

FINANCIAL STATEMENTS

Town Of Clayton

Kent County, Delaware

December 31, 2011

TOWN OF CLAYTON
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INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Clayton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012, on our consideration of the Town of Clayton'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* and should be considered in assessing the results of our audit.

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.

To the Honorable Mayor and Town Council
Town of Clayton

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Clayton's financial statements as a whole. The introductory section, combining nonmajor governmental fund financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. The combining nonmajor governmental 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Papaleo, Rosen + Chelf, P.A.

Papaleo, Rosen & Chelf, PA
Wilmington, Delaware
March 28, 2012

TOWN OF CLAYTON
Management's Discussion and Analysis – Unaudited
December 31, 2011

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, 2011. 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, 2011, by \$6.5 million (net assets). Of this amount, \$215 thousand (unrestricted net assets) may be used to meet the Town's ongoing obligations to its citizens and creditors. The Town's total net assets increased by \$246 thousand. The current year increase in the Town's net assets is due primarily to current year revenues, including transfers, exceeding expenses. Also, trash rates increased from \$19.20 to \$23.20 per month.

As of December 31, 2011, the Town's governmental funds reported combined ending fund balances of \$2.9 million, an increase of \$177 thousand as compared to the prior year. The current year increase in fund balance can be attributed to revenues, including transfers in, exceeding prior year figures.

As of December 31, 2011, the Town's proprietary funds reported combined net assets of \$2.7 million, an increase of \$63 thousand as compared to the prior year. The current year increase in net assets can be attributed to an increase in electric service charges and offset by a decrease in transfers to other funds. Electric billing rates remained the same for 2011. Sewer billing rates changed from \$16.50 for 3,000 gallons per month to \$16.50 for 2,000 gallons with each additional 1,000 gallons for \$5.00. In addition, approximately \$700 thousand was transferred from the proprietary funds to subsidize the government's primary operations.

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, 2011

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 Assets 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, 2011

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 Assets for the Town as of December 31, 2011, and 2010:

Table 1 – Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	\$ 3,587,483	\$ 3,451,958	\$ 733,331	\$ 637,802	\$ 4,320,814	\$ 4,089,760
Capital assets, net	<u>1,059,564</u>	<u>1,004,788</u>	<u>3,099,965</u>	<u>3,108,791</u>	<u>4,159,529</u>	<u>4,113,579</u>
TOTAL ASSETS	<u>4,647,047</u>	<u>4,456,746</u>	<u>3,833,296</u>	<u>3,746,593</u>	<u>8,480,343</u>	<u>8,203,339</u>
LIABILITIES						
Other liabilities	700,359	748,462	409,034	365,886	1,109,393	1,114,348
Long-term liabilities	<u>104,344</u>	<u>48,927</u>	<u>751,823</u>	<u>771,585</u>	<u>856,167</u>	<u>820,512</u>
TOTAL LIABILITIES	<u>804,703</u>	<u>797,389</u>	<u>1,160,857</u>	<u>1,137,471</u>	<u>1,965,560</u>	<u>1,934,860</u>
NET ASSETS						
Invested in capital assets, net of related debt	1,043,049	964,238	2,350,109	2,302,919	3,393,158	3,267,157
Restricted	2,906,250	2,832,724	-	-	2,906,250	2,832,724
Unrestricted (deficit)	<u>(106,955)</u>	<u>(137,605)</u>	<u>322,330</u>	<u>306,203</u>	<u>215,375</u>	<u>168,598</u>
TOTAL NET ASSETS	<u>\$ 3,842,344</u>	<u>\$ 3,659,357</u>	<u>\$ 2,672,439</u>	<u>\$ 2,609,122</u>	<u>\$ 6,514,783</u>	<u>\$ 6,268,479</u>

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 assets 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 assets 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, 2011

Table 2 – Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues:						
Charges for services	\$ 537,234	\$ 426,283	\$ 3,346,803	\$ 3,326,414	\$ 3,884,037	\$ 3,752,697
Operating grants and contributions	123,860	131,849	-0-	-0-	123,860	131,849
Capital grants and contributions	82,763	-0-	-0-	-0-	82,763	-0-
General revenues:						
Taxes	448,643	381,561	-0-	-0-	448,643	381,561
Investment earnings	14,024	12,916	2,634	1,795	16,658	14,711
Franchise fees	37,814	16,183	-0-	-0-	37,814	16,183
Miscellaneous	5,989	19,534	-0-	-0-	5,989	19,534
Transfers/Contributions	695,433	543,925	-0-	-0-	695,433	543,925
TOTAL REVENUES	<u>1,945,760</u>	<u>1,532,251</u>	<u>3,349,437</u>	<u>3,328,209</u>	<u>5,295,197</u>	<u>4,860,460</u>
EXPENSES						
General government	304,067	430,495	-0-	-0-	304,067	430,495
Public safety	930,259	790,051	-0-	-0-	930,259	790,051
Public works	492,682	379,730	-0-	-0-	492,682	379,730
Licensing and inspection	35,765	87,134	-0-	-0-	35,765	87,134
Electric operations	-0-	-0-	1,891,486	1,986,018	1,891,486	1,986,018
Water/Sewer operations	-0-	-0-	699,201	675,152	699,201	675,152
Transfers	-0-	-0-	695,433	543,925	695,433	543,925
TOTAL EXPENSES	<u>1,762,773</u>	<u>1,687,410</u>	<u>3,286,120</u>	<u>3,205,095</u>	<u>5,048,893</u>	<u>4,892,505</u>
INCREASE (DECREASE) IN NET ASSETS	182,987	(155,159)	63,317	123,114	246,304	(32,045)
NET ASSETS, BEGINNING OF YEAR	3,659,357	3,806,819	2,609,122	2,486,008	6,268,479	6,292,827
PRIOR PERIOD ADJUSTMENT	-0-	7,697	-0-	-0-	-0-	7,697
NET ASSETS, END OF YEAR	<u>\$ 3,842,344</u>	<u>\$ 3,659,357</u>	<u>\$ 2,672,439</u>	<u>\$ 2,609,122</u>	<u>\$ 6,514,783</u>	<u>\$ 6,268,479</u>

Governmental Activities

The cost of all governmental activities in 2011 was \$1.8 million. The amount that taxpayers ultimately financed for these activities through Town taxes was \$449 thousand, or 25 percent. Other costs were paid by those who directly benefited from the programs (\$537 thousand, or 30 percent) or by government agencies and organizations that subsidized funding with intergovernmental aid and contributions (\$124 thousand, or 7 percent).

