

FINANCIAL STATEMENTS

Town Of Clayton

Kent County, Delaware

December 31, 2013

TOWN OF CLAYTON
TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 - 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 - 9 |
| BASIC FINANCIAL STATEMENTS | |
| Entity-wide Financial Statements: | |
| - Statement of Net Position | 10 |
| - Statement of Activities | 11 |
| Fund Financial Statements: | |
| - Balance Sheet – Governmental Funds | 12 |
| - Reconciliation of Balance Sheet – Governmental Funds to Statement of Net Position | 13 |
| - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 14 |
| - Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to Statement of Activities | 15 |
| - Statement of Net Position – Proprietary Funds | 16 |
| - Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds | 17 |
| - Statement of Cash Flows – Proprietary Funds | 18 - 19 |
| NOTES TO FINANCIAL STATEMENTS | 20 - 34 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary Comparison Schedule – General Fund | 35 |
| COMBINING NONMAJOR FUND STATEMENTS | |
| - Combining Balance Sheet – Nonmajor Governmental Funds | 36 |
| - Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Governmental Funds | 37 |
| OTHER REPORTS | |
| 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 <i>Auditing Standards</i> | 38 - 39 |

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Town Council
Town of Clayton
Clayton, Delaware

Report on the Financial Statements

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 Town of Clayton, Delaware, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Town of Clayton, Delaware, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Town Council
Town of Clayton

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the Town of Clayton, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Clayton, Delaware's internal control over financial reporting and compliance.

Papaleo, Rosen + Chelf, P.A.

Papaleo, Rosen & Chelf, PA
Wilmington, Delaware
March 28, 2014

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited
December 31, 2013

This discussion and analysis of the Town of Clayton, Delaware (the "Town") provides an overview of the Town's financial performance for the fiscal year ended December 31, 2013. Please read it in conjunction with the Town's financial statements which begin on page 10.

FINANCIAL HIGHLIGHTS

The assets of the Town exceeded its liabilities at December 31, 2013, by \$6.4 million (net position). Of this amount, \$228 thousand (unrestricted net position) may be used to meet the Town's ongoing obligations to its citizens and creditors. The Town's total net position increased by \$207 thousand. The current year increase in the Town's net position is due primarily to a decrease in the electric fund expenses and an increase in franchise fees. Also, trash rates remained at \$21.20 per month during 2013.

As of December 31, 2013, the Town's governmental funds reported combined ending fund balances of \$3.7 million, an increase of \$200 thousand as compared to the prior year. The current year increase in fund balance can be attributed to the increase in franchise fees and interfund transfers.

As of December 31, 2013, the Town's proprietary funds reported a combined net position of \$2.7 million, which was the same when compared to the prior year. Electric billing rates remained the same for 2013. Electric rates were \$11.94 for the first 45 kw and \$0.1404 per kw thereafter. Sewer billing rates remained the same as the prior year at \$16.50 for 2,000 gallons with each additional 1,000 gallons for \$5.00. Water billing rates remained the same as the prior year at \$9.50 for 2,000 gallons with each additional 1,000 gallons for \$4.00.

Overview Of The Financial Statements

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements and required supplementary information. This discussion and analysis is intended to serve as an introduction to the Town of Clayton's basic financial statements. The Town of Clayton's basic financial statements are comprised of three components: 1) entity-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are entity-wide financial statements that provide both long-term and short-term information about the Town's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the entity-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

Entity-Wide Financial Statements. The entity-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting.

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

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods.

Both of the entity-wide financial statements distinguish functions of the Town 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 Town include general government, public safety, public works, and licensing and inspection. Business-type activities consist of the Town's electric distribution system and water supply and sewage collection system.

Fund Financial Statements. Traditional readers of government financial statements will find the fund financial statement presentation more familiar where the focus is on the Town's most significant funds. 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 Town uses fund accounting to ensure and demonstrate fiscal accountability. The Town uses governmental and proprietary fund financial statements to provide more detailed information about the Town's most significant funds rather than the Town as a whole.

Governmental Funds. Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the Statements of Net Position and Activities) and governmental funds is described in a reconciliation.

Proprietary Funds. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like entity-wide financial statements, provide both long and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the Town's proprietary funds. The proprietary funds are used to report the same functions presented as business-type activities in the entity-wide financial statements. The Town uses proprietary funds to account for its electric distribution system and water supply and sewage collection system. The Town purchases 100 percent of its electric supply requirements from the Delaware Municipal Electric Corporation ("DEMEC") under a long-term full requirements service contract. In addition, the Town is charged a fee by the Town of Smyrna and Kent County to discharge the Town's proportionate share of wastewater into their respective facilities under an operating contract.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

Notes To The Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Town. A budgetary comparison schedule has been provided for the General Fund.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Entity-Wide Financial Analysis

The following table presents a summary of the Statement of Net Position for the Town as of December 31, 2013, and 2012:

Table 1 – Condensed Statement Of Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| ASSETS | | | | | | |
| Current and other assets | \$ 3,804,738 | \$ 3,583,723 | \$ 824,196 | \$ 859,634 | \$ 4,628,934 | \$ 4,443,357 |
| Capital assets, net | 976,636 | 1,014,195 | 3,087,230 | 3,168,258 | 4,063,866 | 4,182,453 |
| TOTAL ASSETS | 4,781,374 | 4,597,918 | 3,911,426 | 4,027,892 | 8,692,800 | 8,625,810 |
| LIABILITIES | | | | | | |
| Current liabilities | 828,027 | 843,767 | 438,325 | 535,918 | 1,266,352 | 1,379,685 |
| Noncurrent liabilities | 294,635 | 301,458 | 736,800 | 760,996 | 1,031,435 | 1,062,454 |
| TOTAL LIABILITIES | 1,122,662 | 1,145,225 | 1,175,125 | 1,296,914 | 2,297,787 | 2,442,139 |
| NET POSITION | | | | | | |
| Invested in capital assets, net of related debt | 956,158 | 1,006,427 | 2,408,791 | 2,453,629 | 3,364,949 | 3,460,056 |
| Restricted | 2,801,577 | 2,702,118 | -0- | -0- | 2,801,577 | 2,702,118 |
| Unrestricted (deficit) | (99,023) | (255,852) | 327,510 | 277,349 | 228,487 | 21,497 |
| TOTAL NET POSITION | \$ 3,658,712 | \$ 3,452,693 | \$ 2,736,301 | \$ 2,730,978 | \$ 6,395,013 | \$ 6,183,671 |

Invested in capital assets, net of related debt decreased as a result of depreciation expense exceeding capital additions for the year. The largest portion of the Town's net position reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. Capital assets are used to provide services to residents and are not available for future spending. Although the investment in 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. Restricted net position increased due to the accumulation of resources restricted to public works projects and future growth initiatives.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

