION	
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	20
Statement of Activities	21
<i>Governmental Funds Financial Statements:</i>	
Balance Sheet	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	26
Statement of Revenues, Expenditures and Changes in Fund Balances	28
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	30
<i>Proprietary Funds:</i>	
Statement of Net Assets	32
Statement of Revenues, Expenses and Changes in Fund Net Assets	33
Statement of Cash Flows	34
<i>Fiduciary Funds:</i>	
Statement of Fiduciary Net Assets	36
<i>Notes to Basic Financial Statements</i>	40
Required Supplementary Information	65
III. SUPPLEMENTAL INFORMATION	
<i>Major Capital Projects Funds:</i>	
Budgetary Comparison Schedules	70
<i>Major Debt Service Funds:</i>	
Budgetary Comparison Schedules	73
<i>Non-Major Governmental Funds Financial Statements:</i>	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenses and Changes in Fund Balances	80
Budgetary Comparison Schedules	83
<i>Internal Service Funds:</i>	
Combining Balance Sheet	92
Combining Statement of Revenues, Expenses and Changes in Net Assets	93
Combining Statement of Cash Flows	94
<i>Agency Funds:</i>	
Statements of Changes in Assets and Liabilities	96
IV. ADDITIONAL REPORTS	
Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	100

INTRODUCTORY SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE. 400
BEVERLY HILLS, CA 90210
PHONE: (310) 273-2745
FAX: (310) 273-1689
EMAIL: mlhbh@mlhcpas.com

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, 2008, 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, 2008, 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.

As discussed in note 1 of the notes to basic financial statements effective July 1, 2007, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures - An Amendment of GASB Statements No. 25 and No. 27*.

The accompanying Required Supplementary Information, such as the Management's Discussion and Analysis and the budgetary comparison schedule for the General Fund, are 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 28, 2009, 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, budgetary comparison schedule of the major debt service fund, and combining statements of the internal service funds, and statements of changes in assets and liabilities of the agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules, budgetary comparison schedules of the major capital projects funds and the major debt service fund, and combining statements of the internal service funds, and statements of changes in assets and liabilities of the agency funds 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 28, 2009

This page intentionally left blank.

City of Clayton

Management's Discussion and Analysis

For the fiscal year ended June 30, 2008

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, 2008. 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 \$38,607,691. Of this amount, \$6,571,945 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 \$4,710,724 in fiscal year 2008. Net assets of governmental activities increased by \$4,736,827, while net assets of business type activities decreased by \$26,103 .

Major Fund Highlights

Governmental Funds - As of the close of fiscal year 2008, the City's governmental funds reported combined ending fund balances of \$17,476,174. Of this amount \$5,628,136 represents "unreserved fund balances" (or working equity) available for appropriation.

General Fund - The unreserved undesignated fund balance of the general fund on June 30, 2008 was \$ 4,161,527, an increase of \$1,032,659 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, 2008

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 For the fiscal year ended June 30, 2008

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 40-63 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 \$38,607,691 at the close of the most recent fiscal year. This is an increase of \$ 4,710,724 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, 2008

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2008 and 2007:

	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Current Assets	\$ 17,319,074	\$ 17,471,352	\$ 16,107	\$ 18,641	\$ 17,335,181	\$ 17,489,993
Non-Current Assets	5,938,515	4,879,357	-	-	5,938,515	4,879,357
Capital Assets	27,158,000	25,015,515	1,330,098	1,356,696	28,488,098	26,372,211
Total Assets	\$ 50,415,589	\$ 47,366,224	\$ 1,346,205	\$ 1,375,337	\$ 51,761,794	\$ 48,741,561
Current Liabilities	\$ 1,267,518	\$ 1,224,491	\$ 16,857	\$ 19,886	\$ 1,284,375	\$ 1,244,377
Long-term Liabilities	11,869,728	13,519,322	-	-	11,869,728	13,519,322
Total Liabilities	\$ 13,137,246	\$ 14,743,813	\$ 16,857	\$ 19,886	\$ 13,154,103	\$ 14,763,699
Investment in Capital Assets, Net of Related Debt	\$ 14,813,000	\$ 11,045,256	\$ 1,330,098	\$ 1,356,696	\$ 16,143,098	\$ 12,401,952
Restricted	15,892,648	17,175,110	-	-	15,892,648	17,175,110
Unrestricted	6,572,695	4,402,045	(750)	(1,245)	6,571,945	4,400,800
Total Net Assets	\$ 37,278,343	\$ 32,622,411	\$ 1,329,348	\$ 1,355,451	\$ 38,607,691	\$ 33,977,862

An additional portion of the City of Clayton's net assets (17 percent) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* (\$6,571,945) 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 \$4,710,724 or 14%, from the prior fiscal year. In fiscal year 2007-2008, City revenues, which include both governmental and business-type activities, totaled \$12,405,121, while expenses totaled \$7,694,397. 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, 2008

City of Clayton's Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2008 and 2007:

	Governmental Activities 2008	Governmental Activities 2007	Business Type Activities 2008	Business Type Activities 2007	Total 2008	Total 2007
Revenues:						
Program revenues:						
Charges for services	\$ 774,089	\$ 623,309	\$ 67,115	\$ 57,280	\$ 841,204	\$ 680,589
Operating grants and contributions	116,666	-	-	-	116,666	-
Total program revenues	890,755	623,309	67,115	57,280	957,870	680,589
General revenues:						
Property taxes	7,059,095	6,924,249	-	-	7,059,095	6,924,249
Sales and other taxes	366,155	329,520	-	-	366,155	329,520
Special assessments	1,229,198	823,478	-	-	1,229,198	823,478
Other taxes	1,128,828	1,494,347	-	-	1,128,828	1,494,347
Investment income	719,543	712,459	(305)	(373)	719,238	712,086
Miscellaneous	776,891	580,698	-	-	776,891	580,698
Gain (loss) on sale of assets	167,846	452,128	-	-	167,846	-
Total general revenues	11,447,556	11,316,879	(305)	(373)	11,447,251	11,316,506
Total revenues	12,338,311	11,940,188	66,810	56,907	12,405,121	11,997,095
Expenses						
Legislative	59,520	53,195	-	-	59,520	53,195
Administrative	1,261,249	775,930	-	-	1,261,249	775,930
Community services and facilities	621,290	491,989	-	-	621,290	491,989
Economic development	103,618	519,234	-	-	103,618	519,234
General support	80,682	716,113	-	-	80,682	716,113
Police	1,822,689	1,845,359	-	-	1,822,689	1,845,359
Library	118,172	129,153	-	-	118,172	129,153
Engineering	101,249	88,179	-	-	101,249	88,179
Highway and streets	434,093	1,589,322	-	-	434,093	1,589,322
Landscape maintenance	796,925	499,091	-	-	796,925	499,091
Planning and development	1,405,479	374,770	-	-	1,405,479	374,770
Community gym	-	-	46,789	36,501	46,789	36,501
Endeavor hall	-	-	46,124	54,492	46,124	54,492
Total expenses	6,804,966	7,082,335	92,913	90,993	6,897,879	7,923,659
Increase in Net Assets before Transfers and Interest on Long-Term Debt	5,533,345	4,857,853	(26,103)	(34,086)	5,507,242	4,857,853
Interest on Long-Term Debt	(796,518)	(750,331)	-	-	(796,518)	(750,331)
Change in Net Assets	4,736,827	4,107,522	(26,103)	(34,086)	4,710,724	4,107,522
Net Assets - Beginning, restated	32,541,516	28,514,889	1,355,451	1,389,537	33,896,967	29,904,426
Net Assets - Ending	\$ 37,278,343	\$ 32,622,411	\$ 1,329,348	\$ 1,355,451	\$ 38,607,691	\$ 33,977,862

City of Clayton
Management's Discussion and Analysis
For the fiscal year ended June 30, 2008

Governmental Activities

Governmental activities increased the City's net assets by \$4,736,827. A comparison of the cost of services by function for the City's governmental activities is shown on the previous page, along with the revenues used to cover the net expenses of the governmental activities.

Total governmental activities were \$6,804,966 in fiscal year 2008 compared to \$7,082,335 in the prior year. The largest expenses were incurred for Administrative Support, Police, and Planning and Development. These three activities combined account for 66% of all general activity expenses.

Total program revenues from governmental activities were \$890,755 in fiscal year 2008. 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 \$11,447,556, in fiscal year 2008 of which \$7,059,095 or 62% 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 \$17,476,174. Approximately 32 percent of this total amount (\$5,628,136) 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 pay debt service (\$1,937,223); 2) to complete Capital Improvement Projects (\$4,678,497); 3) to complete RDA Housing Requirement (\$2,263,407); 4) Special Revenue Fund restrictions (\$1,392,986); 5) for advances receivable (\$535,000); and 6) for land held for resale (\$1,040,925). There is also a designation for contingencies of \$1,466,609, which is considered unreserved.

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 \$4,411,527 while total fund balance reached \$4,946,527. During the current fiscal year, the City's general fund increased by \$64,223 despite declining property tax revenues, permits and license revenues, and motor vehicle in-lieu fees revenues. A prior period adjustment of \$475,000 was recorded in the general fund to remove the deferred revenue associated with the note receivable from the Redevelopment Agency for the Fire Station land that was previously recorded.

City of Clayton

Management's Discussion and Analysis

For the fiscal year ended June 30, 2008

Governmental Funds (continued)

Key factors in this growth are as follows:

- An increase in sales tax revenues of \$60,361
- An increase in charges for services of \$9,071
- An increase in fines, forfeitures and penalties \$14,721
- An increase in interest earnings \$11,459
- An increase in franchise fees of \$24,329

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 (\$750), and those for the Internal Service Fund amounted to \$382,017. 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 \$4,277,464 with one budget amendment to the originally adopted budget. The amendment was for encumbrances from 2006-07 approved for \$493,436 which funded contractual obligations and outstanding purchases in this fiscal year that included \$327,962 for our deferred maintenance program.