Charges for services increased due primarily to a increase in building permit and impact fees in the amount of approximately \$111 thousand which can be attributed to the increase in development within Town limits. Increases in taxes relate primarily to a increase in transfer taxes from the prior year in the amount of \$60 thousand net of an increase in property taxes of \$7 thousand. The increase in transfer taxes is due to the increase in 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, 2011

As indicated by the governmental program expenses, general government programs accounted for 17 percent of the Town's governmental activities and remained consistent with prior year amounts. Public safety expenses accounted for 53 percent of the Town's governmental activities, public works expenses accounted for 28 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 and increased by \$20 thousand over the prior year. Increases in charges for services can be attributed to an increase in electric usage in the current year. The overall expenses of the business-type activities increased by approximately 2 percent. Expense increases are due to an increase in electric purchased and sewer charges.

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, 2011, the Town's governmental funds reported combined ending fund balances of \$2.9 million, an increase of \$20 thousand as compared to the prior year. Approximately 101 percent, or \$2.9 million, constitutes fund balance reserved for special purposes, leaving \$(30) thousand available for spending at the Town's discretion.

The General Fund is the chief operating fund of the Town. As of December 31, 2011, the total of the General Fund was approximately \$22 thousand, of which \$(188) thousand is unreserved and undesignated, \$157 thousand has been designated by the Town to fund future costs for post-employment benefits, \$50 thousand has been reserved for future police pension costs, and \$2 thousand has been reserved for inventory costs. The fund balance increased by \$117 thousand during the year ended December 31, 2011.

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, 2011

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 \$67 thousand more than budget due to the timing of the completion of development projects and the sale of the associated properties.
- Intergovernmental revenue was \$80 thousand more than budget due to anticipated governmental support programs offering support.
- General government expenditures were \$63 thousand less than budget due to the expectation of significant increases related to health insurance and property insurance.
- Public safety expenses were over budget by \$120 thousand due to the need for additional employees resulting in an increase in salaries and benefits for the public safety department.
- Public works expenditures were \$40 thousand over budget due to the expectation of a need for additional employees and increasing premiums related to health insurance and property insurance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets for its governmental and business-type activities as of December 31, 2011, amounted to \$4.2 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 increase in the Town's capital assets for the current fiscal year was approximately \$46 thousand. Current year additions of \$306 thousand exceeded depreciation expense of \$260 thousand. In addition, there were capital assets of \$77 thousand that had been written off.

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, 2011, the Town paid approximately \$58 thousand to bring the total debt to approximately \$766 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, 2011

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 2012 in relation to 2011.

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 ASSETS
DECEMBER 31, 2011
(With Summarized Comparative Data for December 31, 2010)**

	Governmental Activities	Business-type Activities	Totals	
			2011	2010 *
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,949,355	\$ 622,641	\$ 3,571,996	\$ 3,350,809
Taxes receivable	16,956	-0-	16,956	20,809
Accounts receivable	3,076	50,817	53,893	45,522
Other receivables	56,615	556	57,171	26,779
Inventory	2,071	50,527	52,598	64,556
Prepaid expenses	16,253	3,237	19,490	19,622
Due from other fund	543,157	5,553	548,710	561,663
Total Current Assets	<u>3,587,483</u>	<u>733,331</u>	<u>4,320,814</u>	<u>4,089,760</u>
Noncurrent Assets:				
Capital assets, net	<u>1,059,564</u>	<u>3,099,965</u>	<u>4,159,529</u>	<u>4,113,579</u>
TOTAL ASSETS	\$ <u>4,647,047</u>	\$ <u>3,833,296</u>	\$ <u>8,480,343</u>	\$ <u>8,203,339</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ 11,670	\$ 211,011	\$ 222,681	\$ 175,725
Due to other fund	548,710	-0-	548,710	561,663
Impact fee escrows	50,704	-0-	50,704	105,763
Accrued salaries and benefits	44,197	12,098	56,295	49,145
Accrued interest	-0-	8,498	8,498	8,810
Loan payable	7,998	35,226	43,224	58,322
Accrued compensated absences	37,080	20,786	57,866	34,382
Utility deposits	-0-	121,415	121,415	120,538
Total Current Liabilities	<u>700,359</u>	<u>409,034</u>	<u>1,109,393</u>	<u>1,114,348</u>
Noncurrent Liabilities:				
Accrued compensated absences	25,936	14,796	40,732	54,141
Post-employment benefits	69,891	22,397	92,288	-0-
Loan payable	8,517	714,630	723,147	766,371
Total Noncurrent Liabilities	<u>104,344</u>	<u>751,823</u>	<u>856,167</u>	<u>820,512</u>
TOTAL LIABILITIES	<u>804,703</u>	<u>1,160,857</u>	<u>1,965,560</u>	<u>1,934,860</u>
NET ASSETS				
Invested in capital assets, net				
of related debt	1,043,049	2,350,109	3,393,158	3,267,157
Unrestricted (deficit)	(106,955)	322,300	215,375	168,598
Restricted for police	59,082	-0-	59,082	31,381
Restricted for public works	124,725	-0-	124,725	113,781
Restricted for future growth initiatives	2,722,443	-0-	2,722,443	2,687,562
TOTAL NET ASSETS	<u>3,842,344</u>	<u>2,672,439</u>	<u>6,514,783</u>	<u>6,268,479</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,647,047</u>	\$ <u>3,833,296</u>	\$ <u>8,480,343</u>	\$ <u>8,203,339</u>