Table 2 – Changes In Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 586,433 | \$ 544,410 | \$ 3,284,432 | \$ 3,314,461 | \$ 3,870,865 | \$ 3,858,871 |
| Operating grants and contributions | 158,993 | 289,462 | -0- | -0- | 158,993 | 289,462 |
| Capital grants and contributions | -0- | 9,408 | -0- | -0- | -0- | 9,408 |
| General revenues: | | | | | | |
| Taxes | 513,868 | 509,341 | -0- | -0- | 513,868 | 509,341 |
| Investment earnings | 3,205 | 9,714 | 769 | 2,260 | 3,974 | 11,974 |
| Franchise fees | 60,359 | 45,395 | -0- | -0- | 60,359 | 45,395 |
| Miscellaneous | 1,958 | 11,059 | -0- | -0- | 1,958 | 11,059 |
| Transfers/Contributions | 754,451 | 510,839 | -0- | -0- | 754,451 | 510,839 |
| TOTAL REVENUES | 2,079,267 | 1,929,628 | 3,285,201 | 3,316,721 | 5,364,468 | 5,246,349 |
| EXPENSES | | | | | | |
| General government | 376,137 | 345,669 | -0- | -0- | 376,137 | 345,669 |
| Public safety | 1,052,069 | 1,110,867 | -0- | -0- | 1,052,069 | 1,110,867 |
| Public works | 413,394 | 503,767 | -0- | -0- | 413,394 | 503,767 |
| Licensing and inspection | 31,648 | 28,901 | -0- | -0- | 31,648 | 28,901 |
| Electric operations | -0- | -0- | 1,791,104 | 1,955,498 | 1,791,104 | 1,955,498 |
| Water/Sewer operations | -0- | -0- | 734,323 | 722,493 | 734,323 | 722,493 |
| Transfers | -0- | -0- | 754,451 | 510,839 | 754,451 | 510,839 |
| TOTAL EXPENSES | 1,873,248 | 1,989,204 | 3,279,878 | 3,188,830 | 5,153,126 | 5,178,034 |
| INCREASE (DECREASE) IN NET POSITION | 206,019 | (59,576) | 5,323 | 127,891 | 211,342 | 68,315 |
| NET POSITION, BEGINNING OF YEAR | 3,452,693 | 3,842,344 | 2,730,978 | 2,672,439 | 6,183,671 | 6,514,783 |
| PRIOR PERIOD ADJUSTMENT | -0- | (330,075) | -0- | (69,352) | -0- | (399,427) |
| NET POSITION, END OF YEAR | \$ 3,658,712 | \$ 3,452,693 | \$ 2,736,301 | \$ 2,730,978 | \$ 6,395,013 | \$ 6,183,671 |

Governmental Activities

The cost of all governmental activities in 2013 was \$1.9 million. The amount that taxpayers ultimately financed for these activities through Town taxes was \$514 thousand, or 24 percent. Other costs were paid by those who directly benefited from the programs (\$586 thousand, or 28 percent) or by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$1 million, or 48 percent).

Charges for services increased due primarily to a increase in building permit and impact fees in the amount of approximately \$42 thousand which can be attributed to the increase in development within Town limits. Increases in taxes relate primarily to a decrease in transfer taxes from the prior year in the amount of \$(6) thousand and an increase in property taxes of \$11 thousand. The decrease in transfer taxes is due to less development within Town limits; the increase in property taxes is due to additional assessments related to development in prior years.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

As indicated by the governmental program expenses, general government programs accounted for 20 percent of the Town's governmental activities and remained consistent with prior year amounts. Public safety expenses accounted for 56 percent of the Town's governmental activities, public works expenses accounted for 22 percent, and licensing and inspection expenses accounted for 2 percent, all consistent with prior year amounts.

Business-Type Activities And Proprietary Funds

Charges for services represent the principal revenue source for the Town's business-type activities and proprietary funds were \$3.3 million which was consistent with the prior year. The overall expenses of the business-type activities decreased by approximately 3 percent. Expense decreases are due to a decrease in electric purchased.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the Town's financing requirements. In particular, the 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 December 31, 2013, the Town's governmental funds reported combined ending fund balances of \$3.0 million, an increase of \$300 thousand as compared to the prior year. Approximately 98 percent, or \$2.9 million, constitutes fund balance reserved for special purposes, leaving \$(73) thousand available for spending at the Town's discretion.

The General Fund is the chief operating fund of the Town. As of December 31, 2013, the total of the General Fund was approximately \$306 thousand, of which \$(73) thousand is unreserved and undesignated, \$184 thousand has been designated by the Town to fund future costs for post-employment benefits, \$55 thousand has been reserved for future police pension costs, \$93 thousand has been reserved for future public works costs, and \$47 thousand has been reserved for inventory and prepaid costs. The fund balance increased by \$229 thousand during the year ended December 31, 2013.

The other major fund of the Town is the Impact Fees Fund which is used to accumulate resources for future growth initiatives as mandated by law.

Significant changes in revenues and expenditures for the governmental funds are consistent with the prior analysis of the governmental activities revenues and expenses. Other financing sources consisted of transfers from the proprietary funds to subsidize the government's primary governmental operations.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the Town's budget and actual results can be found on page 35. There were no amendments to the original budget. A summary of significant variations between budget amounts and actual results are as follows:

- Transfer tax revenue was \$105 thousand more than budget due to the timing of the completion of development projects and the sale of the associated properties.
- Charges for services revenue was \$34 thousand more than budget due to increased permits and trash fees collected.
- General government expenditures were \$31 thousand less than budget due to less paid for repairs and equipment.
- Public safety expenses were over budget by \$60 thousand due to post-employment benefit expenses and an increase in benefits for the public safety department.
- Public works expenditures were \$101 thousand under budget due to less paid for repairs, parts, and equipment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for its governmental and business-type activities as of December 31, 2013, amounted to \$4.1 million, net of accumulated depreciation. Capital assets include land, building and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure. The total net decrease in the Town's capital assets for the current fiscal year was approximately \$100 thousand. Current year depreciation expense of \$219 thousand exceeded additions of \$100 thousand.

More detailed information about the Town's capital assets is presented in the notes to the basic financial statements.

Debt Administration

During the year ended December 31, 2013, the Town paid approximately \$37 thousand to bring the total debt to approximately \$678 thousand through the Delaware Department of Natural Resources and Environmental Control to finance the Town's water treatment facilities.

More detailed information about the Town's long-term liabilities is presented in the notes to the basic financial statements.

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited (cont'd)
December 31, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The primary economic factor affecting the budget for the Town of Clayton is the residential housing market. Industrial and commercial activities are minimal. Impact fees imposed upon new residential construction support infrastructure improvements. Permit fees and transfer taxes support the operations of Public Works and Administrative department operations, respectively.

Rates for taxes and fees for services will remain consistent in 2014 in relation to 2013.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Town's finances. If you have questions about this report or need any additional information, please contact the Town of Clayton, 414 Main Street, P. O. Box 1130, Clayton, Delaware 19938-1130.

