

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**TOWN OF CLAYTON
NORTH CAROLINA**

FISCAL YEAR ENDED JUNE 30, 2007



TOWN OF CLAYTON
North Carolina

Comprehensive Annual Financial Report

June 30, 2007

Prepared by:
Department of Finance

Finance Director:
Nancy T. Medlin



TOWN OF CLAYTON, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2007

<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i
Mission Statement and Community Goals	v
Certificate of Achievement in Financial Reporting.....	vi
Area Map and History of the Town of Clayton.....	vii
Members of Town Council.....	viii
Administrative Staff	ix
Clayton Committees.....	x
Organizational Chart	xi
FINANCIAL SECTION	
Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
1 Statement of Net Assets	14
2 Statement of Activities.....	16
Fund Financial Statements:	
3 Balance Sheet - Governmental Funds.....	17
4 Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
5 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
6 Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund	20
7 Statement of Net Assets - Proprietary Funds	21
8 Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	22
9 Statement of Cash Flows - Proprietary Funds.....	23
10 Statement of Fiduciary Net Assets	25
11 Statement of Changes in Fiduciary Net Assets	26
Notes to the Financial Statements	27
REQUIRED SUPPLEMENTAL FINANCIAL DATA:	
Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress.....	49
Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions.....	50

<u>Exhibit</u>	<u>Page</u>
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES:	
Major Governmental Funds	
General Fund:	
A-1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual51
Main Fire Station Project Fund	
A-2	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – From Inception57
Highway 70 Improvements Project Fund	
A-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – From Inception58
Clayton Community Center Project Fund	
A-4	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – From Inception59
Non-Major Governmental Funds:	
B-1	Combining Balance Sheet.....60
B-2	Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance.....61
Capital Reserve Fund	
B-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual..... 62
Horne Cemetery Fund	
B-4	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual63
Enterprise Funds:	
Water and Sewer Fund	
C-1	Schedule of Revenues and Expenditures – Budget and Actual (non-gaap)64
Waste Water Treatment Plant Upgrade Project Fund	
C-2	Schedule of Revenues and Expenditures – Budget and Actual (non-gaap) – From Inception66
Water Water Treatment Plant Upgrade Phase II Project Fund	
C-3	Schedule of Revenues and Expenditures – Budget and Actual (non-gaap) From Inception67
Raleigh/Clayton Sewer Project Fund	
C-4	Schedule of Revenues and Expenditures, and Changes in Fund Balance – Budget and Actual (non-gaap) - From Inception68
Water Treatment Capital Reserve Fund	
C-5	Schedule of Revenues and Expenditures, and Changes in Fund Balance – Budget and Actual (non-gaap)69
Electric Fund	
C-6	Schedule of Revenues and Expenditures – Budget and Actual (non-gaap)70
Electric Rate Stabilization Fund	
C-7	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (non-gaap)72

TOWN OF CLAYTON, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2007

Continued

<u>Exhibit</u>	<u>Page</u>
D-1	73
Agency Fund: Claytex Fire District Fund Statement of Changes in Assets and Liabilities	
OTHER SCHEDULES	
E-1	74
E-2	75
Schedule of Ad Valorem Taxes Receivable..... Analysis of Current Tax Levy	
STATISTICAL SECTION	
Financial Trend Information	
	76
	77
	79
	80
	82
	84
Revenue Capacity Information	
	85
	86
	87
	88
Debt Capacity Information	
	89
	90
	91
Demographic and Economic Information	
	93
	94
Operating Information	
	95
	96
	98
	99
	100
	101
COMPLIANCE SECTION	
	103
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	

TOWN OF CLAYTON, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2007

Continued

<u>Exhibit</u>	<u>Page</u>
Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act.....	105
Report on Compliance With Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act and the Schedule of Expenditures of Federal and State Awards	107
Schedule of Findings and Questioned Costs.....	109
Corrective Action Plan	112
Schedule of Expenditures of Federal and State Awards	113