* 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, 2011
(With Summarized Comparative Data for the Year Ended December 31, 2010)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 304,067	\$ 7,116	\$ 1,275	\$ 40,108	\$ (255,568)	\$ -0-	\$ (255,568)
Public safety	930,259	88,911	74,201	12,480	(754,667)	-0-	(754,667)
Public works	492,682	413,144	48,384	30,175	(979)	-0-	(979)
Licensing and inspection	35,765	28,063	-0-	-0-	(7,702)	-0-	(7,702)
TOTAL GOVERNMENTAL ACTIVITIES	1,762,773	537,234	123,860	82,763	(1,018,916)	-0-	(1,018,966)
BUSINESS-TYPE ACTIVITIES							
Electric	1,891,486	2,585,829	-0-	-0-	-0-	694,343	694,343
Water/Sewer	699,201	760,974	-0-	-0-	-0-	61,773	61,773
TOTAL BUSINESS-TYPE ACTIVITIES	2,590,687	3,346,803	-0-	-0-	-0-	756,116	756,116
TOTAL PRIMARY GOVERNMENT	\$ 4,353,460	\$ 3,884,037	\$ 123,860	\$ 82,763	\$ (1,018,916)	\$ 756,116	\$ (262,800)
GENERAL REVENUE							
Real estate taxes					\$ 304,326	\$ -0-	\$ 304,326
Real estate transfer taxes					144,317	-0-	144,317
Franchise fees					37,814	-0-	37,814
Interest income					14,024	2,634	16,658
Miscellaneous					5,989	-0-	5,989
TRANSFERS					695,433	(695,433)	-0-
TOTAL GENERAL REVENUES AND TRANSFERS					1,201,903	(692,799)	509,104
CHANGE IN NET ASSETS					182,987	63,317	246,304
NET ASSETS, BEGINNING OF YEAR					3,659,357	2,609,122	6,268,479
PRIOR PERIOD ADJUSTMENT					-0-	-0-	-0-
NET ASSETS, END OF YEAR					\$ 3,842,344	\$ 2,672,439	\$ 6,514,783

* Restated for comparative purposes.

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

TOWN OF CLAYTON
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2011
(With Summarized Comparative Data for December 31, 2010)

	Totals			
	General Fund	Impact Fees Fund	Nonmajor Governmental Funds	2010 *
ASSETS				
Cash and cash equivalents	\$ 583,978	\$ 2,239,353	\$ 126,024	\$ 2,949,355
Taxes receivable	16,956	-0-	-0-	16,956
Accounts receivable	3,076	-0-	-0-	3,076
Other receivables	56,615	-0-	-0-	56,615
Inventory	2,071	-0-	-0-	2,071
Prepaid expenses	16,253	-0-	-0-	16,253
Due from other funds	800	533,794	8,563	543,157
TOTAL ASSETS	\$ 679,749	\$ 2,773,147	\$ 134,587	\$ 3,587,483
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 11,670	\$ -0-	\$ -0-	\$ 11,670
Impact fee escrows	-0-	50,704	-0-	50,704
Accrued salaries and benefits	44,197	-0-	-0-	44,197
Accrued compensated absences	37,080	-0-	-0-	37,080
Deferred revenue	16,956	-0-	-0-	16,956
Due to other funds	547,910	-0-	800	548,710
TOTAL LIABILITIES	657,813	50,704	800	709,317
FUND BALANCES:				
Unreserved – undesignated	(187,533)	-0-	-0-	(187,533)
Unreserved – designated for:				
Post-employment benefits	157,378	-0-	-0-	157,378
Reserved for police	50,020	-0-	9,062	59,082
Reserved for public works	-0-	-0-	124,725	124,725
Reserved for future growth initiatives	-0-	2,722,443	-0-	2,722,443
Reserved for inventory	2,071	-0-	-0-	2,071
TOTAL FUND BALANCES	21,936	2,722,443	133,787	2,878,166
TOTAL LIABILITIES AND FUND BALANCES	\$ 679,749	\$ 2,773,147	\$ 134,587	\$ 3,587,483

* 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 ASSETS
DECEMBER 31, 2011**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 2,878,166
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,059,564
Some of the Town's assets are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds.		16,956
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	\$ (16,515)	
Post-employment benefits	<u>(69,891)</u>	(86,406)
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>(25,936)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,842,344</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, 2011
(With Summarized Comparative Data for the Year Ended December 31, 2010)

	General	Impact Fees Fund	Nonmajor Governmental Funds	2011	Totals	2010 *
REVENUES						
Taxes:						
Property taxes	\$ 308,178	\$ -0-	\$ -0-	\$ 308,178	\$	276,281
Transfer taxes	144,317	-0-	-0-	144,317		84,471
Special assessment/impact fees	-0-	132,500	-0-	132,500		91,000
Charges for services	307,982	-0-	-0-	307,982		280,081
Intergovernmental	149,922	-0-	56,701	206,623		131,849
Licenses and fees	7,841	-0-	-0-	7,841		6,366
Fines and forfeits	88,911	-0-	-0-	88,911		48,836
Franchise fees	37,814	-0-	-0-	37,814		16,183
Interest income	3,665	9,855	504	14,024		12,916
Miscellaneous	5,489	-0-	-0-	5,489		14,534
TOTAL REVENUES	<u>1,054,119</u>	<u>142,355</u>	<u>57,205</u>	<u>1,253,679</u>		<u>962,517</u>
EXPENDITURES						
Current:						
General government	287,359	-0-	-0-	287,359		404,461
Public safety	825,117	-0-	6,519	831,636		726,270
Public works	392,752	46,000	8,662	447,414		327,909
Licensing and inspection	35,765	-0-	-0-	35,765		88,872
Debt Service:						
Principal	24,035	-0-	-0-	24,035		10,102
Interest	1,111	-0-	-0-	1,111		1,709
Capital outlays	128,484	-0-	22,364	150,848		184,789
TOTAL EXPENDITURES	<u>1,694,623</u>	<u>46,000</u>	<u>37,545</u>	<u>1,778,168</u>		<u>1,744,112</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(640,504)</u>	<u>96,355</u>	<u>19,660</u>	<u>(524,489)</u>		<u>(781,595)</u>
OTHER FINANCING SOURCES						
Proceeds from sale of capital assets	500	-0-	-0-	500		5,000
Loan proceeds	-0-	-0-	-0-	-0-		25,303
Transfers in	756,907	-0-	-0-	756,907		568,425
Transfers out	-0-	(61,474)	-0-	(61,474)		(24,500)
TOTAL OTHER FINANCING SOURCES	<u>757,407</u>	<u>(61,474)</u>	<u>-0-</u>	<u>695,933</u>		<u>574,228</u>
NET CHANGES IN FUND BALANCES	116,903	34,881	19,660	171,444		(207,367)
FUND BALANCES, BEGINNING OF YEAR	(95,691)	2,687,562	114,851	2,706,722		2,906,392
PRIOR PERIOD ADJUSTMENT	724	-0-	(724)	-0-		7,697
FUND BALANCES, END OF YEAR	<u>\$ 21,936</u>	<u>\$ 2,722,443</u>	<u>\$ 133,787</u>	<u>\$ 2,878,166</u>		<u>\$ 2,706,722</u>

* Restated for comparative purposes.