TOWN OF CLAYTON
STATEMENT OF NET POSITION
DECEMBER 31, 2013
(With Summarized Comparative Data for December 31, 2012)

| | Governmental Activities | Business-Type Activities | Totals | |
|--|----------------------------|-----------------------------|---------------------|---------------------|
| | | | 2013 | 2012 * |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 3,137,121 | \$ 698,564 | \$ 3,835,685 | \$ 3,661,592 |
| Taxes receivable | 28,905 | -0- | 28,905 | 20,243 |
| Accounts receivable | 6,573 | 84,696 | 91,269 | 110,519 |
| Other receivables | 56,814 | -0- | 56,814 | 59,436 |
| Inventory | 14,918 | 25,012 | 39,930 | 25,432 |
| Prepaid expenses | 31,968 | 4,282 | 36,250 | 25,931 |
| Due from other fund | 528,439 | 11,642 | 540,081 | 540,204 |
| Total Current Assets | 3,804,738 | 824,196 | 4,628,934 | 4,443,357 |
| Noncurrent Assets: | | | | |
| Capital assets, net | 976,636 | 3,087,230 | 4,063,866 | 4,182,453 |
| TOTAL ASSETS | \$ 4,781,374 | \$ 3,911,426 | \$ 8,692,800 | \$ 8,625,810 |
| LIABILITIES AND NET POSITION | | | | |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 26,653 | \$ 230,572 | \$ 257,225 | \$ 364,059 |
| Due to other fund | 540,081 | -0- | 540,081 | 540,204 |
| Impact fee escrows | 170,230 | -0- | 170,230 | 211,254 |
| Accrued salaries and benefits | 46,749 | 13,176 | 59,925 | 49,747 |
| Accrued interest | 1,201 | 7,689 | 8,890 | 8,029 |
| Loan payable | 9,900 | 37,182 | 47,082 | 43,958 |
| Accrued compensated absences | 33,213 | 16,041 | 49,254 | 54,746 |
| Utility deposits | -0- | 133,665 | 133,665 | 124,685 |
| Total Current Liabilities | 828,027 | 438,325 | 1,266,352 | 1,396,682 |
| Noncurrent Liabilities: | | | | |
| Accrued compensated absences | 59,705 | 24,062 | 83,767 | 69,342 |
| Impact fee escrows | -0- | -0- | -0- | 106,900 |
| Post-employment benefits | 224,352 | 71,481 | 295,833 | 190,776 |
| Loan payable | 10,578 | 641,257 | 651,835 | 678,439 |
| Total Noncurrent Liabilities | 294,635 | 736,800 | 1,031,435 | 1,045,457 |
| TOTAL LIABILITIES | 1,122,662 | 1,175,125 | 2,297,787 | 2,442,139 |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | 956,158 | 2,408,791 | 3,364,949 | 3,460,056 |
| Unrestricted (deficit) | (99,023) | 327,510 | 228,487 | 21,497 |
| Restricted for police | 59,277 | -0- | 59,277 | 60,594 |
| Restricted for public works | 149,641 | -0- | 149,641 | 65,027 |
| Restricted for future growth initiatives | 2,592,659 | -0- | 2,592,659 | 2,576,497 |
| TOTAL NET POSITION | 3,658,712 | 2,736,301 | 6,395,013 | 6,183,671 |
| TOTAL LIABILITIES AND NET POSITION | \$ 4,781,374 | \$ 3,911,426 | \$ 8,692,800 | \$ 8,625,810 |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | | |
|---|---------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|---------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Totals | |
| | | | | | | | 2013 | 2012 * |
| GOVERNMENTAL ACTIVITIES | | | | | | | | |
| General government | \$ 376,137 | \$ 6,892 | \$ 140 | \$ -0- | \$ (369,105) | \$ -0- | \$ (369,105) | \$ (324,686) |
| Public safety | 1,052,069 | 74,760 | 110,925 | -0- | (866,384) | -0- | (866,384) | (784,547) |
| Public works | 413,394 | 464,001 | 47,928 | -0- | 98,535 | -0- | 98,535 | (35,542) |
| Licensing and inspection | 31,648 | 40,780 | -0- | -0- | 9,132 | -0- | 9,132 | (1,149) |
| TOTAL GOVERNMENTAL ACTIVITIES | 1,873,248 | 586,433 | 158,993 | -0- | (1,127,822) | -0- | (1,127,822) | (1,145,924) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | | |
| Electric | 1,791,104 | 2,515,517 | -0- | -0- | -0- | 724,413 | 724,413 | 594,247 |
| Water/Sewer | 734,323 | 768,915 | -0- | -0- | -0- | 34,592 | 34,592 | 42,223 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 2,525,427 | 3,284,432 | -0- | -0- | -0- | 759,005 | 759,005 | 636,470 |
| TOTAL PRIMARY GOVERNMENT | \$ 4,398,675 | \$ 3,870,865 | \$ 158,993 | \$ -0- | \$ (1,127,822) | 759,005 | (368,817) | \$ (509,454) |
| GENERAL REVENUE | | | | | | | | |
| Real estate taxes | | | | | \$ 326,554 | \$ -0- | \$ 326,554 | \$ 315,747 |
| Real estate transfer taxes | | | | | 187,314 | -0- | 187,314 | 193,594 |
| Franchise fees | | | | | 60,359 | -0- | 60,359 | 45,395 |
| Interest income | | | | | 3,205 | 769 | 3,974 | 11,974 |
| Miscellaneous | | | | | 1,958 | -0- | 1,958 | 11,059 |
| TRANSFERS | | | | | 754,451 | (754,451) | -0- | -0- |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | | 1,333,841 | (753,682) | 580,159 | 577,769 |
| CHANGE IN NET POSITION | | | | | 206,019 | 5,323 | 211,342 | 68,315 |
| NET POSITION, BEGINNING OF YEAR | | | | | 3,452,693 | 2,730,978 | 6,183,671 | 6,514,783 |
| PRIOR PERIOD ADJUSTMENT | | | | | -0- | -0- | -0- | (399,427) |
| NET POSITION, END OF YEAR | | | | | \$ 3,658,712 | \$ 2,736,301 | \$ 6,395,013 | \$ 6,183,671 |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2013
(With Summarized Comparative Data for December 31, 2012)

| | Totals | | | |
|--|-------------------|---------------------|-----------------------------|---------------------|
| | General Fund | Impact Fees Fund | Nonmajor Governmental Funds | 2012 * |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 832,484 | \$ 2,244,253 | \$ 60,384 | \$ 2,942,773 |
| Taxes receivable | 28,905 | -0- | -0- | 20,243 |
| Accounts receivable | 6,573 | -0- | -0- | 6,502 |
| Other receivables | 56,814 | -0- | -0- | 59,062 |
| Inventory | 14,918 | -0- | -0- | 4,558 |
| Prepaid expenses | 31,968 | -0- | -0- | 22,694 |
| Due from other funds | 1,500 | 526,879 | 60 | 527,891 |
| TOTAL ASSETS | \$ 973,162 | \$ 2,771,132 | \$ 60,444 | \$ 3,804,738 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 18,410 | \$ 8,243 | \$ -0- | \$ 11,349 |
| Impact fee escrows | -0- | 170,230 | -0- | 211,254 |
| Accrued salaries and benefits | 46,749 | -0- | -0- | 38,627 |
| Accrued compensated absences | 33,213 | -0- | -0- | 34,565 |
| Deferred revenue | 28,905 | -0- | -0- | 20,243 |
| Due to other funds | 540,081 | -0- | -0- | 540,204 |
| TOTAL LIABILITIES | \$ 667,358 | \$ 178,473 | \$ -0- | \$ 856,242 |
| FUND BALANCES: | | | | |
| Unassigned | (73,058) | -0- | -0- | (144,887) |
| Committed for: | | | | |
| Post-employment benefits | 183,502 | -0- | -0- | 165,692 |
| Restricted for police | 55,163 | -0- | 4,114 | 60,594 |
| Restricted for public works | 93,311 | -0- | 56,330 | 65,027 |
| Restricted for future growth initiatives | -0- | 2,592,659 | -0- | 2,576,497 |
| Nonspendable | 46,886 | -0- | -0- | 4,558 |
| TOTAL FUND BALANCES | \$ 305,804 | \$ 2,592,659 | \$ 60,444 | \$ 2,727,481 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 973,162 | \$ 2,771,132 | \$ 60,444 | \$ 3,804,738 |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