General fund revenues exceeded budget by \$187,199 (6%). Included in this increase was \$51,579 (21%) for sales tax; \$58,475 (46%) for interest earnings; \$12,155 (21.3%) for park use fees; \$7,269 (16.2%) for permits and fees; and \$26,279 (7%) for franchise fees.

General Fund expenditures were less than the amended budget excluding the encumbrance carries over to fiscal year 2008-09 (\$307,277) by \$24,144. This was accomplished even with increased fuel and vehicle repair costs in the Police Department of \$9,672 (24%), overtime costs in the Police Department of \$33,115 (35%), increased water usage costs of \$8,162 (8%), and increased HVAC repair costs at City Hall \$9,836 (91%).

OTHER FUND BUDGETARY HIGHLIGHTS

Budgets were not prepared for the following funds: Presley Settlement, Stormwater Treatment District Assessment, and the Clayton Financing Authority 2007

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, 2008, amounted to \$28,488,098 (net accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, corp yard building, and roads.

Capital Assets (continued)

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

- Construction was completed on a pavement slurry seal project that included various streets throughout the city totaling \$90,480.
- Construction was completed on a parking lot adjacent to Endeavor Hall for a total cost of \$174,567.
- Construction was continued on the downtown park officially named "The Grove" with costs totaling \$1,557,145.
- Construction was begun on the Clayton Community Park to replace equipment, resurface the tot lot, and enhance the picnic area with shelters, drinking fountains, trash receptacles, new BBQ's and picnic tables with costs totaling \$625,168.
- Construction was begun on the Marsh Creek Road retaining wall for a cost totaling \$37,215.
- Funds were set aside for Downtown Economic Development in the amount of \$351,256.

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 \$12,345,000 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 8 years clearly demonstrates our ability to provide necessary services within a limited and sometimes restrictive revenue source and with an ever increasing cost as inflation rises annually. We can see an increase in the General Fund's actual expenditure plan to \$3,946,042 a figure higher than in the prior fiscal year. Approximately half of the increased expenditures were due to deferred maintenance projects (\$138,329) performed throughout this fiscal year. Overall since 2001 City expenditures have increased by 21% while during the same time period the consumer price index increased by 22.6%. At year end General Fund revenues (including transfers in) increased to \$4,010,265 an increase of only 4.6% from 2001 to 2008. While General Fund revenues at June 30, 2008 modestly exceeded expenditures by \$64,223 (1.6%), overall General Fund revenues exceeded expenditures by \$2,644,431 or 8.7% during the past 8 years. As we look to the future, the effects of a declining real estate market that most experts think have yet to hit bottom, low levels of consumer confidence, and little growth in jobs, wages, and income will likely play out in cities well into future years. National economic forecasts are not projecting immediate and substantial improvements in the nation's economic conditions, meaning that the nation's cities will most likely still be realizing the effects of the current downturn in 2009 and 2010. Our City is prepared to respond to these economic conditions as evidenced in the General Fund unreserved balance increasing by \$539,223. The fund balance increase is due to a prior period auditor adjustment (\$475,000) and revenues over expenditures (\$64,223) at year end. While the General Fund unreserved balance (\$4,161,527) has increased and may seem adequate, it is important to be reminded that it would take only one small slide disaster like the one experienced on Clayton Road south of Peacock Creek Drive in 2000 that cost \$1,142,293 to completely wipe it out. Additionally as our City is confronted with declining economic conditions driven by downturns in housing and consumer spending our reserves will provide a buffer against these current downturns. Overall our healthy reserves are an indication of our City leaders' commitment to fiscal responsibility. The City's reserve equity \$4,161,527 is equal to 102% of our annual General Fund operations for Fiscal Year 2008-2009. Folding in the untouchable \$250,000 reserve and an

City of Clayton

Management's Discussion and Analysis

For the fiscal year ended June 30, 2008

Economic Climate (continued)

additional \$307,277 set aside for encumbrances and deferred maintenance projects brings our total reserve equity to a position of 121%. This is 2.4 times 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.

This page intentionally left blank.

FINANCIAL SECTION

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Clayton
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 14,974,540	\$ 8,018	\$ 14,982,558
Cash and investments with fiscal agent	1,430,550	-	1,430,550
Accounts receivable (net of allowances)	585,393	56,755	642,148
Interest receivable	115,558	(421)	115,137
Internal balances	48,245	(48,245)	-
Investment in bonds	164,000	-	164,000
Prepaid expenses	788	-	788
Total Current Assets	17,319,074	16,107	17,335,181
Noncurrent Assets:			
Investment in low and moderate income housing	938,900	-	938,900
Notes receivable	3,958,690	-	3,958,690
Land held for resale	1,040,925	-	1,040,925
Total Noncurrent Assets	5,938,515	-	5,938,515
Capital Assets:			
Nondepreciable assets	4,013,153	-	4,013,153
Depreciable assets, net	23,144,847	1,330,098	24,474,945
TOTAL ASSETS	50,415,589	1,346,205	51,761,794
LIABILITIES			
Current Liabilities:			
Accounts payable	318,236	11,357	329,593
Other payables	7,006	-	7,006
Deposits payable	750	5,500	6,250
Accrued payroll	85,816	-	85,816
Interest payable	265,710	-	265,710
Long-term debt due within one year	590,000	-	590,000
Total Current Liabilities:	1,267,518	16,857	1,284,375
Noncurrent Liabilities:			
Long-term debt due in more than one year	11,755,000	-	11,755,000
Compensated absences payable	114,728	-	114,728
Total Noncurrent Liabilities	11,869,728	-	11,869,728
TOTAL LIABILITIES	13,137,246	16,857	13,154,103
NET ASSETS			
Invested in capital assets, net of related debt	14,813,000	1,330,098	16,143,098
Restricted for:			
Capital projects	4,678,497	-	4,678,497
Debt service	1,164,667	-	1,164,667
Low and moderate income housing	5,887,957	-	5,887,957
Special projects and programs	4,161,527	-	4,161,527
Total Restricted	15,892,648	-	15,892,648
Unrestricted	6,572,695	(750)	6,571,945
TOTAL NET ASSETS	\$ 37,278,343	\$ 1,329,348	\$ 38,607,691

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, 2008

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities							
Legislative	\$ 59,520	\$ -	\$ 16,666	\$ -	\$ (42,854)	\$ -	\$ (42,854)
Administrative	1,261,249	50,944	-	-	(1,210,305)	-	(1,210,305)
Community services and facilities	621,290	135,619	-	-	(485,671)	-	(485,671)
Economic development	103,618	208,084	-	-	104,466	-	104,466
Planning and development	1,405,479	51,027	-	-	(1,354,452)	-	(1,354,452)
General support	80,682	263,725	-	-	183,043	-	183,043
Police	1,822,689	34,580	100,000	-	(1,688,109)	-	(1,688,109)
Library	118,172	2,477	-	-	(115,695)	-	(115,695)
Engineering	101,249	27,633	-	-	(73,616)	-	(73,616)
Highway and streets	434,093	-	-	-	(434,093)	-	(434,093)
Landscape maintenance	796,925	-	-	-	(796,925)	-	(796,925)
Interest and fiscal charges	796,518	-	-	-	(796,518)	-	(796,518)
Total governmental activities	7,601,484	774,089	116,666	-	(6,710,729)	-	(6,710,729)
Business-Type Activities							
Community gym	46,789	46,789	-	-	-	-	-
Endeavor Hall	46,124	20,326	-	-	-	(25,798)	(25,798)
Total Business-Type Activities	92,913	67,115	-	-	-	(25,798)	(25,798)
Total Primary Government	\$ 7,694,397	\$ 841,204	\$ 116,666	\$ -	(6,710,729)	(25,798)	(6,736,527)
General revenues:							
Taxes:							
Property taxes					7,059,095	-	7,059,095
Sales taxes					366,155	-	366,155
Special assessments					1,229,198	-	1,229,198
Other taxes					1,128,828	-	1,128,828
Total Taxes					9,783,276	-	9,783,276
Investment income (loss)					719,543	(305)	719,238
Gain on sale of land held for resale					167,846	-	167,846
Miscellaneous					776,891	-	776,891
Total general revenues					11,447,556	(305)	11,447,251
Change in Net Assets					4,736,827	(26,103)	4,710,724
Net assets - beginning of year, as restated (See Note 12)					32,541,516	1,355,451	33,896,967
Net assets - end of year					\$ 37,278,343	\$ 1,329,348	\$ 38,607,691

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank.

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, 2008

	Major Funds		
	General Fund	RDA Capital Projects Fund	RDA Low/Moderate Capital Projects Fund
ASSETS			
Cash and investments	\$ 4,216,751	\$ 991,908	\$ 3,439,664
Cash and investments with fiscal agent	-	-	-
Accounts receivable	216,534	90,000	-
Interest receivable	4,759	10,416	36,017
Notes receivable	-	334,140	3,624,550
Investment in bonds	-	164,000	-
Prepaid expenditures	788	-	-
Due from other funds	235,023	-	-
Investment in low and moderate income housing	-	-	938,900
Land held for resale	-	-	1,040,925
Advance to other funds	535,000	-	-
TOTAL ASSETS	\$ 5,208,855	\$ 1,590,464	\$ 9,080,056
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 170,006	\$ 1,325	\$ 11,774
Other payables	6,506	-	-
Deposits payable	-	-	500
Accrued payroll	85,816	-	-
Deferred revenue	-	424,140	4,563,450
Due to other funds	-	-	-
Advance from other funds	-	475,000	-
TOTAL LIABILITIES	262,328	900,465	4,575,724
FUND BALANCE			
Reserved for:			
Land held for resale	-	-	1,040,925
Advances	535,000	-	-
Capital projects	-	689,999	-
Special projects	-	-	-
Debt service	-	-	-
Low and moderate income housing	-	-	2,263,407
Unreserved, designated for:			
Contingencies	250,000	-	1,200,000
Unreserved, undesignated reported in:			
General fund	4,161,527	-	-
TOTAL FUND BALANCE	4,946,527	689,999	4,504,332
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,208,855	\$ 1,590,464	\$ 9,080,056

See accompanying Notes to Basic Financial Statements.