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

**TOWN OF CLAYTON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$	171,444
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$96,073) exceeds capital outlays (\$150,848).		54,775
Because some property taxes will not be collected for several months after the Town’s fiscal year ends, they are not considered as “available” revenues in the governmental funds. Deferred tax revenues increased by this amount this year.		(3,852)
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.		6,476
The Net OPEB obligation 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.		(69,891)
Sales and other disposals of capital assets must be reported in the entity-wide statement of net assets. Gains on such disposals should be reported as general revenues. Losses should not be reported as direct expenses of specific functions but should instead be included as part of the general government function.		-0-
The issuance of long-term debt (e.g. loans payable) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		24,035
		<hr/>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>182,987</u>

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

TOWN OF CLAYTON
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2011
(With Summarized Comparative Data for December 31, 2010)

	Electric Fund	Water And Sewer Fund	Totals	
			2011	2010 *
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 622,639	\$ 2	\$ 622,641	\$ 523,917
Accounts receivable	33,739	17,078	50,817	43,384
Other receivables	556	-0-	556	-0-
Inventory	39,960	10,567	50,527	60,652
Prepaid expenses	1,079	2,158	3,237	3,131
Due from other funds	5,553	-0-	5,553	6,718
Total Current Assets	<u>703,526</u>	<u>29,805</u>	<u>733,331</u>	<u>637,802</u>
Noncurrent Assets:				
Capital assets, net	<u>1,122,580</u>	<u>1,977,385</u>	<u>3,099,965</u>	<u>3,108,791</u>
TOTAL ASSETS	<u>\$ 1,826,106</u>	<u>\$ 2,007,190</u>	<u>\$ 3,833,296</u>	<u>\$ 3,746,593</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 144,400	\$ 66,611	\$ 211,011	\$ 175,173
Accrued salaries and benefits	4,033	8,065	12,098	11,499
Accrued interest	-0-	8,498	8,498	8,810
Loan payable	-0-	35,226	35,226	34,287
Accrued compensated absences	6,929	13,857	20,786	15,579
Utility deposits	121,415	-0-	121,415	120,538
Total Current Liabilities	<u>276,777</u>	<u>132,257</u>	<u>409,034</u>	<u>365,886</u>
Noncurrent Liabilities:				
Accrued compensated absences	4,932	9,864	14,796	21,729
Post-employment benefits	7,466	14,931	22,397	-0-
Loan payable	-0-	714,630	714,630	749,856
TOTAL LIABILITIES	<u>289,175</u>	<u>871,682</u>	<u>1,160,857</u>	<u>1,137,471</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,122,580	1,227,529	2,350,109	2,324,648
Unrestricted (Deficit)	414,351	(92,021)	322,330	284,474
TOTAL NET ASSETS	<u>1,536,931</u>	<u>1,135,508</u>	<u>2,672,439</u>	<u>2,609,122</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,826,106</u>	<u>\$ 2,007,190</u>	<u>\$ 3,833,296</u>	<u>\$ 3,746,593</u>

* 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 ASSETS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Summarized Comparative Data for the Year Ended December 31, 2010)

	Electric Fund	Water and Sewer Fund	Totals	
			2011	2010 *
OPERATING REVENUES				
User service charges	\$ 2,526,108	\$ 729,949	\$ 3,256,057	\$ 3,253,720
Other operating revenue	59,721	31,025	90,746	72,694
Total Operating Revenue	<u>2,585,829</u>	<u>760,974</u>	<u>3,346,803</u>	<u>3,326,414</u>
OPERATING EXPENSES				
Electric purchased	1,634,380	-0-	1,634,380	1,727,703
Utility tax	10,911	-0-	10,911	13,875
Sewer charges	-0-	303,465	303,465	281,251
System upgrades and maintenance	33,931	36,970	70,901	77,874
Salaries and wages	68,509	137,017	205,526	228,266
Employee benefits	29,177	58,353	87,530	62,498
Depreciation	77,744	86,694	164,438	169,930
Supplies	12,819	47,984	60,803	38,234
Administration expenses	4,367	5,992	10,359	11,524
Professional services	19,649	1,939	21,588	28,819
Total Operating Expenses	<u>1,891,487</u>	<u>678,414</u>	<u>2,569,901</u>	<u>2,639,974</u>
OPERATING INCOME	<u>694,342</u>	<u>82,560</u>	<u>776,902</u>	<u>686,440</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,634	-0-	2,634	1,795
Interest expense	-0-	(20,786)	(20,786)	(21,196)
Total Nonoperating Revenues (Expenses)	<u>2,634</u>	<u>(20,786)</u>	<u>(18,152)</u>	<u>(19,401)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS				
	696,976	61,774	758,750	667,039
Transfers in	-0-	-0-	-0-	29,252
Transfers out	<u>(587,855)</u>	<u>(107,578)</u>	<u>(695,433)</u>	<u>(573,177)</u>
CHANGE IN NET ASSETS	109,121	(45,804)	63,317	123,114
NET ASSETS, BEGINNING OF YEAR	<u>1,427,810</u>	<u>1,181,312</u>	<u>2,609,122</u>	<u>2,486,008</u>
NET ASSETS, END OF YEAR	<u>\$ 1,536,931</u>	<u>\$ 1,135,508</u>	<u>\$ 2,672,439</u>	<u>\$ 2,609,122</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, 2011
(With Summarized Comparative Data for the Year Ended December 31, 2010)