**TOWN OF CLAYTON
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
DECEMBER 31, 2013**

| | | |
|----------------------------------|----|-----------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ | 2,958,907 |
|----------------------------------|----|-----------|

Amounts reported for governmental activities in the statement of net position are different because:

| | | |
|---|--|---------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 976,636 |
|---|--|---------|

| | | |
|---|--|--------|
| Some of the Town's assets are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds. | | 28,905 |
|---|--|--------|

Long-term liabilities, including loans payable that are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|---------------------------|-----------------|-----------|
| Loans payable | \$ (20,478) | |
| IPost-employment benefits | (224,352) | |
| Accrued interest | <u>(1,201)</u> | (246,031) |

| | | |
|--|--|-----------------|
| Expenses accrued for compensated absences reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds. | | <u>(59,705)</u> |
|--|--|-----------------|

| | | |
|---|----|------------------|
| NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ | <u>3,658,712</u> |
|---|----|------------------|

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

| | General Fund | Impact Fees Fund | Nonmajor Governmental Funds | 2013 | 2012 * |
|--|-------------------|---------------------|-----------------------------|---------------------|---------------------|
| REVENUES | | | | | |
| Taxes: | | | | | |
| Property taxes | \$ 317,891 | \$ -0- | \$ -0- | \$ 317,891 | \$ 312,460 |
| Transfer taxes | 187,314 | -0- | -0- | 187,314 | 193,594 |
| Special assessment/impact fees | -0- | 168,500 | -0- | 168,500 | 132,000 |
| Charges for services | 337,635 | -0- | -0- | 337,635 | 322,641 |
| Intergovernmental | 117,892 | -0- | 41,101 | 158,993 | 298,870 |
| Licenses and fees | 6,892 | -0- | -0- | 6,892 | 9,253 |
| Fines and forfeits | 73,406 | -0- | -0- | 73,406 | 80,516 |
| Franchise fees | 60,359 | -0- | -0- | 60,359 | 45,395 |
| Interest income | 935 | 2,222 | 48 | 3,205 | 9,714 |
| Miscellaneous | 1,958 | -0- | -0- | 1,958 | 2,892 |
| TOTAL REVENUES | 1,104,282 | 170,722 | 41,149 | 1,316,153 | 1,407,335 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 361,187 | -0- | -0- | 361,187 | 319,197 |
| Public safety | 923,423 | -0- | 5,075 | 928,498 | 987,881 |
| Public works | 319,673 | 48,000 | 10,346 | 378,019 | 455,567 |
| Licensing and inspection | 31,648 | -0- | -0- | 31,648 | 28,901 |
| Debt Service: | | | | | |
| Principal | 7,768 | 106,560 | -0- | 114,328 | 8,747 |
| Interest | 1,303 | -0- | -0- | 1,303 | 324 |
| Capital outlays | 24,195 | -0- | -0- | 24,195 | 54,067 |
| TOTAL EXPENDITURES | 1,669,197 | 154,560 | 15,421 | 1,839,178 | 1,854,684 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (564,915) | 16,162 | 25,728 | (523,025) | (447,349) |
| OTHER FINANCING SOURCES | | | | | |
| Proceeds from sale of capital assets | -0- | -0- | -0- | -0- | 9,000 |
| Transfers in | 793,951 | -0- | -0- | 793,951 | 544,172 |
| Transfers out | -0- | -0- | (39,500) | (39,500) | (33,333) |
| TOTAL OTHER FINANCING SOURCES | 793,951 | -0- | (39,500) | 754,451 | 519,839 |
| NET CHANGES IN FUND BALANCES | 229,036 | 16,162 | (13,772) | 231,426 | 72,490 |
| FUND BALANCES, BEGINNING OF YEAR | 76,768 | 2,576,497 | 74,216 | 2,727,481 | 2,878,166 |
| PRIOR PERIOD ADJUSTMENT | -0- | -0- | -0- | -0- | (223,175) |
| FUND BALANCES, END OF YEAR | \$ 305,804 | \$ 2,592,659 | \$ 60,444 | \$ 2,958,907 | \$ 2,727,481 |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2013
(With Summarized Comparative Data for December 31, 2012)

| | Electric Fund | Water And Sewer Fund | Totals | |
|---|---------------------|----------------------------|---------------------|---------------------|
| | | | 2013 | 2012 * |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 698,562 | \$ 2 | \$ 698,564 | \$ 718,819 |
| Accounts receivable | 56,310 | 28,386 | 84,696 | 104,017 |
| Other receivables | -0- | -0- | -0- | 374 |
| Inventory | 18,340 | 6,672 | 25,012 | 20,874 |
| Prepaid expenses | 1,427 | 2,855 | 4,282 | 3,237 |
| Due from other funds | 11,642 | -0- | 11,642 | 12,313 |
| Total Current Assets | 786,281 | 37,915 | 824,196 | 859,634 |
| Noncurrent Assets: | | | | |
| Capital assets, net | 1,139,545 | 1,947,685 | 3,087,230 | 3,168,258 |
| TOTAL ASSETS | \$ 1,925,826 | \$ 1,985,600 | 3,911,426 | \$ 4,027,892 |
| LIABILITIES AND NET POSITION | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 173,654 | \$ 56,918 | \$ 230,572 | \$ 352,710 |
| Accrued salaries and benefits | 4,782 | 8,394 | 13,176 | 11,120 |
| Accrued interest | -0- | 7,689 | 7,689 | 8,029 |
| Loan payable | -0- | 37,182 | 37,182 | 36,190 |
| Accrued compensated absences | 5,347 | 10,694 | 16,041 | 20,181 |
| Utility deposits | 133,665 | -0- | 133,665 | 124,685 |
| Total Current Liabilities | 317,448 | 120,877 | 438,325 | 552,915 |
| Noncurrent Liabilities: | | | | |
| Accrued compensated absences | 8,021 | 16,041 | 24,062 | 19,362 |
| Post-employment benefits | 23,827 | 47,654 | 71,481 | 46,198 |
| Loan payable | -0- | 641,257 | 641,257 | 678,439 |
| Total Noncurrent Liabilities | 31,848 | 704,952 | 736,800 | 743,999 |
| TOTAL LIABILITIES | 349,296 | 825,829 | 1,175,125 | 1,296,914 |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | 1,139,545 | 1,269,246 | 2,408,791 | 2,453,629 |
| Unrestricted (Deficit) | 436,985 | (109,475) | 327,510 | 277,349 |
| TOTAL NET POSITION | 1,576,530 | 1,159,771 | 2,736,301 | 2,730,978 |
| TOTAL LIABILITIES AND NET POSITION | \$ 1,925,826 | \$ 1,985,600 | \$ 3,911,426 | \$ 4,027,892 |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