Major Funds

Capital Improvements Fund	RDA Debt Service Fund	Other Governmental	Total
\$ 3,628,450	\$ -	\$ 2,320,992	\$ 14,597,765
-	1,430,550	-	1,430,550
-	-	277,553	584,087
38,015	(1,922)	24,315	111,600
-	-	-	3,958,690
-	-	-	164,000
-	-	-	788
-	-	-	235,023
-	-	-	938,900
-	-	-	1,040,925
-	-	-	535,000
<u>\$ 3,666,465</u>	<u>\$ 1,428,628</u>	<u>\$ 2,622,860</u>	<u>\$ 23,597,328</u>

\$ 38,869	\$ -	\$ 96,240	\$ 318,214
-	-	500	7,006
-	-	250	750
-	-	-	85,816
-	-	-	4,987,590
-	184,326	2,452	186,778
-	-	60,000	535,000
<u>38,869</u>	<u>184,326</u>	<u>159,442</u>	<u>6,121,154</u>

-	-	-	1,040,925
-	-	-	535,000
3,627,596	-	360,902	4,678,497
-	-	1,392,986	1,392,986
-	1,244,302	692,921	1,937,223
-	-	-	2,263,407
-	-	16,609	1,466,609
-	-	-	4,161,527
<u>3,627,596</u>	<u>1,244,302</u>	<u>2,463,418</u>	<u>17,476,174</u>
<u>\$ 3,666,465</u>	<u>\$ 1,428,628</u>	<u>\$ 2,622,860</u>	<u>\$ 23,597,328</u>

City of Clayton

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2008

Total Fund Balances - Total Governmental Funds	\$ 17,476,174
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	4,013,153
Depreciable capital assets, net (net of internal service fund assets of \$372,638)	22,772,209
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.	(265,710)
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	(590,000)
Long-term liabilities - due in more than one year	(11,755,000)
Compensated absences payable	(114,728)
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.	4,987,590
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.	754,655
Net Assets of Governmental Activities	\$ 37,278,343

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank.

City of Clayton

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the fiscal year ended June 30, 2008

	Major Funds		
	General Fund	RDA Capital Projects Fund	RDA Low/Moderate Capital Projects Fund
REVENUES			
Property taxes	\$ 1,716,363	\$ 4,260,335	\$ 1,065,083
Program income	-	-	81,890
Special assessments	-	-	-
Sales tax	301,579	-	-
Permits, licenses and fees	330,302	-	-
Fines, forfeitures and penalties	120,788	-	-
From other agencies	74,400	-	-
Motor vehicle in-lieu fees	49,486	-	-
Other in-lieu fees	220,530	-	-
Franchise fees	382,679	-	-
Service charges	69,228	-	-
Use of money and property	243,475	8,802	176,397
Gain on sale of land held for resale	-	167,846	-
Other revenue	104,105	60,200	-
TOTAL REVENUES	3,612,935	4,497,183	1,323,370
EXPENDITURES			
General Government			
Legislative	59,520	-	-
Administrative	826,903	-	-
Community services and facilities	618,042	-	-
Economic development	-	-	-
Planning and development	325,801	818,576	230,227
General support	80,682	-	-
Police	1,815,673	-	-
Library	118,172	-	-
Engineering	101,249	-	-
Highway and streets	-	-	-
Landscape maintenance	-	-	-
Debt Service			
Principal	-	-	-
Interest and fiscal charges	-	30,875	-
Capital outlay	-	9,786	200,959
TOTAL EXPENDITURES	3,946,042	859,237	431,186
REVENUES OVER (UNDER) EXPENDITURES	(333,107)	3,637,946	892,184
OTHER FINANCING SOURCES (USES)			
Transfers in	397,330	10,000	-
Transfers out	-	(3,273,671)	(50,000)
TOTAL OTHER FINANCING SOURCES (USES)	397,330	(3,263,671)	(50,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	64,223	374,275	842,184
FUND BALANCES:			
Beginning of fiscal year, as restated (see Note 12)	4,882,304	315,724	3,662,148
End of fiscal year	\$ 4,946,527	\$ 689,999	\$ 4,504,332

See accompanying Notes to Basic Financial Statements.

Major Funds

Capital Improvements Fund	RDA Debt Service Fund	Other Governmental	Total
\$ -	\$ -	\$ -	\$ 7,041,781
-	-	-	81,890
-	-	1,229,198	1,229,198
-	-	-	301,579
-	-	1,325	331,627
-	-	-	120,788
650,201	-	523,121	1,247,722
-	-	-	49,486
-	-	-	220,530
-	-	-	382,679
-	-	208,084	277,312
145,600	46,981	98,288	719,543
-	-	-	167,846
-	-	2,025	166,330
795,801	46,981	2,062,041	12,338,311
-	-	-	59,520
-	-	-	826,903
-	10,825	-	628,867
-	-	103,618	103,618
-	-	-	1,374,604
-	-	-	80,682
-	-	-	1,815,673
-	-	-	118,172
-	-	-	101,249
-	-	434,093	434,093
-	-	796,925	796,925
-	1,670,000	-	1,670,000
-	681,015	-	711,890
2,595,087	-	149,760	2,955,592
2,595,087	2,361,840	1,484,396	11,677,788
(1,799,286)	(2,314,859)	577,645	660,523
898,995	2,391,403	94,199	3,791,927
(10,000)	-	(458,256)	(3,791,927)
888,995	2,391,403	(364,057)	-
(910,291)	76,544	213,588	660,523
4,537,887	1,167,758	2,249,830	16,815,651
\$ 3,627,596	\$ 1,244,302	\$ 2,463,418	\$ 17,476,174

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, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 660,523
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 \$84,636).	(522,375)
Certain long-term assets, such as notes receivable, developer receivable, and investment in low and moderate income housing are reported as expenditures in the governmental funds and then are offset by a deferred revenue as they are not available to pay current expenditures. When the long-term assets are collected, they are reflected as revenue. This amount is the net change in the long-term assets for the current period.	177,191
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.	10,159
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:	1,670,000
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.	(84,628)
Capital asset activity, excluding internal service fund asset acquisitions.	2,753,647
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.	72,310
Change in Net Assets of Governmental Activities	\$ 4,736,827

See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUNDS

City of Clayton
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Major Enterprise Funds			
	Community Gym	Endeavor Hall	Total	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ -	\$ 8,018	\$ 8,018	\$ 376,775
Receivables:				
Accounts	56,755	-	56,755	1,306
Interest	(505)	84	(421)	3,958
Noncurrent Assets:				
Depreciable assets, net	-	1,330,098	1,330,098	372,638
TOTAL ASSETS	<u>56,250</u>	<u>1,338,200</u>	<u>1,394,450</u>	<u>754,677</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	9,763	1,594	11,357	22
Deposits payable	-	5,500	5,500	-
Due to other funds	48,245	-	48,245	-
TOTAL LIABILITIES	<u>58,008</u>	<u>7,094</u>	<u>65,102</u>	<u>22</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	1,330,098	1,330,098	372,638
Unrestricted	(1,758)	1,008	(750)	382,017
TOTAL NET ASSETS	<u>\$ (1,758)</u>	<u>\$ 1,331,106</u>	<u>\$ 1,329,348</u>	<u>\$ 754,655</u>

See accompanying Notes to Basic Financial Statements.

City of Clayton

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

For the fiscal year ended June 30, 2008

	Major Enterprise Funds			
	Community Gym	Endeavor Hall	Total	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Charges for current services	\$ 46,789	\$ 20,326	\$ 67,115	\$ 111,788
TOTAL OPERATING REVENUES	46,789	20,326	67,115	111,788
OPERATING EXPENSES				
Personnel	30,014	7,265	37,279	-
General and administrative	16,775	12,261	29,036	16,133
Depreciation and amortization	-	26,598	26,598	84,636
TOTAL OPERATING EXPENSES	46,789	46,124	92,913	100,769
OPERATING INCOME (LOSS)	-	(25,798)	(25,798)	11,019
NONOPERATING REVENUES (EXPENSES)				
Investment income (loss)	(638)	333	(305)	13,169
Capital contributions	-	-	0	48,122
TOTAL NONOPERATING REVENUES (EXPENSES)	(638)	333	(305)	61,291
CHANGE IN NET ASSETS	(638)	(25,465)	(26,103)	72,310
NET ASSETS:				
Beginning of fiscal year, as restated (See Note 12)	(1,120)	1,356,571	1,355,451	682,345
End of fiscal year	\$ (1,758)	\$ 1,331,106	\$ 1,329,348	\$ 754,655

See accompanying Notes to Basic Financial Statements.