	Electric Fund	Water and Sewer Fund	Totals	
			2011	2010 *
CASH FLOWS FROM OPERATING ACTIVITIES:				
Received from customers	\$ 2,585,213	\$ 754,478	\$ 3,339,691	\$ 3,361,367
Paid to suppliers for goods and services	(1,714,942)	(351,608)	(2,066,550)	(2,261,086)
Paid to employees for services	(90,595)	(181,191)	(271,786)	(269,635)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>779,676</u>	<u>221,679</u>	<u>1,001,355</u>	<u>830,646</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Due from other funds	1,165	-0-	1,165	(6,718)
Transfers in	-0-	-0-	-0-	29,252
Transfers out	(587,855)	(107,578)	(695,433)	(573,177)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(586,690)</u>	<u>(107,578)</u>	<u>(694,268)</u>	<u>(550,643)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Loan payment	-0-	(34,287)	(34,287)	(33,373)
Acquisition and construction of capital assets	(85,870)	(69,742)	(155,612)	(148,066)
Interest paid	-0-	(21,098)	(21,098)	(22,011)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(85,870)</u>	<u>(125,127)</u>	<u>(210,997)</u>	<u>(203,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	2,634	-0-	2,634	1,795
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,634</u>	<u>-0-</u>	<u>2,634</u>	<u>1,795</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	109,750	(11,026)	98,724	78,348
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>512,889</u>	<u>11,028</u>	<u>523,917</u>	<u>445,569</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 622,639</u>	<u>\$ 2</u>	<u>\$ 622,641</u>	<u>\$ 523,917</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income	\$ 701,808	\$ 97,491	\$ 799,299	\$ 686,440
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	77,744	86,694	164,438	169,930
Changes in assets and liabilities:				
Decrease (Increase) in accounts receivable	(1,493)	(6,496)	(7,989)	28,588
(Increase) in inventory	9,786	339	10,125	(15,292)
Decrease (Increase) in prepaid expenses	(35)	(71)	(106)	247
Increase (Decrease) in accounts payable	(8,636)	44,474	35,838	(66,761)
(Decrease) Increase in accrued salaries and benefits	200	399	599	7,673
Increase (Decrease) in compensated absences	(575)	(1,151)	(1,726)	13,456
Increase in utility deposits	877	-0-	877	6,365
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 779,676</u>	<u>\$ 221,679</u>	<u>\$ 1,001,355</u>	<u>\$ 830,646</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 assets and the statement of changes in net assets) 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 assets 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 assets are reported as restricted when constraints placed on net asset 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 assets arising from special revenue and capital funds. Unrestricted net assets consist of net assets 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 above 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 fund's 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.

In accordance with the Financial Standards Accounting Board's Accounting Standards Codification ("FASB ASC"), the entity-wide and business-type activities and proprietary funds of the Town follow the standards of accounting and financial reporting issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). The Town also has the option to follow subsequent private-sector guidance for its business-type activities and proprietary funds with certain limitations, but has elected not to do so.

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.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

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

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.

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.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

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

Compensated Absences (cont'd)

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.

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 assets 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.

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 2011 was 65 cents per \$100 of assessed value.

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, 2010, from which the summarized information was derived.

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 2011 there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, the General Fund incurred expenditures in excess of appropriations in the following functions:

Public safety	\$119,936
Public works	\$ 40,317
Licensing and inspections	\$ 28,280
Capital outlay	\$ 4,484

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 PRIOR PERIOD ADJUSTMENT

During the current year audit, the Town became aware of items that were recorded in error during the previous year audit:

The E.I.D.E. fund had a carryover balance from a previous grant that was transferred to a current grant. The effect of this entry resulted in the following:

Increase due from other fund	\$345
Increase to E.I.D.E. fund retained earnings	\$345

This resulted in prior year expenses being overstated by \$345.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 PRIOR PERIOD ADJUSTMENT (con't)

The seized asset/illegal drug enforcement fund was classified as a fund when in fact this is a police account used to hold funds from police arrests. These funds are later transferred out once they receive notification from the State. The effect of this entry resulted in the following:

Decrease to seized fund	\$1,069
Increase to general fund retained earnings	\$1,069

This resulted in prior year income being overstated by \$1,069.

NOTE 4 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.

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 assets 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, 2011, the carrying amount of the Town's deposits was \$3,571,996 and the bank balance was \$3,607,558. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$3,321,996 was uninsured and collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance*	Increase	Decrease	Ending Balance
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	130,997	52,539	-0-	183,536
Vehicles	671,526	45,706	77,279	639,953
Machinery and equipment	422,635	52,603	-0-	475,238
Total Capital Assets Being Depreciated	<u>1,514,952</u>	<u>150,848</u>	<u>77,279</u>	<u>1,588,521</u>
Accumulated depreciation:				
Buildings	111,839	6,270	-0-	118,109
Land Improvements	37,567	6,350	-0-	43,917
Vehicles	430,573	63,219	77,279	416,513
Machinery and equipment	364,101	20,233	-0-	384,334
Total Accumulated Depreciation	<u>944,080</u>	<u>96,072</u>	<u>77,279</u>	<u>962,873</u>
Total Capital Assets Being Depreciated, Net	<u>570,872</u>	<u>54,776</u>	<u>-0-</u>	<u>625,648</u>
Governmental Activities Assets, Net	<u>\$ 1,004,788</u>	<u>\$ 54,776</u>	<u>\$ -0-</u>	<u>\$ 1,059,564</u>
Business-type Activities:				
Capital assets being depreciated:				
Buildings and infrastructure	\$ 4,275,204	\$ 155,612	\$ -0-	\$ 4,430,816
Vehicles	219,455	-0-	-0-	219,455
Machinery and equipment	94,379	-0-	-0-	94,379
Total Capital Assets Being Depreciated	<u>4,589,038</u>	<u>155,612</u>	<u>-0-</u>	<u>4,744,650</u>
Accumulated depreciation:				
Buildings and improvements	1,311,483	120,652	-0-	1,432,135
Vehicles	146,705	34,746	-0-	181,451
Machinery and equipment	22,059	9,040	-0-	31,099
Total Accumulated Depreciation	<u>1,480,247</u>	<u>164,438</u>	<u>-0-</u>	<u>1,644,685</u>
Business-type Activities Assets, Net	<u>\$ 3,108,791</u>	<u>\$ (8,826)</u>	<u>\$ -0-</u>	<u>\$ 3,099,965</u>

* Restated for comparative purposes.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the functions as follows:

Governmental Activities:		
General government	\$	14,961
Public safety		42,078
Public works		<u>39,033</u>
Total Depreciation Expense – Governmental Activities		<u>96,072</u>
Business-type Activities:		
Electric		77,744
Water		<u>86,694</u>
Total Depreciation Expense – Business-type Activities		<u>\$ 164,438</u>

NOTE 6 CHANGES IN COMPENSATED ABSENCES

	<u>Beginning Balance*</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Accumulated compensated absences	<u>\$ 51,215</u>	<u>\$ 14,778</u>	<u>\$ 2,977</u>	<u>\$ 63,016</u>
Business-type Activities:				
Accumulated compensated absences				
Electric	\$ 12,436	\$ 304	\$ 879	\$ 11,861
Sewer	<u>24,872</u>	<u>606</u>	<u>1,757</u>	<u>23,721</u>
	<u>\$ 37,308</u>	<u>\$ 910</u>	<u>\$ 2,636</u>	<u>\$ 35,582</u>

* Restated for comparative purposes.

NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2011, is as follows:

Due To	Amount	Due From	Amount
Impact Fees Fund	\$ 533,794	General Fund	\$ 547,910
Electric Fund	5,553	E.D.I.E. Fund	800
General Fund	800		
E.D.I.E. Fund	4,149		
S.A.L.L.E. Fund	<u>4,414</u>		
Total	<u>\$ 548,710</u>		<u>\$ 548,710</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.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund transfers for the year ended December 31, 2011, was as follows:

	Transfer In	Transfer Out
Impact Fees Fund	\$ -0-	\$ 61,474
General Fund	756,907	-0-
Electric Fund	-0-	587,855
Water and Sewer Fund	-0-	107,578
 Total	 \$ 756,907	 \$ 756,907

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 8 LONG-TERM DEBT

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

	Beginning Balance	Decreases	Ending Balance
Governmental Activities:			
Loan payable – Sparta Commercial Services	\$ 7,291	\$ 7,291	\$ -0-
Loan payable – ALD Automotive	7,956	7,956	-0-
Loan payable – Ford Motor Credit Company	25,303	8,788	16,515
	\$ 40,550	\$ 24,035	\$ 16,515

The loan payable between Sparta Commercial Services, Inc. and the Town of Clayton Police Department is for a 2008 police motorcycle. The loan was entered into on February 7, 2008, and bears interest at 11 percent payable on March 17 in the amount of \$3,736. The loan matured on March 17, 2011.

The loan payable between ALD Automotive and the Town of Clayton Police Department is for a 2009 police vehicle. The loan was entered into on February 15, 2009, and bears interest at 6 percent payable on February 15 in the amount of \$8,075. The loan matured on February 15, 2011.

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 matures on January 5, 2013.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

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

Year Ended December 31,	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,998	\$ 1,073	\$ 9,071
2013	8,517	554	9,071
	<u>\$ 16,515</u>	<u>\$ 1,627</u>	<u>\$ 18,142</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>\$ 784,143</u>	<u>\$ 34,287</u>	<u>\$ 749,856</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 3.72 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>Principle</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 35,227	\$ 20,157	\$ 55,384
2013	36,190	19,194	55,384
2014	37,182	18,202	55,384
2015	38,200	17,184	55,384
2016	39,246	16,138	55,384
2017-2021	212,954	63,966	276,920
2022-2026	243,754	33,166	276,920
2027-2028	107,103	3,665	110,768
	<u>\$ 749,856</u>	<u>\$ 191,672</u>	<u>\$ 941,528</u>

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 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, 2011, 2010, and 2009, were \$47,730, \$45,907, and \$51,211, 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, 2011, 2010, and 2009, were \$23,154, \$26,967, and \$34,613, 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 10 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS

Plan Description

Effective for the year ended December 31, 2011, 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 10 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS (cont'd)

Plan Description (cont'd)

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 2011, the Town contributed \$2,000 to the plan for current premiums, or approximately 85 percent of total premiums. Plan members receiving benefits contributed \$351, or approximately 15 percent of total premiums, through their required monthly contributions.

Post-employment retirement benefits paid for the year ended December 31, 2011, totaled \$2,000. The Annual OPEB Cost (AOC) of \$94,288 for the year ended December 31, 2011, 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	\$ 4,947	\$ 59,478	\$ 29,863	\$ 94,288
Adjustment to annual required contribution	-0-	-0-	-0-	-0-
Annual OPEB cost (expense)	4,947	59,478	29,863	94,288
Contributions made	(2,000)	-0-	-0-	(2,000)
Increase in net OPEB obligation	2,947	59,478	29,863	92,288
Net OPEB obligation – beginning of year	-0-	-0-	-0-	-0-
Net OPEB obligation – end of year	<u>\$ 2,947</u>	<u>\$ 59,478</u>	<u>\$ 29,863</u>	<u>\$ 92,288</u>

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 POST-EMPLOYMENT POLICE RETIREMENT BENEFITS (cont'd)

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0.00 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, 2011, 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 6.30 percent in 2012, reduced by decrements to an ultimate rate of 4.70 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, 2011, was 19 years.

NOTE 11 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.

TOWN OF CLAYTON
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (cont'd)

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.

The Town purchases 100 percent of its electric supply requirements from DEMEC under a long-term full requirements service contract 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 Town 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.

The Town has 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.

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 12 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 13 GOVERNMENTAL ACCOUNTING STANDARDS BOARD NUMBER 54

The GASB has issued 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).

TOWN OF CLAYTON

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 GOVERNMENTAL ACCOUNTING STANDARDS BOARD NUMBER 54 (cont'd)

- *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.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. In addition, definitions of other governmental fund types have been modified for clarity and consistency.

The general provisions of GASB 54 were implemented by the Town for the fiscal year ending December 31, 2011.

NOTE 14 SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through March 28, 2012, 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, 2011**

	<u>Original and Final Appropriated Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes:			
Property taxes	\$ 295,000	\$ 308,178	\$ 13,178
Transfer taxes	77,500	144,317	66,817
Charges for services	253,300	307,982	54,682
Intergovernmental	69,724	149,922	80,198
Licenses and fees	3,650	7,841	4,191
Fines and forfeits	56,450	88,911	32,461
Franchise fees	25,000	37,814	12,814
Interest income	1,000	3,665	2,665
Miscellaneous	500	5,489	4,989
TOTAL REVENUES	<u>782,124</u>	<u>1,054,119</u>	<u>271,995</u>
EXPENDITURES			
Current:			
General government	350,354	287,359	62,995
Public safety	705,181	825,117	(119,936)
Public works	352,435	392,752	(40,317)
Licensing and inspection	7,485	35,765	(28,280)
Debt service:			
Principal	-0-	24,035	(24,035)
Interest	-0-	1,111	(1,111)
Capital outlay	124,000	128,484	(4,484)
TOTAL EXPENDITURES	<u>1,539,455</u>	<u>1,694,623</u>	<u>(155,168)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(757,331)</u>	<u>(640,504)</u>	<u>116,827</u>
OTHER FINANCING SOURCES			
Proceeds from sale of capital assets	-0-	500	500
Transfers in	757,331	756,907	(424)
TOTAL OTHER FINANCING SOURCES	<u>757,331</u>	<u>757,407</u>	<u>76</u>
NET CHANGE IN FUND BALANCE	-0-	116,903	116,903
FUND BALANCE, BEGINNING OF YEAR	(398,853)	(95,691)	303,162
PRIOR PERIOD ADJUSTMENT	<u>-0-</u>	<u>724</u>	<u>724</u>
FUND BALANCE, END OF YEAR	<u>\$ (398,853)</u>	<u>\$ 21,936</u>	<u>\$ 420,789</u>

* Restated for comparative purposes.