| | Electric Fund | Water and Sewer Fund | Totals | |
|--|---------------------|----------------------------|---------------------|---------------------|
| | | | 2013 | 2012 * |
| OPERATING REVENUES | | | | |
| User service charges | \$ 2,448,301 | \$ 734,554 | \$ 3,182,855 | \$ 3,219,889 |
| Other operating revenue | 67,216 | 34,361 | 101,577 | 94,572 |
| Total Operating Revenue | <u>2,515,517</u> | <u>768,915</u> | <u>3,284,432</u> | <u>3,314,461</u> |
| OPERATING EXPENSES | | | | |
| Electric purchased | 1,484,879 | -0- | 1,484,879 | 1,646,579 |
| Utility tax | 12,924 | -0- | 12,924 | 11,048 |
| Sewer charges | -0- | 323,027 | 323,027 | 290,176 |
| System upgrades and maintenance | 54,529 | 53,892 | 108,421 | 122,982 |
| Salaries and wages | 72,928 | 145,857 | 218,785 | 220,417 |
| Employee benefits | 30,677 | 61,354 | 92,031 | 90,897 |
| Depreciation | 56,042 | 81,000 | 137,042 | 155,310 |
| Supplies | 9,871 | 44,519 | 54,390 | 56,314 |
| Administration expenses | 3,667 | 4,955 | 8,622 | 15,749 |
| Professional services | 65,587 | 865 | 66,452 | 48,830 |
| Total Operating Expenses | <u>1,791,104</u> | <u>715,469</u> | <u>2,506,573</u> | <u>2,658,302</u> |
| OPERATING INCOME | <u>724,413</u> | <u>53,446</u> | <u>777,859</u> | <u>656,159</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 769 | -0- | 769 | 2,260 |
| Interest expense | -0- | (18,854) | (18,854) | (19,689) |
| Total Nonoperating Revenues (Expenses) | <u>769</u> | <u>(18,854)</u> | <u>(18,085)</u> | <u>(17,429)</u> |
| INCOME BEFORE TRANSFERS AND CONTRIBUTIONS | 725,182 | 34,592 | 759,774 | 638,730 |
| Transfers in | -0- | -0- | -0- | 47,591 |
| Transfers out | <u>(723,660)</u> | <u>(30,791)</u> | <u>(754,451)</u> | <u>(558,430)</u> |
| CHANGE IN NET POSITION | 1,522 | 3,801 | 5,323 | 127,891 |
| NET POSITION, BEGINNING OF YEAR | 1,575,008 | 1,155,970 | 2,730,978 | 2,672,439 |
| Prior Period Adjustment | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(69,352)</u> |
| NET POSITION, END OF YEAR | <u>\$ 1,576,530</u> | <u>\$ 1,159,771</u> | <u>\$ 2,736,301</u> | <u>\$ 2,730,978</u> |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

| | Electric Fund | Water and Sewer Fund | Totals | |
|--|-------------------|----------------------------|-------------------|-------------------|
| | | | 2013 | 2012 * |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Received from customers | \$ 2,540,233 | \$ 772,874 | \$ 3,313,107 | \$ 3,264,713 |
| Paid to suppliers for goods and services | (1,688,339) | (497,697) | (2,186,036) | (2,089,678) |
| Paid to employees for services | (93,915) | (189,002) | (282,917) | (284,529) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>757,979</u> | <u>86,175</u> | <u>844,154</u> | <u>890,506</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Due from other funds | 671 | -0- | 671 | (6,760) |
| Transfers in | -0- | -0- | -0- | 47,591 |
| Transfers out | (723,660) | (30,791) | (754,451) | (558,430) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>(722,989)</u> | <u>(30,791)</u> | <u>(753,780)</u> | <u>(517,599)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Loan payment | -0- | (36,190) | (36,190) | (35,227) |
| Acquisition and construction of capital assets | (56,014) | -0- | (56,014) | (223,604) |
| Interest paid | -0- | (19,194) | (19,194) | (20,158) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(56,014)</u> | <u>(55,384)</u> | <u>(111,398)</u> | <u>(278,989)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest income | 769 | -0- | 769 | 2,260 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>769</u> | <u>-0-</u> | <u>769</u> | <u>2,260</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (20,255) | -0- | (20,255) | 96,178 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>718,817</u> | <u>2</u> | <u>718,819</u> | <u>622,641</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 698,562</u> | <u>\$ 2</u> | <u>\$ 698,564</u> | <u>\$ 718,819</u> |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Summarized Comparative Data for the Year Ended December 31, 2012)

| | Electric Fund | Water and Sewer Fund | Totals | |
|--|-------------------|----------------------------|-------------------|-------------------|
| | | | 2013 | 2012 * |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Operating income | \$ 724,413 | \$ 53,446 | \$ 777,859 | \$ 656,159 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 56,042 | 81,000 | 137,042 | 155,310 |
| Prior period adjustment | -0- | -0- | -0- | (69,352) |
| Changes in assets and liabilities: | | | | |
| (Increase) Decrease in accounts receivable | 15,736 | 3,959 | 19,695 | (53,018) |
| (Increase) Decrease in inventory | (797) | (3,341) | (4,138) | 29,653 |
| (Increase) Decrease in prepaid expenses | (348) | (697) | (1,045) | -0- |
| Increase (Decrease) in accounts payable | (55,737) | (66,401) | (122,138) | 141,699 |
| Increase (Decrease) in accrued salaries and benefits | 1,075 | 981 | 2,056 | (978) |
| Increase (Decrease) in compensated absences | 187 | 373 | 560 | 3,961 |
| Increase (Decrease) in utility deposits | 8,980 | -0- | 8,980 | 3,270 |
| Increase (Decrease) in post-employment benefits | 8,428 | 16,855 | 25,283 | 23,802 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 757,979</u> | <u>\$ 86,175</u> | <u>\$ 844,154</u> | <u>\$ 890,506</u> |

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Clayton complies with generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The Town of Clayton, Delaware (the "Town") was incorporated in 1887 under the provisions of the State of Delaware. The Town operates under a Council form of government and provides the following services as authorized by its charter: public safety, public works, utilities, licensing and inspection, and general government.

The Government Accounting Standards Board established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Town's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships.

The Town has determined that no other outside agency meets the above criteria and; therefore, no other agency has been included as a component unit in the Town's financial statements. In addition, the Town is not aware of any entity which would exercise such oversight which would result in the Town being considered a component unit of the entity.

Entity-Wide And Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis Of Accounting And Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net position in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net position are reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consist of net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

The Town reports the following major governmental funds:

General Fund – This fund is used to account for the general operating activities of the Town. General government, public safety, public works, and licensing and inspections are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental and other revenue.

Impact Fees Fund – This fund is used to account for impact fees until they are transferred to the appropriate fund for specific, eligible projects.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Nonmajor Governmental Funds – In addition to the aforementioned major governmental funds, the Town includes the Municipal Street Aid, S.A.L.L.E., E.I.D.E., and seized asset illegal drug enforcement funds in its financial statements.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Town's proprietary funds are electric and water/sewer charges. Operating expenses for the Town's proprietary funds include salaries, employee benefits, production costs, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

Electric Fund – Used to account for the operation of an electric distribution system.

Water And Sewer Fund – Used to account for the operation of a water supply and sewage collection system.

Cash And Cash Equivalents

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Allowance For Doubtful Accounts

The Town of Clayton's water, sewer and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts has not been established by the Town for its proprietary funds.

Inventories And Prepaid Expenses

Inventories of business-type activities and proprietary fund types are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, including property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. During the year ended December 31, 2007, the Town adopted a capitalization threshold of \$5,000 with an estimated life in excess of one year. Capital assets placed in service prior to January 1, 2007, with a cost of less than \$5,000 will continue to be depreciated until the asset is fully depreciated or disposed. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive on ancillary costs.

GASB Statement No. 34 permits Phase III local governments to elect not to report infrastructure retroactively and report general infrastructure prospectively only. Management has assessed the impact of infrastructure capitalization on the financial statements and has determined that the cost outweighs the benefit of reporting the Town's infrastructure retroactively.