City of Clayton
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2008

	Major Enterprise Funds			Governmental Activities Internal Service Funds
	Community Gym	Endeavor Hall	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 86,400	\$ 20,326	\$ 106,726	\$ 111,788
Cash payments to suppliers for goods and services	(56,253)	(17,685)	(73,938)	(10,254)
Cash payment to employees for services	(30,014)	(7,265)	(37,279)	(8,141)
Net cash provided (used) by operating activities	133	(4,624)	(4,491)	93,393
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Cash paid for capital acquisitions	-	-	-	(88,001)
Capital contributions	-	-	-	48,122
Net cash provided (used) by capital financing activities	-	-	-	(39,879)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	(133)	337	204	11,449
Net cash provided (used) by investing activities	(133)	337	204	11,449
Net increase (decrease) in cash and cash equivalents		(4,287)	(4,287)	64,963
CASH AND CASH EQUIVALENTS:				
Fiscal year end June 30, 2007	-	12,305	12,305	311,812
Fiscal year end June 30, 2008	\$ -	\$ 8,018	\$ 8,018	\$ 376,775
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 0	\$ (25,798)	\$ (25,798)	\$ 11,019
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	26,598	26,598	84,636
Changes in operating assets and liabilities:				
Accounts receivable	(39,611)	-	(39,611)	-
Accounts payable	2,473	371	2,844	(2,262)
Other payables	(78)	(5,795)	(5,873)	-
Deposits payable	-	-	-	-
Due to other funds	37,349	-	37,349	-
Insurance claims payable	-	-	-	-
Unearned revenue	-	-	-	-
Total adjustments	133	21,174	21,307	82,374
Net cash provided (used) by operating activities	\$ 133	\$ (4,624)	\$ (4,491)	\$ 93,393

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, 2008

Agency Funds

ASSETS

Cash and investments	\$ 2,150,090
Cash with fiscal agents	312,468
Investments in Bonds	5,566,522
Other receivables	758,550

TOTAL ASSETS

8,787,630

LIABILITIES

Accounts payable	741,149
Interest payable	60,711
Other payables	20,440
Other deposits	867,394
Due to bondholders	7,097,936

TOTAL LIABILITIES

8,787,630

NET ASSETS

\$ -

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank.

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 10,784.

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 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*. 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, 2008

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, 2008

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:

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net 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.

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.

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

City of Clayton

Notes to Basic Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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/Investment in low and moderate income housing

The City has acquired two parcels of land in Stranahan Circle as part of its primary purpose to develop or redevelop City properties. The property is being carried at the lower of cost or net realizable value. The Agency has also purchased and re-sold various properties to low and moderate income households. The Agency carries the difference between the cost and the sale on these properties as an investment in low and moderate income housing until the property is either bought back by the Agency or sold on the open market. The City participates in the profits on any sales to an outside party in the same proportion as what the low and moderate income purchaser purchased the property from the Agency at below the market 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 market value on the date donated. City policy has set the capitalization threshold for reporting infrastructure at \$100,000; all other capital assets are set at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

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

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

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

City of Clayton

Notes to Basic Financial Statements

June 30, 2008

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.

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.

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 expenses. Actual results could differ from these estimates and assumptions.

L. Interfund Balances/Internal Balances

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

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

M. Implementation of New GASB Pronouncements

Governmental Accounting Standards Board Statement No. 48

For the fiscal year ended June 30, 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues." The Statement is effective for periods beginning after December 15, 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources, but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-equity transfers of assets and future revenues. Implementation of GASB Statement No. 48 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2008.

Governmental Accounting Standards Board Statement No. 50

For the fiscal year ended June 30, 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 50, "Pension Disclosures - an Amendment of GASB Statements No. 25 and No. 27." The Statement is effective for periods beginning after June 15, 2007. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions.

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS

Statement of Net Assets:	
Cash and investments	\$ 14,982,558
Restricted cash and investments with fiscal agent	1,430,550
Statement of Fiduciary Net Assets:	
Cash and investments	2,150,090
Cash and investments with fiscal agents	312,468
Total	<u>\$ 18,875,666</u>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 1,000
Deposits with financial institutions	517,152
Investments	<u>18,357,514</u>
Total	<u>\$ 18,875,666</u>

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

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

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

2. CASH AND INVESTMENTS, Continued

Investments Authorized by Debt Agreements

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

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

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.

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months or Less	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months	More than 60 Months
State Investment Pool	\$ 8,513,077	\$ 8,513,077	\$ -	\$ -	\$ -	\$ -	\$ -
Money Market Funds	48,493	48,493					
U.S. Government Agency Issues	155,581				155,581		
Certificates of Deposit	7,897,346	1,390,326	1,182,755	2,147,947	1,930,771	1,245,547	-
Held by bond trustees:							
Money Market Funds	1,492,987	1,492,987					
U.S. Government Agency Issues	250,000	250,000					
	<u>\$ 18,357,484</u>	<u>\$ 11,694,883</u>	<u>\$ 1,182,755</u>	<u>\$ 2,147,947</u>	<u>\$ 2,086,352</u>	<u>\$ 1,245,547</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

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

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

2. CASH AND INVESTMENTS, Continued

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 8,513,077	N/A	\$ -	\$ -	\$ -	\$ -	\$ 8,513,077
Money Market Funds	48,493	N/A	-	48,493	-	-	-
U.S. Government Agency							
Issues	155,581	N/A	-	155,581	-	-	-
Certificates of Deposit	7,897,346	N/A	-	7,897,346	-	-	-
Held by bond trustees:							
Money Market Funds	1,492,987	N/A	-	1,492,987	-	-	-
U.S. Government Agency							
Issues	250,000	N/A	-	250,000	-	-	-
Total	\$ 18,357,484		\$ -	\$ 9,844,407	\$ -	\$ -	\$ 8,513,077

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 (other than the State Investment Pool, Money Market Funds, Certificates of Deposit, and Local Obligation Bonds).

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, 2008

3. RECEIVABLE

Notes Receivables

As of June 30, 2008, notes receivable consisted of the following:

Description	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Professional Apartment Management, Inc.	\$ 2,713,200	\$ 200,000	\$ 61,400	\$ 2,851,800
Eden Housing, Inc. (formerly Peace Grove)	567,000			567,000
Second Mortgage Program	226,240		20,490	205,750
Assessment District Loans	353,122		18,982	334,140
Total	\$ 3,859,562	\$ 200,000	\$ 100,872	\$ 3,958,690

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, 2008, the outstanding balance of the loans was **\$334,140**.

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, 2008, the outstanding balance of the loans were **\$2,851,800**.

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, 2008, 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 seven individual loans outstanding. As of June 30, 2008, the outstanding balance of the loans was **\$205,750**.

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

4. INTERFUND TRANSACTIONS

A. Due To, Due From

At June 30, 2008, the City had the following short-term interfund receivables and payables:

DUE FROM	DUE TO			Total
	Governmental Activities		Business-Type	
	Redevelopment Agency Debt Service	Non-major Governmental Funds	Community Gym	
Governmental Activities:				
General Fund	\$ 184,326	\$ 2,452	\$ 48,245	\$ 235,023
Total	\$ 184,326	\$ 2,452	\$ 48,245	\$ 235,023

The City of Clayton has loaned from the General Fund to the Redevelopment Agency Debt Service Fund \$184,326, to assist in paying expenditures for cash flow purposes. The loan is expected to be paid in full within the following year. Other interfund activity resulted from temporary reclassifications made at June 30, 2008 to cover cash shortfalls.

B. Interfund Transfers

At June 30, 2008, the City had the following transfers:

TRANSFERS OUT	TRANSFERS IN					Total
	General Fund	RDA Projects	Capital Improvement	RDA Debt Service	Non-major Governmental Funds	
RDA Capital Projects	\$ 255,000	\$	\$ 627,268	\$ 2,391,403	\$	\$ 3,273,671
RDA Low/Moderate Capital Improvement	50,000	10,000				50,000
Non-major Governmental Funds	92,330		271,727		94,199	458,256
Total	\$ 397,330	\$ 10,000	\$ 898,995	\$ 2,391,403	\$ 94,199	\$ 3,791,927

The Redevelopment Agency transferred \$2,391,403 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, 2008

4. INTERFUND TRANSACTIONS, Continued

B. Interfund Transfers, Continued

The City transferred \$397,330 into the General Fund from the RDA Capital Projects fund (\$255,000), from Low/Moderate Income Capital Project Fund (\$50,000), and Non-major Governmental Funds \$92,330 to reimburse the City for administrative expenses. In addition, the Agency transferred \$627,268 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, 2008 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, 2008, the outstanding balance of the advance was \$60,000.