COMBINING NONMAJOR FUND STATEMENTS

**TOWN OF CLAYTON
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Seized Asset/ Illegal Drug Enforcement Fund	Total
ASSETS					
Cash and cash equivalents	\$ 124,725	\$ 619	\$ 680	\$ -0-	\$ 126,024
Due from other fund	-0-	4,414	4,149	-0-	8,563
TOTAL ASSETS	\$ 124,725	\$ 5,033	\$ 4,829	\$ -0-	\$ 134,587
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other fund	-0-	-0-	800	-0-	800
TOTAL LIABILITIES	-0-	-0-	800	-0-	800
FUND BALANCES					
Reserved, designated for:					
Police expenditures	-0-	5,033	4,029	-0-	9,062
Public works expenditures	124,725	-0-	-0-	-0-	124,725
TOTAL FUND BALANCES	124,725	5,033	4,029	-0-	133,787
TOTAL LIABILITIES AND FUND BALANCES	\$ 124,725	\$ 5,033	\$ 4,829	\$ -0-	\$ 134,587

**TOWN OF CLAYTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Seized Asset/ Illegal Drug Enforcement Fund	Total
REVENUES					
Intergovernmental	\$ 41,469	\$ 8,152	\$ 7,080	\$ -0-	\$ 56,701
Interest income	501	1	2	-0-	504
TOTAL REVENUES	<u>41,970</u>	<u>8,153</u>	<u>7,082</u>	<u>-0-</u>	<u>57,205</u>
EXPENDITURES					
Current:					
Public safety	-0-	3,121	3,398	-0-	6,519
Public works	31,026	-0-	-0-	-0-	31,026
TOTAL EXPENDITURES	<u>31,026</u>	<u>3,121</u>	<u>3,398</u>	<u>-0-</u>	<u>37,545</u>
CHANGE IN FUND BALANCES	10,944	5,032	3,684	-0-	19,660
FUND BALANCES, BEGINNING OF YEAR	113,781	1	-0-	1,069	114,851
PRIOR PERIOD ADJUSTMENT	-0-	-0-	345	(1,069)	(724)
FUND BALANCES, END OF YEAR	<u>\$ 124,725</u>	<u>\$ 5,033</u>	<u>\$ 4,029</u>	<u>\$ -0-</u>	<u>\$ 133,787</u>

OTHER REPORTS

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, 2012

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

We have audited the 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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Clayton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Clayton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompany schedule of findings and recommendations as items #06-1, #06-2, #08-1, #09-1, and #09-2 to be significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, the significant deficiencies, described in the accompanying schedule of findings and recommendations as items #06-1, #06-2, #08-1, and #09-1 are considered to be material weaknesses.

To the Honorable Mayor and Town Council
Town of Clayton
March 28, 2012

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Clayton in a separate letter dated March 28, 2012.

The Town of Clayton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Clayton's response and, accordingly, we express no opinion on it.

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

Papaleo, Rosen & Chelf, P.A.

PAPALEO, ROSEN & CHELF, PA

TOWN OF CLAYTON
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
STATUS OF PRIOR YEAR FINDINGS

06-1 FINANCIAL REPORTING

Condition: The Town does not report financial data reliably in accordance with generally accepted accounting principles. Reporting deficiencies noted during our audit procedures are as follows:

- The Town does not maintain financial data on a fund-based presentation. Authoritative accounting and financial reporting standards for state and local governments require that financial statements be accompanied by a fund-based presentation. A fund is a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions or limitations.
- The Town lacks employees or management who have the qualifications and training to apply generally accepted accounting principles to the Town's financial transactions or in the preparation of its financial statements. As a result, the Town relies on its auditor to record adjusting journal entries, maintain certain subsidiary ledgers and draft audited financial statements in accordance with generally accepted accounting principles.

Criteria: The Governmental Accounting Standards Board requires the financial reporting of governments to be in accordance with generally accepted accounting principles.

Cause: Lack of oversight by the Town Council and management over the financial reporting requirements necessary to comply with generally accepted accounting principles.

Effect: The Town's current financial reporting structure does not allow for the Town to initiate, process, or report financial data in accordance with generally accepted accounting principles.

Recommendation: The Town needs to evaluate its current financial reporting structure given the state of growth it is currently experiencing. Management and the Town Council need to take appropriate measures in respect to the above-noted deficiencies in financial reporting. We recommended that the Town explore the cost benefit of employing the services of a person or outside agency with the necessary background and knowledge to consistently apply generally accepted accounting principles to the financial data of the Town.

Status: During our current year audit, we noted that the Town still does not maintain financial data on a fund-based presentation as of December 31, 2011. In addition, the Town continued to rely on its auditor to record adjusting journal entries and draft financial statements in accordance with generally accepted accounting principles. Currently, the Town is evaluating the above-noted deficiencies to determine a cost-effective approach to resolve each deficiency given the current organizational structure of the Town.

Corrective Action Plan: The Town currently contracts with an outside individual to prove and close out its books on a monthly basis. Management will explore the option of retaining this same individual to record adjusting entries prior to the Town's being audited.

TOWN OF CLAYTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

06-2 LACK OF SEGREGATION OF DUTIES AND INTERNAL CONTROL-RELATED ISSUES

Condition: The current structure of the Town's operations does not employ proper segregation of duties or internal controls. Deficiencies noted during our audit procedures include, but are not limited to, the following:

- Mail is opened and cash receipts are listed by personnel having access to cash receipts and accounts receivable records.
- The general cashier function is not segregated from the general ledger and subsidiary ledger functions.
- Only one authorized signature is required for all checks. Dual signatures should be required on all checks over a specific amount.
- Custody of checks after signature and before mailing are handled by someone who is not independent of all payable, disbursing, cash, receiving and general ledger functions.
- Bank reconciliations are prepared by someone who is not independent of the cash receipts and disbursements functions.
- The billing function is not separate from the collection function.
- Personnel in the payables function are not independent of purchasing, disbursing, and general ledger functions.
- The person preparing the payroll is not independent of other payroll duties (e.g., timekeeping, distribution of checks) and has access to other payroll data.
- Payroll is not subject to final approval before payment by someone independent of payroll preparation and timekeeping.
- Journal entries are not supported by adequate documentation or approval by a responsible member of management or a Town official.

Criteria: Proper internal controls promote efficiency, reduce risk of asset loss and help to ensure the reliability of financial reporting.