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|-------------------------|------------|
| Buildings | 40 years |
| Vehicles | 5-8 years |
| Land improvements | 20 years |
| Machinery and equipment | 5-10 years |

Compensated Absences

Regular, full-time employees are allowed sick leave on the basis of 10 days per year. Each January, employees have the option to continue accruing sick leave or be paid for unused sick leave from the previous year. Upon termination or retirement, an employee shall be paid a maximum of 45 days of accrued unused sick leave.

Regular, full-time employees accrue vacation leave on the basis of two weeks per year after completion of one year of continuous service. After three years of continuous service, two weeks vacation will be accrued. After six years of continuous service, three weeks vacation will be accrued. After 14 years of continuous service, four weeks vacation will be accrued. If an employee resigns or is terminated for any reason including dismissal or dies with unused annual leave credit, the employee, or in the case of his/her death, his/her estate, shall be paid for unused vacation time. Employees leaving the Town's employment on or before the 15th of a month will not receive credit for that month. Those employees departing the Town's employment after the 15th of a month will receive full credit for that month.

Accumulated vacation and sick leave is accrued when incurred in the entity-wide financial statements and proprietary fund types. A liability is reported in the governmental funds only if it is expendable from available financial resources. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental fund activities. Compensated absences associated with proprietary funds are liquidated from the fund in which the liability was generated.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The proprietary funds report the same three components of net position as do the entity-wide financial statements. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

Effective January 1, 2011, the Town implemented the provisions of GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which addresses a change in the classification of fund balance. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the resources reported in governmental funds.

Fund balance will be displayed in the following classification depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned fund balance* – amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed interest at one percent per month after the due date. The Town bills and collects its own property taxes. Town property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible; therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2013 was 65 cents per \$100 of assessed value.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use Of Estimates In The Preparation Of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Town's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

Restricted Assets

Certain assets are classified as restricted at the entity-wide level because they are maintained in separate bank accounts and their use is limited.

Implementation Of New Accounting Pronouncements

During the current year, the Town implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the Town's current year financial statements.

The Town has implemented the provisions of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," which revises the hierarchy of applying accounting standards to certain defined transactions, and the provisions of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and the net position in a statement of financial position and related disclosures. Neither of these Statements has a significant impact on the changes in net position for the Town for the year ended December 31, 2012.

The Town implemented the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this new Statement did not have an effect on the Town's current year financial statements.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.
- b. The Town Council adopts legal annual budgets for the General Fund and Proprietary Funds. The Town Council also adopts legal project length budgets for its Impact Fees Fund and certain nonmajor governmental funds. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the combined Impact Fees Fund and certain nonmajor governmental funds would not be meaningful and has not been presented in the accompanying financial statements.
- c. Management is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2013 there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, the General Fund incurred expenditures in excess of appropriations in the following functions:

| | |
|---------------|----------|
| Public safety | \$60,080 |
|---------------|----------|

All excess of expenditures over appropriations were funded by higher than anticipated revenues, transfers from other funds and the use of existing fund balances.

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Town of Clayton as a depositor and an investor generally requires full and continuous collateralization based upon fair value in the form of:

- Obligations of or guaranteed by the United States of America, or
- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority or an agency or instrumentality of the United States of America, or
- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities or any agency or instrumentality of the State of Delaware.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (cont'd)

As an investor, the Town of Clayton may invest in any of the above cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

The Town maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net position as cash and cash equivalents. Deposits and investments of governmental and proprietary funds are reported at fair value.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Town does not have a policy regarding custodial credit risk for deposits. At December 31, 2013, the carrying amount of the Town's deposits was \$3,835,685 and the bank balance was \$3,815,138. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$3,565,138 was uninsured and collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2013, was as follows:

| | <u>Beginning Balance*</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|-------------------------------|--------------------|-----------------|---------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 433,916 | \$ -0- | \$ -0- | \$ 433,916 |
| Total Capital Assets Not Being Depreciated | <u>433,916</u> | <u>-0-</u> | <u>-0-</u> | <u>433,916</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 289,794 | -0- | -0- | 289,794 |
| Improvements | 183,536 | -0- | -0- | 183,536 |
| Vehicles | 579,629 | 35,454 | -0- | 615,083 |
| Machinery and equipment | 514,241 | 8,880 | -0- | 523,121 |
| Total Capital Assets Being Depreciated | <u>1,567,200</u> | <u>44,334</u> | <u>-0-</u> | <u>1,611,534</u> |
| Accumulated depreciation: | | | | |
| Buildings | 124,379 | 6,270 | -0- | 130,649 |
| Land Improvements | 51,838 | 7,921 | -0- | 59,759 |
| Vehicles | 405,470 | 47,072 | -0- | 452,542 |
| Machinery and equipment | 405,234 | 20,630 | -0- | 425,864 |
| Total Accumulated Depreciation | <u>986,921</u> | <u>81,893</u> | <u>-0-</u> | <u>1,068,814</u> |
| Total Capital Assets Being Depreciated, Net | <u>580,279</u> | <u>(37,559)</u> | <u>-0-</u> | <u>542,720</u> |
| Governmental Activities Assets, Net | <u>\$ 1,014,195</u> | <u>\$ (37,559)</u> | <u>\$ -0-</u> | <u>\$ 976,636</u> |

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

| | Beginning Balance* | Increase | Decrease | Ending Balance |
|--|-----------------------|--------------------|---------------|---------------------|
| Business-Type Activities: | | | | |
| Capital assets being depreciated: | | | | |
| Buildings and infrastructure | \$ 4,614,919 | \$ 56,014 | \$ -0- | \$ 4,670,933 |
| Vehicles | 219,455 | -0- | -0- | 219,455 |
| Machinery and equipment | 133,879 | -0- | -0- | 133,879 |
| Total Capital Assets Being Depreciated | <u>4,968,253</u> | <u>56,014</u> | <u>-0-</u> | <u>5,024,267</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 1,543,189 | 119,102 | -0- | 1,662,291 |
| Vehicles | 216,197 | 3,257 | -0- | 219,454 |
| Machinery and equipment | 40,609 | 14,683 | -0- | 55,292 |
| Total Accumulated Depreciation | <u>1,799,995</u> | <u>137,042</u> | <u>-0-</u> | <u>1,937,037</u> |
| Business-Type Activities Assets, Net | <u>\$ 3,168,258</u> | <u>\$ (81,028)</u> | <u>\$ -0-</u> | <u>\$ 3,087,230</u> |

* Restated for comparative purposes.