INTRODUCTORY SECTION



Jody L. McLeod
MAYOR

Bruce Thompson
TOWN ATTORNEY

Steve Biggs
TOWN MANAGER



COUNCIL MEMBERS
Bob Satterfield
Alexander R. Atchison
Alex Harding
Michael Grannis

Robert J. Ahlert
MAYOR PRO TEM

September 21, 2007

To the Honorable Mayor, Members of the Town Council, and the Citizens of the Town of Clayton, North Carolina:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2007.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Kenneth R. Anderson, CPA CMA – PLLC has issued an unqualified (“clean”) opinion on the Town of Clayton’s financial statements for the year ended June 30, 2007. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Town

The Town of Clayton, incorporated on April 12, 1869, is located in the northwest portion of Johnston County. Clayton, which is bisected by U.S. Highway 70, is approximately 15 miles southeast of Raleigh, the State capital. The Town has a land area of 11.87 square miles and a population of approximately 13,000. The Town of Clayton is the fastest growing municipality in Johnston County with an annual growth rate of approximately eight percent. The Town has the statutory authority to extend its corporate limits through voluntary annexation, as deemed appropriate by the Town Council. The Town is currently pursuing an aggressive annexation policy.

As evidence of the enormous growth in Clayton, the Town is rapidly becoming a major center for the medical services industry. The Town is currently home to facilities operated by WakeMed, Johnston Memorial Hospital and Duke University Medical Center. Johnston Memorial Hospital has announced plans and acquired approximately seventy-five acres on NC Highway 42 west to construct a full service medical park. The facility will develop in phases with initial services covering emergency medicine, outpatient diagnostics, and medical offices. Ultimately the site will be suitable for up to an eighty bed in-patient care facility.

The Town of Clayton has a council/manager form of government. The Mayor and the five members of the Council are elected on a nonpartisan, at-large basis. The Mayor currently serves a four-year term. Members of the Council serve four-year staggered terms. The members of the Council hold policy-making and legislative authority. The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the Town of Clayton's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The Town manager is authorized to transfer resources between departments up to \$5,000. Transfers exceeding \$5,000 require Town Council approval.

The Town of Clayton provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; recreational and cultural activities; water and sanitary sewer services; and electrical services to businesses, industries and residential customers.

Local Economy

The Town continues to benefit from regional economic growth that exceeds the statewide average. Over the last twelve months, the Town has seen extensive growth in residential as well as commercial development. LionsGate, a mixed-use residential and commercial development, began construction in 2004. This development includes residential units, a "Downtown" commercial hub, a full service health club with pool, and extensive amenities including open space with a pedestrian trail, and a dedicated public park site. Summerlyn and Lyndale, a 200 acre area of developments on Glen Laurel Road, began construction in 2006. This area will offer nearly 500 single family homes, private open space and a public greenway.

Clayton is home to three large international pharmaceutical companies as well as a special purpose Research and Training Zone (RTZ) which supports the special needs of local pharmaceutical industries. Novo Nordisk, the world's largest supplier of insulin products, has maintained a presence in Clayton since 1991, and currently provides employment opportunities to approximately 500 citizens. Novo Nordisk recently completed construction of a \$113 million plant expansion. This new expansion is expected to create at least 187 new jobs, and is projected to increase State net revenues by \$4.6 million. Talecris, which operates a facility that has been in Clayton since 1981 and is the largest local employer, manufactures blood plasma products for a variety of medical applications. Finally, during the preceding year an

existing bio-pharmaceutical, Fresenius Kabi, was purchased by Hospira, Inc. Shortly after the purchase Hospira announced new capital investment in the site of at least \$15 million dollars and the addition of 150 jobs. The presence of these companies allows Clayton to host ten percent of the biopharmaceutical jobs in the State. In support of these industries the Town of Clayton joined with Johnston County to pursue special legislation to develop a Research and Training Zone (RTZ) in the “East Clayton Industrial Area”. The RTZ includes a 30,000 square feet pharmaceutical jobs training center which operates a partnership between Johnston Community College and North Carolina State University.