Cause: Lack of oversight by the Town Council and management relevant to the internal control structure of the Town.

Effect: Material misstatements in relation to the financial reporting of the Town caused by error or fraud may occur and not be detected within a timely period by employees or Town officials in the normal course of performing their assigned functions.

Recommendation: Segregation of duties and the implementation of proper internal controls normally is difficult to accomplish within a small organization, but management and Town officials should be sensitive to areas that can be improved upon. Sometimes the cost outweighs the benefit of implementation depending on the size and structure of the organization. We recommended that management and the Town Council review the above-noted deficiencies and the current assignment of accounting functions. Where possible, duties should be segregated and internal controls set in place to help mitigate the risk of errors and fraud.

TOWN OF CLAYTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status: During our current year audit, we noted that the Town had not yet implemented processes relating to the lack of segregation of duties and internal control-related issues. The remaining lack of segregation of duties and internal control-related issues noted during the prior year audit are still applicable based on our current year audit procedures. We recommend that management and the Town Council evaluate each noted deficiency to determine whether the cost of implementation outweighs the benefits based on the Town's current organizational structure.

Corrective Action Plan: The Town of Clayton is a very small municipality. Many of these deficiencies have already been addressed with the change of personnel. Segregation of certain duties is difficult. The Town has put in place several checks and balances. Checks over \$2,000 are signed by two Council members. Payroll (does not include direct deposits) and accounts payable checks are presented to a Council member for review and signed by those with signature privileges.

08-1 CREDIT CARD RECEIPTS AND USAGE

Condition: The Town pays credit card invoices that are not supported by receipts and/or are made up of personal expenses.

Criteria: The Town should be paying invoices related to Town expenditures only.

Cause: Lack of oversight by the Town Council and management over the monitoring of credit card payments.

Effect: Without supporting documentation or evidence of a personal expense, there is a risk of overstatement of expenditures on the Town's financial statements or fraudulent activity by an employee(s).

Recommendation: The Town needs to evaluate its current credit card policy. Management and the Town Council need to take appropriate measures in respect to the above-noted deficiency. We recommended that the Town require a receipt for all credit card expenses. We further recommended that procedures be adopted to identify personal expenditures when they are incurred and to charge them back to the employees.

Status: During our current year audit, we noted that a majority of expenditures contained proper supporting documentation. We also noted that some expenditure had been deemed for personal expenses. The personal expenses have been repaid as evidence through additional testing. However, with the lack of supporting documentation for other credit card expenditures paid by the Town in 2011, this finding is still applicable for the current year.

Corrective Action Plan: The Town has adopted a credit card policy. With the change of personnel, all receipts are collected and verified that they are qualified expenses.

TOWN OF CLAYTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

08-2 FRAUD RISK ASSESSMENT

Condition: The Town does not have a risk assessment process in place.

Criteria: In light of the spate of notorious frauds involving large organizations in prior years, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies.

Cause: Lack of oversight by the Town Council and management over the assessment of fraud risks.

Effect: Whereas the highly publicized frauds at large public companies involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud.

Recommendation: We recommended that the Town perform a risk assessment to identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audit includes consideration of fraud. The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment (including industry and country-specific characteristics), and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- *What Individuals in the Town Have the Opportunity to Misappropriate Assets?* These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- *Are There Any Known Pressures That Would Motivate Employees with the Opportunity to Misappropriate Assets?* Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- *What Assets of the Town Are Susceptible to Misappropriation?*
- *Are There Any Known Internal Control Weaknesses That Would Allow Misappropriation of Assets to Occur and Remain Undetected?*

TOWN OF CLAYTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

- *How Could Assets Be Stolen?* Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- *How Could Potential Misappropriation of Assets Be Concealed?* Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored (for example, fixed assets, inventory and consulting expenses).
- *What Factors Might Indicate That the Town Has a Culture or Environment That Would Enable Management or Employees to Rationalize Committing Fraud?*

Status: During our current year audit, we noted that the Town had not yet implemented a process for fraud risk assessment. This finding is still applicable for the current year.

Corrective Action Plan: The Council will review a risk assessment process for the Town.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

09-01 YEAR-END CLOSING PROCEDURES

Condition: The Town did not have the financial records ready prior to the commencement of the audit. We made several journal entries to accrue liabilities, to reclassify capital outlays, to record debt payments and to record transfers between funds.

Criteria: As described in Statement of Auditing Standards (SAS) No. 115, "Communicating Internal Control-Related Matters Identified in an Audit," the auditor is required to report to those charged with governance any deficiencies in internal control identified during the audit. Specifically, deficiencies in "controls over the period-end financial reporting process, including controls over procedures used to initiate, authorize, record and process journal entries into the general ledger" are to be reported.

Cause: Lack of procedures established for the completion of year-end closing procedures.

Effect: When the auditor is making the journal entries as well as conducting the audit, the perception of independence may arise.

Recommendation: We recommend that the Town establish and implement procedures for conducting year-end closing procedures, such as making journal entries to accrue liabilities, to reclassify capital outlays, to book debt payments, and to record transfers of funds prior to the commencement of the audit.

TOWN OF CLAYTON

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status: During our current year audit, we noted that the Town had not implemented procedures for conducting year-end closing procedures.

Corrective Action Plan: The procedures will be written out to be followed for next year's audit.

09-02 CUSTODIAL CREDIT RISK

Condition: The Town does not have a policy regarding custodial credit risk.

Criteria: Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Town has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk.

Cause: No policy approved and implemented to identify custodial credit risk and limitations regarding the total amount of funds held in one financial institution.

Effect: Deposits in excess of the FDIC limits are exposed to credit risk.

Status: During our current year audit, we noted that the Town had obtained collateral pledged from their financial institution but the carrying balances exceeded current FDIC limits. We recommend that the Town obtain additional collateral from their financial institution.

10-01 INVENTORY RECORDS

Condition: The Town does not maintain a record of inventory on hand.

Criteria: The Town should be maintaining a list of inventory on hand at any given time period.

Cause: No policy had been implemented to maintain, track, and record inventory on hand that is used by the Department of Public Works.

Effect: Without an effective inventory schedule the Town has no idea of what inventory is on hand.

Recommendation: We recommend that the Town establish a schedule of inventory which shows the inflows and outflows of inventory items.

Corrective Action Plan: The Town currently has implemented an inventory schedule that allows them to track items currently in inventory.

Status: During our current year audit, we noted that the Town had prepared an inventory schedule but that it was based on current prices. Inventory should be maintained at lower of cost or market.