Depreciation expense was charged to the functions as follows:

| | | |
|---|--|-------------------|
| Governmental Activities: | | |
| General government | | \$ 14,916 |
| Public safety | | 25,409 |
| Public works | | <u>41,568</u> |
| Total Depreciation Expense – Governmental Activities | | <u>\$ 81,893</u> |
| Business-Type Activities: | | |
| Electric | | \$ 56,042 |
| Water | | <u>81,000</u> |
| Total Depreciation Expense – Business-Type Activities | | <u>\$ 137,042</u> |

NOTE 5 CHANGES IN COMPENSATED ABSENCES

| | Beginning Balance* | Increase | Decrease | Ending Balance |
|----------------------------------|-----------------------|-----------------|-----------------|-------------------|
| Governmental Activities: | | | | |
| Accumulated compensated absences | \$ 84,545 | \$ 14,885 | \$ 6,512 | \$ 92,918 |
| Business-Type Activities: | | | | |
| Accumulated compensated absences | | | | |
| Electric | \$ 13,181 | \$ 868 | \$ 681 | \$ 13,368 |
| Sewer | 26,362 | 1,737 | 1,364 | 26,735 |
| | <u>\$ 39,543</u> | <u>\$ 2,605</u> | <u>\$ 2,045</u> | <u>\$ 40,103</u> |

* Restated for comparative purposes.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2013, is as follows:

| Due To | Amount | Due From | Amount |
|--------------------|-------------------|--------------|-------------------|
| Impact Fees Fund | \$ 526,879 | General Fund | \$ 540,081 |
| Electric Fund | 11,642 | | |
| E.D.I.E. Fund | 60 | | |
| Police-Seized Fund | <u>1,500</u> | | |
| Total | <u>\$ 540,081</u> | | <u>\$ 540,081</u> |

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

The composition of interfund transfers for the year ended December 31, 2013, was as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|---------------------------|--------------------|---------------------|
| Municipal Street Aid Fund | \$ -0- | \$ 39,500 |
| General Fund | 793,951 | -0- |
| Electric Fund | -0- | 723,660 |
| Water and Sewer Fund | <u>-0-</u> | <u>30,791</u> |
| Total | <u>\$ 793,951</u> | <u>\$ 793,951</u> |

Transfers from the electric fund and water and sewer funds to the impact fees fund and general fund were to subsidize those funds' operating activities.

NOTE 7 LONG-TERM DEBT

A change in the long-term debt is as follows:

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|-----------------|---------------------------|
| Governmental Activities: | | | | |
| Loan payable – Ford Motor Credit Company | \$ 7,768 | \$ -0- | \$ 7,768 | \$ -0- |
| Loan payable – Ally Bank | <u>-0-</u> | <u>20,478</u> | <u>-0-</u> | <u>20,478</u> |
| | <u>\$ 7,768</u> | <u>\$ 20,478</u> | <u>\$ 7,768</u> | <u>\$ 20,478</u> |

The loan payable between Ford Motor Credit Company and the Town of Clayton Police Department is for a 2011 police vehicle. The loan was entered into on November 4, 2010, and bears interest at 6.5 percent payable on January 5 in the amount of \$9,071. The loan matured on January 5, 2013.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

The loan payable between Ally Bank and the Town of Clayton Police Department is for a 2013 police vehicle. The loan was entered into on February 21, 2013, and bears interest at 6.84 percent payable on February 21 in the amount of \$11,301. The loan matures on February 21, 2015.

The maturity of debt obligation, including interest, is as follows:

| Year Ended December 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|------------------|-----------------|------------------|
| 2014 | \$ 9,900 | \$ 1,401 | \$ 11,301 |
| 2015 | <u>10,578</u> | <u>723</u> | <u>11,301</u> |
| | <u>\$ 20,478</u> | <u>\$ 2,124</u> | <u>\$ 22,602</u> |

A schedule of changes in the long-term debt is as follows:

| | <u>Beginning Balance</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------|------------------------------|------------------|---------------------------|
| Business-Type Activities: | | | |
| Loan payable | <u>\$ 714,629</u> | <u>\$ 36,190</u> | <u>\$ 678,439</u> |

The loan payable is issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to finance the arsenic removal project. The revolving loan converted to permanent financing on August 1, 2008, and bears interest at 2.72 percent payable on February 1 and August 1. The loan matures on August 1, 2028.

Maturities of debt obligations, including interest, are as follows:

| Year Ended December 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------|-------------------|
| 2014 | \$ 37,182 | \$ 18,202 | \$ 55,384 |
| 2015 | 38,200 | 17,184 | 55,384 |
| 2016 | 39,246 | 16,138 | 55,384 |
| 2017 | 40,321 | 15,063 | 55,384 |
| 2018 | 41,425 | 13,959 | 55,384 |
| 2019-2023 | 224,777 | 52,143 | 276,920 |
| 2024-2028 | <u>257,288</u> | <u>19,632</u> | <u>276,920</u> |
| | <u>\$ 678,439</u> | <u>\$ 152,321</u> | <u>\$ 830,760</u> |

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 PENSIONS

Delaware County and Municipal Police/Firefighter Pension Plan

The Town contributes to the Delaware County and Municipal Police/Firefighter Pension Plan, which is a cost-sharing multiple-employer defined benefit plan administered by the Delaware Public Employees' Retirement System. The plan covers Town police employees hired on or after February 1, 1993. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute seven percent of base compensation. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The Town's contributions to the plan for the years ended December 31, 2013, 2012, and 2011, were \$65,754, \$57,614, and \$47,730, respectively. The Delaware Public Employees' Retirement System issues a separate plan financial report that includes financial statements for the plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

State Employees' Pension Plan

The Town contributes to the State Employees' Pension Plan, which is a cost-sharing multiple-employer defined benefit plan administered by the Delaware Public Employees' Retirement System. The plan covers full-time or regular part-time employees. Benefit provisions of the plan are established under the provisions of State law and may be amended by an act of the State legislature. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The contribution policy is set by State law and requires contributions by active members and participating employers. Plan members are required to contribute three percent of total compensation that exceeds \$6,000 per year. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period from which the amount is determined. The Town's contributions to the plan for the years ended December 31, 2013, 2012, and 2011, were \$27,232, \$27,743, and \$23,154, respectively. The Delaware Public Employees Retirement System issues a separate plan financial report that includes financial statements of the plan. That report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite No. 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE 9 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS

Plan Description

The Town has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," for certain post-employment healthcare benefits and life insurance benefits provided by the Town. This statement generally provides for prospective implementation – i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS (cont'd)

Plan Description (con't)

The Town's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical, dental, and pharmacy benefits to eligible retirees. The Mayor and Council have the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Town Council. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Town Council. For fiscal year 2013, the Town contributed \$2,200 to the plan for current premiums, or approximately 85 percent of total premiums. Plan members receiving benefits contributed \$388, or approximately 15 percent of total premiums, through their required monthly contributions.

Funding Policy (cont'd)

Post-employment retirement benefits paid for the year ended December 31, 2013, totaled \$2,200. The Annual OPEB Cost (AOC) of \$107,257 for the year ended December 31, 2013, represents the amount expensed under GASB 45.