Caterpillar, a Fortune 100 company, operates an assembly facility in Clayton. Caterpillar of Clayton assembles and distributes all CAT front-end and backhoe loaders for North America and the export market. The backhoe loader line was recently retooled with a “skillet” assembly method involving an approximately three million dollar investment. Caterpillar Clayton is well positioned within the company to receive additional new capital investment in facilities for both existing and new product lines. They currently employ approximately 1,000.

Long-term financial planning

The Mayor and Town Council of Clayton are committed to making Clayton the best town in North Carolina in which to live, visit and work. During recent planning sessions, the Mayor and Council adopted long-range goals for the Town and town departments that are designed to promote and support this goal. These long-range goals include managing growth-producing quality developments; beautifying the Town of Clayton; expanding leisure opportunities and the arts community; creating an alive downtown; and growing the local economy.

In an effort to achieve many of these goals, the Town has undertaken a general obligation bond program for streets, recreation, and wastewater treatment. During the first phase of this undertaking, the Town contracted with Davenport & Company LLC to provide financial advising services and bond planning. Davenport & Company is a national financial advising firm that has a sterling reputation not only in North Carolina, but nation-wide.

The Town plans to introduce a bond referendum in the Spring of 2008 for street construction and repair, park and recreation development, and construction of a new wastewater treatment plant. Upon successful referenda, the Town plans a phased implementation of these projects over a five to seven year period.

Major Initiatives

The Town recently reached an agreement with the City of Raleigh to purchase one million gallons per day of wastewater treatment capacity. The agreement will involve construction by the Town of Clayton of an approximately three million dollar pumping and transmission project and will facilitate development on the north side of Clayton for approximately ten years. Longer term the Town is in the preliminary stages of planning for expansion of its own wastewater treatment plant to eight

million gallons of daily capacity as needed to meet projected growth in the year 2025.

With the announcement by Johnston Memorial Hospital that Clayton will be the site of their new, full-service medical facility on Highway 42 west and the pending completion of the Highway 70 by-pass with a related interchange also on Highway 42, the south side of Clayton has suddenly drawn a lot attention for new retail, office, and high density residential development. In preparation for this new wave of growth the Town undertook creation of a “small area plan” intended to foster orderly development in an attractive setting. Standard design features will include full pedestrian and bicycle connectivity throughout the nearly five hundred acre area, rear loaded parking with architecturally prominent buildings at major intersections, extensive use of water quality protection structures and natural landscaping, substantial highway buffers, and a convenient mixture of residential, commercial, medical, and service uses.

Riverwalk, a 900 hundred acre development located on Pritchard Road was recently annexed as a satellite area and is proposed for development as a 2,700 home upscale development with a significant reservation of natural area along the Neuse River.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Clayton for its Comprehensive Annual Financial Report for the fiscal years ended June 30, 2006. This was the sixth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine it eligibility for another certificate.

Preparation of this report would not have been possible without the dedicated efforts of the entire staff of the Finance Department and the Senior Administrative Assistant to the Town Manager. Credit must also be given to the mayor and the Town Council for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Clayton’s finances.

Respectfully submitted,

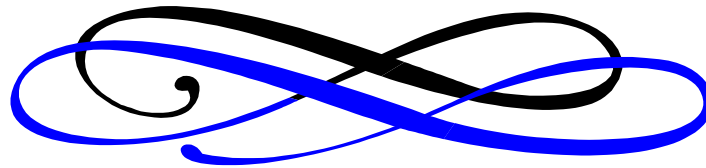
R. Steven Biggs
Town Manager

Nancy T. Medlin
Finance Director

Town of Clayton

MISSION STATEMENT:

Premier Community for Active Families



2000 to 2010 Community Goals:

Safest, Healthiest Town in the Triangle Area

Downtown: The Community Hub

Regional Service Center

A Place for Family Fun and Leisure

Business Community: Diverse and Profitable

Value for Taxes and Public Fees