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2008, the City's capital assets consisted of the following:

	Governmental Activities	Business - Type Activities	Total
<i>Nondepreciable Assets:</i>			
Land	\$ 1,046,366	\$ -	\$ 1,046,366
Construction in progress	2,966,787	-	2,996,787
Total nondepreciable assets	4,013,153	-	4,013,153
<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	916,914	-	916,914
Infrastructure	25,818,131	-	25,818,131
Total depreciable assets	34,098,674	1,551,748	35,650,422
Total accumulated depreciation	(10,953,827)	(221,650)	(11,175,477)
Depreciable assets, net	23,144,847	1,330,098	24,474,945
Total governmental activities capital assets, net	\$ 27,158,000	\$ 1,330,098	\$ 28,488,098

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

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

	Balance July 1, 2007	Additions	Transfers	Prior Period Adjustment	Balance June 30, 2008
<i>Nondepreciable Assets:</i>					
Land	\$ 1,138,520	\$ -	\$ -	\$ (92,154)	\$ 1,046,366
Construction in progress	387,705	2,753,649	(174,567)	-	2,966,787
Total nondepreciable assets	1,526,225	2,753,649	(174,567)	(92,154)	4,013,153
<i>Depreciable Assets:</i>					
Buildings	5,346,032	-	-	-	5,346,032
Improvements	2,017,597	-	-	-	2,017,597
Machinery and equipment	828,913	88,001	-	-	916,914
Infrastructure	25,643,564	-	174,567	-	25,818,131
Total depreciable assets	33,836,106	88,001	174,567	-	34,098,674
<i>Accumulated depreciation:</i>					
Buildings	(1,386,750)	(106,760)	-	-	(1,493,510)
Improvements	(882,365)	(59,404)	-	-	(941,769)
Machinery and Equipment	(459,640)	(84,636)	-	-	(544,276)
Infrastructure	(7,618,061)	(356,211)	-	-	(7,974,272)
Total accumulated depreciation	(10,346,816)	(607,011)	-	-	(10,953,827)
Depreciable assets, net	23,489,290	(519,010)	174,567	-	23,144,847
Total governmental activities capital assets, net	\$ 25,015,515	\$ 2,234,639	\$ -	\$ (92,154)	\$ 27,158,000

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

Public Works and Facilities	\$ 23,369
General support	531,758
Police	51,884
Total depreciation expense - governmental activities	\$ 607,011

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

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<i>Depreciable Assets:</i>				
Buildings	\$ 1,400,744	\$ -	\$ -	\$ 1,400,744
Improvements	151,004	-	-	151,004
Total depreciable assets	1,551,748	-	-	1,551,748
Accumulated Depreciation	(195,052)	(26,598)	-	(221,650)
Depreciable assets, net	1,356,696	(26,598)	-	1,330,098
Total business-type activities capital assets, net	\$ 1,356,696	\$ (26,598)	\$ -	\$ 1,330,098

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Business-type activities depreciation expense for capital assets for the year ended June 30, 2008 were as follows:

Endeavor hall	\$	26,598
Total depreciation expense	\$	26,598

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, 2008:

Description	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year	Amounts Due in More Than One Year
<i>Governmental Activities:</i>						
1993 Tax Allocation Bonds	\$ 2,295,000	\$ -	\$ (1,165,000)	\$ 1,130,000	\$ 60,000	\$ 1,070,000
1996 Refund Tax Allocation Bonds	5,585,000	-	(280,000)	5,305,000	295,000	5,010,000
1999 Tax Allocation Bonds	6,135,000	-	(225,000)	5,910,000	235,000	5,675,000
Total governmental activities	\$ 14,015,000	\$ -	\$ (1,670,000)	\$ 12,345,000	\$ 590,000	\$ 11,755,000

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, 2007 the City called bonds totaling \$1,075,000. 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, 2008, were as follows:

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

6. LONG-TERM DEBT, Continued

1993 Tax Allocation Bonds, Continued

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 60,000	\$ 61,050	\$ 121,050
2010	70,000	57,443	127,443
2011	70,000	53,558	123,558
2012	75,000	49,534	124,534
2013	75,000	45,371	120,371
2014-2018	465,000	154,984	619,984
2019-2021	315,000	25,114	340,114
Total	\$ 1,130,000	\$ 447,054	\$ 1,577,054

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, 2008, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	360,000	211,570	571,570
2014-2018	2,110,000	725,739	2,835,739
2019-2021	1,570,000	129,538	1,699,538
Total	\$ 5,305,000	\$ 2,091,488	\$ 7,396,488

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

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, 2008, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 235,000	\$ 282,085	\$ 517,085
2010	245,000	271,883	516,883
2011	255,000	260,878	515,878
2012	270,000	248,930	518,930
2013	280,000	236,140	516,140
2014-2018	1,615,000	959,173	2,574,173
2019-2023	2,045,000	506,625	2,551,625
2024-2025	965,000	48,875	1,013,875
Total	<u>\$ 5,910,000</u>	<u>\$ 2,814,589</u>	<u>\$ 8,724,589</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, 2008:

	Beginning Balance July 1, 2007	Deletions	Ending Balance June 30, 2008
Compensated Absences	\$ <u>124,887</u>	\$ <u>(10,159)</u>	\$ <u>114,728</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, 2008 the outstanding balance of the non-city bond obligation was \$4,878,000.

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

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, 2008 the outstanding balance of the non-city bond obligation was **\$784,000**.

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, 2008 the outstanding balance of the non-city bond obligation was **\$208,325**.

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, 2008, 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/Net Assets

At June 30, 2008, the funds below had the following deficit fund balance or net assets:

	Deficit
<i>Non Major Governmental Fund</i>	
Stormwater Treatment District	\$ 2,452
Total Governmental Fund	\$ 2,452
<i>Proprietary Fund</i>	
Community Gym	\$ 1,758
Total Proprietary Funds	\$ 1,758

City of Clayton

Notes to Basic Financial Statements

June 30, 2008

8. OTHER FUND DISCLOSURES Continued

B. Deficit Fund Balances/Net Assets Continued

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

9. RISK MANAGEMENT

The City participates in the Municipal Pooling Authority of Northern California (MPA), a joint powers agreement between twenty cities, which provides insurance coverage for liability, auto, property and workers' compensation claims. Claims liabilities are accrued when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The MPA covers claims in an amount up to \$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 \$17,015 for fiscal year 2007-2008 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, 2008.

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, 2008, the MPA's audited condensed financial information showed:

Total assets	\$ 62,332,024
Total liabilities	\$ 43,226,014
Total equities	\$ 19,106,010
Total revenues	\$ 25,161,275
Total expenses	\$ 23,944,319
Revenues over expenses	\$ 1,216,956

Detailed financial information may be obtained from the MPA.

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

10. PUBLIC EMPLOYEE RETIREMENT SYSTEM

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

Funding Policy - Active plan members are required by state statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$139,726 for the fiscal year ended June 30, 2008.

The City as employer is required to contribute an actuarially determined payment that is reflected as a percentage of annual covered payroll for miscellaneous and safety employees. The required employer contribution rates for the fiscal year 2007-08 was 14.375% for miscellaneous employees and 32.815% for safety employees.

The City's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$533,884, \$529,049 and \$518,568, respectively and equal 100% of the required contributions for each fiscal year, and also included the contributions that the City made on behalf of the employees.

11. CONTINGENCIES

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

12. PRIOR PERIOD ADJUSTMENTS

A. Government-Wide Statements

During the fiscal year 2008, 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.

City of Clayton
Notes to Basic Financial Statements
June 30, 2008

12. PRIOR PERIOD ADJUSTMENTS, Continued

A. Government-Wide Statements, Continued

	Net Assets as Previously Reported	Accounting Adjustments			Net Assets as Restated
		Overstatement of Capital Assets	(Understatement) of Deferred Revenue	Understatement of Investment in Low and Moderate Income Housing	
Governmental Activities:					
Net assets	\$ 32,622,411	\$ (92,154)	\$ (927,641)	\$ 938,900	\$ 32,541,516
Total governmental activities	<u>\$ 32,622,411</u>	<u>\$ (92,154)</u>	<u>\$ (927,641)</u>	<u>\$ 938,900</u>	<u>\$ 32,541,516</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).

B. Fund Financial Statements

During the fiscal year 2008, the Agency 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.

	Fund Balance as Previously Reported	Accounting Adjustments	Fund Balance as Restated
		Overstatement (Understatement) of Deferred Revenue	
Governmental Funds:			
<i>Major Funds</i>			
General Fund	\$ 4,407,304	\$ 475,000	\$ 4,882,304
RDA Low/Moderate Capital Projects	4,589,789	(927,641)	3,662,148
Total governmental funds	<u>\$ 8,997,093</u>	<u>\$ (452,641)</u>	<u>\$ 8,544,452</u>

This page intentionally left blank.

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, 2008

	Budget	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,715,942	\$ 1,715,942	\$ 1,716,363	\$ 421
Sales tax	250,000	250,000	301,579	51,579
Permits, licenses and fees	326,952	326,952	330,302	3,350
Fines, forfeitures and penalties	102,500	102,500	120,788	18,288
From other agencies	102,500	102,500	74,400	(28,100)
Motor vehicle in-lieu fees	75,000	75,000	49,486	(25,514)
Other in-lieu fees	216,224	216,224	220,530	4,306
Franchise fees	356,400	356,400	382,679	26,279
Service charges	52,918	52,918	69,228	16,310
Use of money and property	185,000	185,000	243,475	58,475
Other revenue	42,300	42,300	104,105	61,805
TOTAL REVENUES	3,425,736	3,425,736	3,612,935	187,199
EXPENDITURES				
Legislative	71,659	71,659	59,520	12,139
Administrative	834,401	834,401	826,903	7,498
Community services and facilities	805,658	805,658	618,042	187,616
Planning and development	378,935	378,935	325,801	53,134
General support	84,029	84,029	80,682	3,347
Police	1,837,814	1,837,814	1,815,673	22,141
Library	166,303	166,303	118,172	48,131
Engineering	98,665	98,665	101,249	(2,584)
TOTAL EXPENDITURES	4,277,464	4,277,464	3,946,042	331,422
REVENUES OVER (UNDER) EXPENDITURES	(851,728)	(851,728)	(333,107)	518,621
OTHER FINANCING SOURCES (USES)				
Transfers in	359,292	359,292	397,330	38,038
TOTAL OTHER FINANCING SOURCES (USES)	359,292	359,292	397,330	38,038
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (492,436)	\$ (492,436)	64,223	\$ 556,659
FUND BALANCES:				
Beginning of fiscal year			4,882,304	
End of fiscal year			\$ 4,946,527	

SUPPLEMENTAL INFORMATION

This page intentionally left blank.