Annual OPEB Cost and Net OPEB Obligation – Town

The Town's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 20 years. The following table shows the components of the Town's OPEB cost for the year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation to the plan.

| | <u>Town</u> | <u>Public Safety</u> | <u>Public Works</u> | <u>Total</u> |
|--|-----------------|----------------------|---------------------|-------------------|
| Annual required contribution | \$ 5,372 | \$ 68,174 | \$ 33,711 | \$ 107,257 |
| Adjustment to annual required contribution | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Annual OPEB cost (expense) | 5,372 | 68,174 | 33,711 | 107,257 |
| Contributions made | <u>(2,200)</u> | <u>-0-</u> | <u>-0-</u> | <u>(2,200)</u> |
| Increase in net OPEB obligation | 3,172 | 68,174 | 33,711 | 105,057 |
| Net OPEB obligation – beginning of year | <u>6,002</u> | <u>123,177</u> | <u>61,597</u> | <u>190,776</u> |
| Net OPEB obligation – end of year | <u>\$ 9,174</u> | <u>\$ 191,351</u> | <u>\$ 95,308</u> | <u>\$ 295,833</u> |

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS (cont'd)

Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the plan was -0- percent funded. The actuarial accrued liability for benefits was \$537,900, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$537,900. The covered payroll (annual payroll of active employees covered by the plan) was \$709,000, and the ratio of the UAAL to the covered payroll was 75.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 4.0 percent per annum, discount rate compounded annually, and an annual healthcare cost trend rate of 6.1 percent in 2013, reduced by decrements to an ultimate rate of 4.7 percent in 2081 and later. The UAAL is being amortized based on a level dollar, 20-year closed period. The remaining amortization period at December 31, 2013, was 17 years.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

The Town participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Town is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Delaware Municipal Electric Corporation

The Town is a member of the Delaware Municipal Electric Corporation ("DEMEC"). DEMEC is a public corporation constituted as a joint action agency and a wholesale electric utility. DEMEC was established in 1979 and represents nine municipal electric distribution utilities located in the State of Delaware. DEMEC provides full requirements wholesale electric power supply service to seven of the nine members, including the Town, through the operation of owned generation assets and various contractual wholesale supply contracts with external parties.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS AND CONTINGENCIES (cont'd)

Delaware Municipal Electric Corporation (cont'd)

Participating members purchase 100 percent of their electric supply requirements from DEMEC under a long-term full requirements service contracts that became effective January 1, 2004, and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the participating members to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this agreement.

Participating members have entered into a separate power sales agreement effective May 1, 2001, to purchase an interest in the capacity produced by Unit No. 1 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. The Town is entitled to a percentage of all power supply and ancillary products generated from the existing nominal 45 MW natural gas fired combustion turbine generator for the useful life of the facility.

Participating members have entered into separate power sales agreements effective May 1, 2011 to purchase an interest in the capacity produced by Unit #2 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Unit #2 went into commercial operation June 1, 2012. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the Unit #2 nominal 50 MW natural gas fired combustion turbine generator for the useful life of the facility.

Under the terms of the various agreements, DEMEC is authorized to act as agent for the Town in all matters relating to the acquisition and delivery of its wholesale power supply and management of energy cost risk on behalf of the Town in the deregulated energy markets.

NOTE 11 RISK MANAGEMENT

The Town maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials and crime. There have been no significant changes in coverage, and there have been no losses above insurance limits during the past year.

NOTE 12 SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through March 28, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF CLAYTON
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | Original and Final Appropriated Budget | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|--|---|---|------------------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property taxes | \$ 314,500 | \$ 317,891 | \$ 3,391 |
| Transfer taxes | 82,500 | 187,314 | 104,814 |
| Charges for services | 304,050 | 337,635 | 33,585 |
| Intergovernmental | 119,542 | 117,892 | (1,650) |
| Licenses and fees | 4,000 | 6,892 | 2,892 |
| Fines and forfeits | 84,700 | 73,406 | (11,294) |
| Franchise fees | 62,850 | 60,359 | (2,491) |
| Interest income | 2,500 | 935 | (1,565) |
| Miscellaneous | 4,500 | 1,958 | (2,542) |
| TOTAL REVENUES | <u>979,142</u> | <u>1,104,282</u> | <u>125,140</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 392,601 | 361,187 | 31,414 |
| Public safety | 863,343 | 923,423 | (60,080) |
| Public works | 420,324 | 319,673 | 100,651 |
| Licensing and inspection | 32,361 | 31,648 | 713 |
| Debt service: | | | |
| Principal | 7,768 | 7,768 | -0- |
| Interest | 1,303 | 1,303 | -0- |
| Capital outlay | 34,827 | 24,195 | 10,632 |
| TOTAL EXPENDITURES | <u>1,752,527</u> | <u>1,669,197</u> | <u>83,330</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(773,385)</u> | <u>(564,915)</u> | <u>208,470</u> |
| OTHER FINANCING SOURCES | | | |
| Proceeds from sale of capital assets | -0- | -0- | -0- |
| Transfers in | 773,385 | 793,951 | 20,566 |
| TOTAL OTHER FINANCING SOURCES | <u>773,385</u> | <u>793,951</u> | <u>20,566</u> |
| NET CHANGE IN FUND BALANCE | -0- | 229,036 | 229,036 |
| FUND BALANCE, BEGINNING OF YEAR | 76,768 | 76,768 | -0- |
| PRIOR PERIOD ADJUSTMENT | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 76,768</u> | <u>\$ 305,804</u> | <u>\$ 229,036</u> |

COMBINING NONMAJOR FUND STATEMENTS

**TOWN OF CLAYTON
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

| | Municipal Street Aid Fund | S.A.L.L.E. Fund | E.I.D.E. Fund | Total |
|--|---------------------------------|--------------------|------------------|------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 56,330 | \$ 1,604 | \$ 2,450 | \$ 60,384 |
| Due from other fund | -0- | -0- | 60 | 60 |
| TOTAL ASSETS | <u>\$ 56,330</u> | <u>\$ 1,604</u> | <u>\$ 2,510</u> | <u>\$ 60,444</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Due to other fund | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| TOTAL LIABILITIES | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| FUND BALANCES | | | | |
| Reserved, designated for: | | | | |
| Police expenditures | -0- | 1,604 | 2,510 | 4,114 |
| Public works expenditures | 56,330 | -0- | -0- | 56,330 |
| TOTAL FUND BALANCES | <u>56,330</u> | <u>1,604</u> | <u>2,510</u> | <u>60,444</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 56,330</u> | <u>\$ 1,604</u> | <u>\$ 2,510</u> | <u>\$ 60,444</u> |

**TOWN OF CLAYTON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

| | Municipal Street Aid Fund | S.A.L.L.E. Fund | E.I.D.E. Fund | Total |
|---|---------------------------------|--------------------|------------------|------------------|
| REVENUES | | | | |
| Intergovernmental | \$ 41,101 | \$ -0- | \$ -0- | \$ 41,101 |
| Interest income | 48 | -0- | -0- | 48 |
| TOTAL REVENUES | <u>41,149</u> | <u>-0-</u> | <u>-0-</u> | <u>41,149</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | -0- | 3,675 | 1,400 | 5,075 |
| Public works | 10,346 | -0- | -0- | 10,346 |
| TOTAL EXPENDITURES | <u>10,346</u> | <u>3,675</u> | <u>1,400</u> | <u>15,421</u> |
| OTHER FINANCING SOURCES | | | | |
| Transfers out | 39,500 | -0- | -0- | 39,500 |
| TOTAL OTHER FINANCING SOURCES | <u>39,500</u> | <u>-0-</u> | <u>-0-</u> | <u>39,500</u> |
| CHANGE IN FUND BALANCES | (8,697) | (3,675) | (1,400) | (13,772) |
| FUND BALANCES, BEGINNING OF YEAR | <u>65,027</u> | <u>5,279</u> | <u>3,910</u> | <u>74,216</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 56,330</u> | <u>\$ 1,604</u> | <u>\$ 2,510</u> | <u>\$ 60,444</u> |

OTHER REPORTS

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

March 28, 2014

To the Honorable Mayor and Town Council
Town of Clayton
Clayton, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Clayton, Delaware, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Town of Clayton, Delaware's basic financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Town Council
Town of Clayton
March 28, 2014

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Clayton, Delaware's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Papaleo, Rosen + Chelf, P.A.

PAPALEO, ROSEN & CHELF, PA