MAJOR FUNDS

City of Clayton
Budgetary Comparison Schedule
For the fiscal year ended June 30, 2008
RDA Capital Projects Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 4,119,165	\$ 4,260,335	\$ 141,170
Use of money and property	15,992	8,802	(7,190)
Gain on sale of land held for resale	-	167,846	167,846
Other revenue	-	60,200	60,200
TOTAL REVENUES	4,135,157	4,497,183	362,026
EXPENDITURES			
Planning and development	830,611	818,576	12,035
Interest and fiscal charges	30,875	30,875	-
Capital outlay	-	9,786	(9,786)
TOTAL EXPENDITURES	861,486	859,237	2,249
REVENUES OVER (UNDER) EXPENDITURES	3,273,671	3,637,946	364,275
OTHER FINANCING SOURCES (USES)			
Transfers in	-	10,000	10,000
Transfers out	(3,273,671)	(3,273,671)	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,273,671)	(3,263,671)	10,000
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	374,275	\$ 374,275
FUND BALANCE:			
Beginning of fiscal year		315,724	
End of fiscal year		\$ 689,999	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

RDA Low/Moderate Capital Projects Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,029,791	\$ 1,065,083	\$ 35,292
Program income	-	81,890	81,890
Use of money and property	140,000	176,397	36,397
TOTAL REVENUES	1,169,791	1,323,370	153,579
EXPENDITURES			
Planning and development	209,430	230,227	(20,797)
Capital outlay	-	200,959	(200,959)
TOTAL EXPENDITURES	209,430	431,186	(221,756)
REVENUES OVER (UNDER) EXPENDITURES	960,361	892,184	(68,177)
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	\$ 910,361	842,184	\$ (68,177)
FUND BALANCE:			
Beginning of fiscal year		3,662,148	
End of fiscal year		\$ 4,504,332	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Capital Improvements Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
From other agencies	\$ -	\$ 650,201	\$ 650,201
Use of money and property	-	145,600	145,600
TOTAL REVENUES	-	795,801	795,801
EXPENDITURES			
Capital outlay	3,308,705	2,595,087	713,618
TOTAL EXPENDITURES	3,308,705	2,595,087	713,618
REVENUES OVER (UNDER) EXPENDITURES	(3,308,705)	(1,799,286)	1,509,419
OTHER FINANCING SOURCES (USES)			
Transfers in	637,668	898,995	261,327
Transfers out	-	(10,000)	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	637,668	888,995	251,327
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (2,671,037)	(910,291)	\$ 1,760,746
FUND BALANCE:			
Beginning of fiscal year		4,537,887	
End of fiscal year		\$ 3,627,596	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

RDA Debt Service Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Use of money and property	\$ 35,000	\$ 46,981	\$ 11,981
TOTAL REVENUES	35,000	46,981	11,981
EXPENDITURES			
Community services and facilities	2,900	10,825	(7,925)
Principal	1,670,000	1,670,000	-
Interest and fiscal charges	710,578	681,015	29,563
TOTAL EXPENDITURES	2,383,478	2,361,840	21,638
REVENUES OVER (UNDER) EXPENDITURES	(2,348,478)	(2,314,859)	33,619
OTHER FINANCING SOURCES (USES)			
Transfers in	2,391,403	2,391,403	-
TOTAL OTHER FINANCING SOURCES (USES)	2,391,403	2,391,403	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 42,925	76,544	\$ 33,619
FUND BALANCE:			
Beginning of fiscal year		1,167,758	
End of fiscal year		\$ 1,244,302	

NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Special Revenue Funds:

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

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

Stormwater Treatment District 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.

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

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

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

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

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

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

Downtown Park CFD2006-1 - accounts for assessments collected to operate, maintain, repair and replace landscaping, irrigation, hardscape, lights, public restroom, gazebo, and playground equipment.

Clayton Landscape Maintenance CFD 2007-1 - accounts for assessments collected to maintain arterial landscaping and open space within the City.

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 Governmental Funds
June 30, 2008

	Special Revenue			
	Street Lighting	Stormwater Treatment District Assessment Fund	Stormwater Assessment	Presley Settlement
ASSETS				
Cash and investments	\$ 132,261	\$ -	\$ 120,127	\$ 204,594
Accounts receivable	-	-	-	-
Interest receivable	1,388	-	1,259	2,141
TOTAL ASSETS	<u>\$ 133,649</u>	<u>\$ -</u>	<u>\$ 121,386</u>	<u>\$ 206,735</u>
LIABILITIES				
Accounts payable	8,395	-	228	-
Other payables	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	2,452	-	-
Advance from other funds	-	-	-	-
TOTAL LIABILITIES	<u>8,395</u>	<u>2,452</u>	<u>228</u>	<u>-</u>
FUND BALANCE				
Reserved for:				
Capital projects	-	-	-	-
Special projects	125,254	(2,452)	121,158	206,735
TOTAL FUND BALANCE	<u>125,254</u>	<u>(2,452)</u>	<u>121,158</u>	<u>206,735</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 133,649</u>	<u>\$ -</u>	<u>\$ 121,386</u>	<u>\$ 206,735</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
\$ 2,995	\$ 44,517	\$ 363,074	\$ 24,118	\$ 90,188	\$ 236,826	\$ 416,535
-	205,581	4,116	67,856	-	-	-
40	472	3,804	248	946	2,486	4,367
<u>\$ 3,035</u>	<u>\$ 250,570</u>	<u>\$ 370,994</u>	<u>\$ 92,222</u>	<u>\$ 91,134</u>	<u>\$ 239,312</u>	<u>\$ 420,902</u>
612	-	1,202	8,527	1,696	75,580	-
-	-	-	-	-	500	-
-	-	-	-	250	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	60,000
<u>612</u>	<u>-</u>	<u>1,202</u>	<u>8,527</u>	<u>1,946</u>	<u>76,080</u>	<u>60,000</u>
-	-	-	-	-	-	14,410
2,423	250,570	353,183	83,695	89,188	163,232	346,492
-	-	16,609	-	-	-	-
<u>2,423</u>	<u>250,570</u>	<u>369,792</u>	<u>83,695</u>	<u>89,188</u>	<u>163,232</u>	<u>360,902</u>
<u>\$ 3,035</u>	<u>\$ 250,570</u>	<u>\$ 370,994</u>	<u>\$ 92,222</u>	<u>\$ 91,134</u>	<u>\$ 239,312</u>	<u>\$ 420,902</u>

City of Clayton

Combining Balance Sheet Non-Major Governmental Funds June 30, 2008

	<u>Debt Service</u>	
	Clayton Financing Authority	Total
ASSETS		
Cash and investments	\$ 685,757	\$ 2,320,992
Accounts receivable	-	277,553
Interest receivable	7,164	24,315
TOTAL ASSETS	<u>\$ 692,921</u>	<u>\$ 2,622,860</u>
LIABILITIES		
Accounts payable	-	96,240
Other payables	-	500
Deposits payable	-	250
Due to other funds	-	2,452
Advance from other funds	-	60,000
TOTAL LIABILITIES	<u>-</u>	<u>159,442</u>
FUND BALANCE		
Reserved for:		
Capital projects	-	14,410
Special projects	692,921	2,432,399
Contingencies	-	16,609
TOTAL FUND BALANCE	<u>692,921</u>	<u>2,463,418</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 692,921</u>	<u>\$ 2,622,860</u>

This page intentionally left blank.

City of Clayton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the fiscal year ended June 30, 2008

	Special Revenue			
	Street Lighting	Stormwater Treatment District Assessment	Stormwater Assessment	Presley Settlement
REVENUES				
Special assessments	\$ 125,459	\$ -	\$ 82,875	\$ -
Permits, licenses and fees	-	-	-	-
From other agencies	-	-	-	-
Service charges	-	-	-	-
Use of money and property	5,459	-	3,200	10,877
Other revenue	-	-	-	-
TOTAL REVENUES	<u>130,918</u>	<u>-</u>	<u>86,075</u>	<u>10,877</u>
EXPENDITURES				
General Government	-	-	-	-
Economic development	-	-	-	-
Highway and streets	130,904	68	61,646	-
Landscape maintenance	-	-	-	-
Debt Service	-	-	-	-
Capital outlay	-	-	1,008	-
TOTAL EXPENDITURES	<u>130,904</u>	<u>68</u>	<u>62,654</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>14</u>	<u>(68)</u>	<u>23,421</u>	<u>10,877</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(10,000)	-	(42,673)	(94,199)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,000)</u>	<u>-</u>	<u>(42,673)</u>	<u>(94,199)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(9,986)</u>	<u>(68)</u>	<u>(19,252)</u>	<u>(83,322)</u>
FUND BALANCES:				
Beginning of fiscal year, as restated (see Note 12)	<u>135,240</u>	<u>(2,384)</u>	<u>140,410</u>	<u>290,057</u>
End of fiscal year	<u>\$ 125,254</u>	<u>\$ (2,452)</u>	<u>\$ 121,158</u>	<u>\$ 206,735</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
\$ 31,326	\$ -	\$ -	\$ 27,596	\$ 101,090	\$ 860,852	\$ -
-	-	-	-	1,325	-	-
-	205,580	116,666	200,875	-	-	-
-	-	-	-	-	-	208,084
367	1,711	14,832	4,182	2,422	9,082	14,571
-	-	-	-	2,025	-	-
31,693	207,291	131,498	232,653	106,862	869,934	222,655
20,923	-	82,695	-	-	-	-
-	-	-	241,475	-	-	-
-	-	-	-	16,738	780,187	-
104,857	8,455	69	21,027	-	-	14,344
125,780	8,455	82,764	262,502	16,738	780,187	14,344
(94,087)	198,836	48,734	(29,849)	90,124	89,747	208,311
94,199	-	-	-	-	-	-
(6,000)	-	-	(108,414)	-	(26,970)	-
88,199	-	-	(108,414)	-	(26,970)	-
(5,888)	198,836	48,734	(138,263)	90,124	62,777	208,311
8,311	51,734	321,058	221,958	(936)	100,455	152,591
\$ 2,423	\$ 250,570	\$ 369,792	\$ 83,695	\$ 89,188	\$ 163,232	\$ 360,902

City of Clayton

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the fiscal year ended June 30, 2008

	<u>Debt Service</u>	
	Clayton Financing Authority	Total
REVENUES		
Special assessments	\$ -	\$ 1,229,198
Permits, licenses and fees	-	1,325
From other agencies	-	523,121
Service charges	-	208,084
Use of money and property	31,585	98,288
Other revenue	-	2,025
TOTAL REVENUES	<u>31,585</u>	<u>2,062,041</u>
EXPENDITURES		
General Government		
Economic development	-	103,618
Highway and streets	-	434,093
Landscape maintenance	-	796,925
Debt Service		
Capital outlay	-	149,760
TOTAL EXPENDITURES	<u>-</u>	<u>1,484,396</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>31,585</u>	<u>577,645</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	94,199
Transfers out	(170,000)	(458,256)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(170,000)</u>	<u>(364,057)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(138,415)</u>	<u>213,588</u>
FUND BALANCE:		
Beginning of fiscal year, as restated (see Note 12)	<u>831,336</u>	<u>2,249,830</u>
End of fiscal year	<u>\$ 692,921</u>	<u>\$ 2,463,418</u>

City of Clayton
Budgetary Comparison Schedule
For the fiscal year ended June 30, 2008
Street Lighting

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 125,459	\$ 125,459	\$ -
Use of money and property	3,500	5,459	1,959
TOTAL REVENUES	128,959	130,918	1,959
EXPENDITURES			
Current:			
Highway and streets	130,557	130,904	(347)
TOTAL EXPENDITURES	130,557	130,904	(347)
REVENUES OVER (UNDER) EXPENDITURES	(1,598)	14	1,612
OTHER FINANCING SOURCES (USES)			
Transfers out	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(10,000)	(10,000)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (11,598)	(9,986)	\$ 1,612
FUND BALANCES:			
Beginning of fiscal year		135,240	
End of fiscal year		\$ 125,254	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Stormwater Assessment

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 75,098	\$ 82,875	\$ 7,777
Use of money and property	1,000	3,200	2,200
TOTAL REVENUES	76,098	86,075	9,977
EXPENDITURES			
Current:			
Highway and streets	53,731	61,646	(7,915)
Capital outlay	1,050	1,008	42
TOTAL EXPENDITURES	54,781	62,654	(7,873)
REVENUES OVER (UNDER) EXPENDITURES	21,317	23,421	2,104
OTHER FINANCING SOURCES (USES)			
Transfers out	(31,605)	(42,673)	(11,068)
TOTAL OTHER FINANCING SOURCES (USES)	(31,605)	(42,673)	(11,068)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (10,288)	(19,252)	\$ (8,964)
FUND BALANCE:			
Beginning of fiscal year		140,410	
End of fiscal year		\$ 121,158	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Oakhurst Geological Hazard Abatement District

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 30,336	\$ 31,326	\$ 990
Use of money and property	200	367	167
TOTAL REVENUES	30,536	31,693	1,157
EXPENDITURES			
Current:			
Economic development	29,520	20,923	8,597
Capital outlay	33,367	104,857	(71,490)
TOTAL EXPENDITURES	62,887	125,780	(62,893)
REVENUES OVER (UNDER) EXPENDITURES	(32,351)	94,199	(61,736)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	94,199	94,199
Transfers out	(6,000)	(6,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,000)	88,199	(94,199)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (38,351)	(5,888)	\$ 32,463
FUND BALANCE:			
Beginning of fiscal year		8,311	
End of fiscal year		\$ 2,423	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Measure C

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
From other agencies	\$ 209,000	\$ 205,580	\$ (3,420)
Use of money and property	-	1,711	1,711
TOTAL REVENUES	209,000	207,291	(1,709)
EXPENDITURES			
Current:			
Highway and streets	595	-	595
Capital outlay	-	8,455	(8,455)
TOTAL EXPENDITURES	595	8,455	(7,860)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 208,405	198,836	\$ (9,569)
FUND BALANCE:			
Beginning of fiscal year		51,734	
End of fiscal year		\$ 250,570	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Grants

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
From other agencies	\$ 122,988	\$ 116,666	\$ (6,322)
Use of money and property	4,000	14,832	10,832
TOTAL REVENUES	126,988	131,498	4,510
EXPENDITURES			
Current:			
Economic development	124,262	82,695	41,567
Capital outlay	2,775	69	2,706
TOTAL EXPENDITURES	127,037	82,764	44,273
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (49)	48,734	\$ 48,783
FUND BALANCE:			
Beginning of fiscal year		321,058	
End of fiscal year		\$ 369,792	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Gas Tax

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 27,248	\$ 27,596	\$ 348
From other agencies	208,000	200,875	(7,125)
Use of money and property	2,500	4,182	1,682
TOTAL REVENUES	237,748	232,653	(5,095)
EXPENDITURES			
Current:			
Highway and streets	324,643	241,475	83,168
Capital outlay	-	21,027	(21,027)
TOTAL EXPENDITURES	324,643	262,502	62,141
REVENUES OVER (UNDER) EXPENDITURES	(86,895)	(29,849)	57,046
OTHER FINANCING SOURCES (USES)			
Transfers out	(108,414)	(108,414)	-
TOTAL OTHER FINANCING SOURCES (USES)	(108,414)	(108,414)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (195,309)	(138,263)	\$ 57,046
FUND BALANCE:			
Beginning of fiscal year		221,958	
End of fiscal year		\$ 83,695	

City of Clayton

Budgetary Comparison Schedule

For the fiscal year ended June 30, 2008

Clayton Landscape Maintenance

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 850,000	\$ 860,852	\$ 10,852
Use of money and property	-	9,082	9,082
TOTAL REVENUES	850,000	869,934	19,934
EXPENDITURES			
Current:			
Landscape maintenance	830,358	780,187	50,171
TOTAL EXPENDITURES	830,358	780,187	50,171
REVENUES OVER (UNDER) EXPENDITURES	19,642	89,747	70,105
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	\$ (7,328)	62,777	\$ 70,105
FUND BALANCE:			
Beginning of fiscal year		100,455	
End of fiscal year		\$ 163,232	

City of Clayton

Budgetary Comparison Schedule For the fiscal year ended June 30, 2008 Clayton Development Impact Fees

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Service charges	\$ 164,340	\$ 208,084	\$ 43,744
Use of money and property	4,500	14,571	10,071
TOTAL REVENUES	168,840	222,655	53,815
EXPENDITURES			
Capital outlay	11,753	14,344	(2,591)
TOTAL EXPENDITURES	11,753	14,344	(2,591)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 157,087	208,311	\$ 51,224
FUND BALANCE:			
Beginning of fiscal year		152,591	
End of fiscal year		\$ 360,902	

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, 2008

	Capital Replacement	Self Insurance	Total
<hr/>			
ASSETS			
Current Assets:			
Cash and investments	\$ 202,536	\$ 174,239	\$ 376,775
Receivables:			
Accounts	-	1,306	1,306
Interest	2,128	1,830	3,958
Noncurrent Assets:			
Depreciable assets, net	372,638	-	372,638
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	577,302	177,375	754,677
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Current Liabilities:			
Accounts payable	22	-	22
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	22	-	22
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Invested in capital assets, net of related debt	372,638	-	372,638
Unrestricted	204,642	177,375	382,017
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 577,280	\$ 177,375	\$ 754,655
	<hr/>	<hr/>	<hr/>

City of Clayton

Statement of Revenues, Expenses and Changes in Net Assets

Internal Service Funds

For the fiscal year ended June 30, 2008

	Capital Replacement	Self Insurance	Total
OPERATING REVENUES			
Charges for current services	\$ 111,788	\$ -	\$ 111,788
TOTAL OPERATING REVENUES	111,788	-	111,788
OPERATING EXPENSES			
General and administrative	8,163	7,970	16,133
Depreciation and amortization	84,636	-	84,636
TOTAL OPERATING EXPENSES	92,799	7,970	100,769
OPERATING INCOME (LOSS)	18,989	(7,970)	11,019
NONOPERATING REVENUES (EXPENSES)			
Investment income (loss)	6,323	6,846	13,169
Capital contributions	48,122	-	48,122
TOTAL NONOPERATING REVENUES (EXPENSES)	54,445	6,846	61,291
CHANGE IN NET ASSETS	73,434	(1,124)	72,310
 Beginning of fiscal year	 503,846	 178,499	 682,345
End of fiscal year	\$ 577,280	\$ 177,375	\$ 754,655

City of Clayton
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2008

	Capital Replacement	Self-Insurance Liability	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipt from customers/other funds	\$ 111,788	\$ -	\$ 111,788
Cash payment to suppliers for good and services	(8,141)	(10,254)	(18,395)
Net cash provided (used) by operating activities	103,647	(10,254)	93,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of fixed assets	(88,001)	-	(88,001)
Capital Contributions	48,122	-	48,122
Net cash provided (used) by capital and related financing activities	(39,879)	-	(39,879)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	5,154	6,295	11,449
Net cash provided (used) by investing activities	5,154	6,295	11,449
Net increase (decrease) in cash and cash equivalents	68,922	(3,959)	64,963
CASH AND CASH EQUIVALENTS:			
Beginning of fiscal year	133,614	178,198	311,812
End of fiscal year	\$ 202,536	\$ 174,239	\$ 376,775
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 18,989	\$ (7,970)	\$ 11,019
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	84,636	-	84,636
Changes in current assets and liabilities:			
Accounts payable	22	(2,284)	(2,262)
Total adjustments	84,658	(2,284)	82,374
Net cash provided (used) by operating activities	\$ 103,647	\$ (10,254)	\$ 93,393

AGENCY FUNDS

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

Deposits – represents funds held for:

Performance Deposits

Clayton Community Library Foundation Deposits

Clayton Community Gym Donation Deposits

Rental Deposits

Planning Services Deposits

Other Deposits

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

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

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

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

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

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

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

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

City of Clayton
Statements of Changes in Assets and Liabilities
Agency Funds
For the fiscal year ended June 30, 2008

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
<u>Deposits</u>			
Assets:			
Cash and investments	\$ 1,311,453	\$ (34,859)	\$ 1,276,594
Other receivables	9,428	3,968	13,396
Total assets	\$ 1,320,881	\$ (30,891)	\$ 1,289,990
Liabilities:			
Accounts payable	\$ 10,502	\$ (7,410)	\$ 3,092
Other payables	23,673	37,038	60,711
Other deposits	964,664	(97,270)	867,394
Due to bondholders	322,042	36,751	358,793
Total liabilities	\$ 1,320,881	\$ (30,891)	\$ 1,289,990
<u>Oakhurst Assessment District</u>			
Assets:			
Cash and investments	\$ 219,736	\$ (167,722)	\$ 52,014
Other receivables	1,617	(1,010)	607
Total assets	\$ 221,353	\$ (168,732)	\$ 52,621
Liabilities:			
Due to bondholders	221,353	(168,732)	52,621
Total liabilities	\$ 221,353	\$ (168,732)	\$ 52,621
<u>Middle School CFD</u>			
Assets:			
Cash and investments	\$ (4,268,977)	\$ 685,790	\$ (3,583,187)
Cash with fiscal agent	10,569,799	(10,551,957)	17,842
Other receivables	1,914	(309)	1,605
Investment in bonds	0	5,566,522	5,566,522
Total assets	\$ 6,302,736	\$ (4,299,954)	\$ 2,002,782
Liabilities:			
Accounts payable	\$ 2,107	\$ 47	\$ 2,154
Due to bondholders	6,300,629	(4,300,001)	2,000,628
Total liabilities	\$ 6,302,736	\$ (4,299,954)	\$ 2,002,782

City of Clayton
Statements of Changes in Assets and Liabilities, Continued
Agency Funds
For the fiscal year ended June 30, 2008

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
<u>Clayton Station CFD</u>			
Assets:			
Cash and investments	\$ 145,598	\$ 6,097	\$ 151,695
Interest receivables	1,044	548	1,592
Total assets	\$ 146,642	\$ 6,645	\$ 153,287
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to bondholders	146,642	6,645	153,287
Total liabilities	\$ 146,642	\$ 6,645	\$ 153,287
<u>High Street Bridge</u>			
Assets:			
Cash and investments	\$ (17,073)	\$ (505)	\$ (17,578)
Other receivables	85,340	(4,254)	81,086
Total assets	\$ 68,267	\$ (4,759)	\$ 63,508
Liabilities:			
Accounts payable	\$ 85,340	\$ (4,070)	\$ 81,270
Other payables	2,222	(122)	2,100
Due to bondholders	(19,295)	(567)	(19,862)
Total liabilities	\$ 68,267	\$ (4,759)	\$ 63,508
<u>Oak Street Bridge</u>			
Assets:			
Cash and investments	\$ (59,674)	\$ (1,887)	\$ (61,561)
Other receivables	47,892	(4,636)	43,256
Total assets	\$ (11,782)	\$ (6,523)	\$ (18,305)
Liabilities:			
Accounts payable	\$ 47,892	\$ (3,992)	\$ 43,900
Other payables	18,766	(426)	18,340
Due to bondholders	(78,440)	(2,105)	(80,545)
Total liabilities	\$ (11,782)	\$ (6,523)	\$ (18,305)

City of Clayton

Statements of Changes in Assets and Liabilities, Continued

Agency Funds

For the fiscal year ended June 30, 2008

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
<u>Lydia Lane Sewer Assessment</u>			
Assets:			
Cash and investments	\$ 66,482	\$ 1,358	\$ 67,840
Cash with fiscal agent	14,108	441	14,549
Other receivables	419,890	(17,415)	402,475
Total assets	\$ 500,480	\$ (15,616)	\$ 484,864
Liabilities:			
Accounts payable	\$ 419,412	\$ (17,649)	\$ 401,763
Due to bondholders	81,068	2,033	83,101
Total liabilities	\$ 500,480	\$ (15,616)	\$ 484,864
<u>Oak Street Sewer Assessment</u>			
Assets:			
Cash and investments	\$ (11,647)	\$ (704)	\$ (12,351)
Other receivables	219,890	(11,049)	208,841
Total assets	\$ 208,243	\$ (11,753)	\$ 196,490
Liabilities:			
Accounts payable	\$ 219,890	\$ (10,920)	\$ 208,970
Other payables	245	(245)	0
Due to bondholders	(11,892)	(588)	(12,480)
Total liabilities	\$ 208,243	\$ (11,753)	\$ 196,490
<u>CFA Clayton Financing Authority 2007</u>			
Assets:			
Cash and investments	\$ 4,533,478	\$ (256,854)	\$ 4,276,624
Cash with fiscal agent	271,814	8,263	280,077
Other receivables	-	5,692	5,692
Total assets	\$ 4,805,292	\$ (242,899)	\$ 4,562,393
Liabilities:			
Due to bondholders	4,805,292	(242,899))	4,974,729
Total liabilities	\$ 4,805,292	\$ (242,899))	\$ 4,974,729
<u>All Agency Funds</u>			
Assets:			
Cash and investments	\$ 1,919,376	\$ 230,714	\$ 2,150,090
Cash with fiscal agent	10,855,721	(10,543,253)	312,468
Interest receivable	1,044	(1,044)	-
Other receivables	785,971	(27,421)	758,550
Investment in bonds	-	5,566,522	5,566,522
Total assets	\$ 13,562,112	\$ (4,774,482)	\$ 8,787,630
Liabilities:			
Accounts payable	785,143	(43,994)	741,149
Interest payable	23,673	37,038	60,711
Other payables	21,233	(793)	20,440
Other deposits	964,664	(97,270)	867,394
Due to bondholders	11,767,399	(4,669,463)	7,097,936
Total liabilities	\$ 13,562,112	\$ (4,774,482)	\$ 8,787,630



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.

9107 WILSHIRE BLVD., STE. 400
BEVERLY HILLS, CA 90210
PHONE: (310) 273-2745
FAX: (310) 273-1689
EMAIL: mlhbh@mlhcpas.com

**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, 2008 which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2009. 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.

100

OFFICES: BEVERLY HILLS • SANTA MARIA

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

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 November 21, 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, 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 28, 2009

**CITY OF CLAYTON
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER
For the Fiscal Year Ended
June 30, 2008**

KS

Check
For
have

Effect:

A debit balance in the deposit payable accounts results in depositors owing the City money. This happens when a deposit account is overdrawn, and may result in the City not being able to recover the overdrawn balance.

Recommendation:

We recommend that the City ensure that all deposit accounts have a credit balance. If deposit accounts become negative and overdrawn, the City should stop work on that project immediately and send a bill to the depositor for replenishment.

Management Response:

We agree that deposit accounts should have a positive balance. There are occasions where timing between services being provided by staff or consultants and the developer or property owner deposits overlap. It is our policy to notify planning and engineering staff when deposits are near depletion. While it would seem prudent to immediately stop work on a project that is negative and overdrawn, it is not always practical. Many of the deposit accounts are for stormwater inspections that must be performed by state requirements regardless of funding. In this instance, a deposit account overdrawn is a public-private partnership wherein the account shall be replenished before sale of public real property will occur.

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

Very truly yours,

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA



Approved:

Gary A. Napper
City Manager/Executive Director

STAFF REPORT

TO: HONORABLE BOARD OF DIRECTORS

FROM: MERRY PELLETIER

DATE: DECEMBER 2, 2008

SUBJECT: AUDIT REPORT FOR FISCAL YEAR ENDING JUNE 30, 2008 (FY '07-'08)

RECOMMENDATION

Accept the unqualified Audit Report for the Redevelopment Agency of the City of Clayton-Basic Financial Statements and Independent Auditors' Reports for fiscal year ending June 30, 2008 prepared by Moss, Levy & Hartzheim.

BACKGROUND

The Agency's Audit report was completed in December 2008, to accompany the Annual Report of Financial Transactions to be sent to the State Controller's Office for the Redevelopment Agency. The audit went smoother during this year as we implemented our second year of preparing the financial reports in-house with the help of a consultant. This decision was made to provide a better separation of duties between the audit team looking at the Agencies financial transactions and the actual report itself. The reporting format includes a management discussion and analysis for the Agency's financial statements that are intended to serve as an introduction to the Agency's basic financial statements. A statement of net assets and a statement of activities and changes in net assets are also included that presents information on all the Agency'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 or whether the financial position of the Agency is improving or deteriorating. The Agency's net asset deficit was reduced by \$3,067,503 leaving a deficit balance of \$1,184,487 at fiscal year end 6/30/2008. The deficit occurs because the Agency issues debt to acquire or construct capital assets which it turns over to the City or other agencies. As a result, the Agency records the debt but has not corresponding assets. Debt payments are made by future revenues.

FISCAL IMPACT

None

CONCLUSION

Accept the unqualified Audit Report for the Redevelopment Agency of the City of Clayton-Basic Financial Statements and Independent Auditors' Reports for fiscal year ending June 30, 2008 prepared by Moss, Levy & Hartzheim.

Respectively submitted,

Merry Pelletier

Merry Pelletier

Finance Manager

Attachments:

Redevelopment Agency Basic Financial Statements and Independent Auditors' Report.