

STATE OF NEW MEXICO

Town of Clayton



ANNUAL FINANCIAL REPORT

JUNE 30, 2007



Griego Professional Services, LLC
Certified Public Accountants

6034



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

April 7, 2008

SAO Ref. No. 6034

The Honorable Garth Boyce, Mayor
Town of Clayton
1 Chestnut Street
Clayton, NM 88415-3523

SUBJECT: Audit Report—Town of Clayton—2006-2007 Fiscal Year—Prepared by Griego Professional Services, LLC

Your agency audit report was received by the Office of the State Auditor (Office) on December 3, 2007. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

As per your written request, this office is waiving the ten (10) day waiting period and is making the report public record immediately. The audit report will be:

- released by the Office of the State Auditor to the Legislative Finance Committee, and the Department of Finance and Administration; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10.J.(3)(d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies*.

The independent public accountant's findings and comments are included in the audit report on pages 59 - 62. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

HECTOR H. BALDERAS
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration-
Local Government Division
Griego Professional Services, LLC

INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
TOWN OF CLAYTON
OFFICIAL ROSTER
June 30, 2007**

TOWN TRUSTEES

Garth Boyce	Mayor
Jimmie Taylor	Trustee
Jack Chozrig	Trustee
Michael Jenkins	Trustee
Judy Valdez	Trustee

TOWN OFFICIALS

Michael Running	Town Manager
Theresa Gard	Clerk/Treasurer

HOUSING AUTHORITY

Y. Irene Gonzales	Chairperson
Eloy Gonzales	Vice- Chairperson
Becky Claycomb	Commissioner
Carrell R. Blakely	Commissioner
Reinaldo Sanchez	Commissioner

H A ADMINISTRATIVE STAFF

Ferdinand Garcia, III	Executive Director
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Griego Professional Services, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Garth Boyce, Mayor
Town Trustees
Town of Clayton
Clayton, New Mexico
and
Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton as of and for the year ended June 30, 2007, and the respective changes in financial position and cash flows, where applicable thereof, and the budgetary comparisons for the general fund and the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have also audited the financial statements of each of the Town's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2007 as listed in the table of contents. We did not audit the financial statements of the Town of Clayton Public Housing Authority, a component unit of the Town of Clayton which statements reflect total assets of \$1,395,599 as of June 30, 2007, and net operating revenues of \$239,408 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Town of Clayton, is based solely on the report of the other auditors. These financial statements are the responsibility of 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 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton as of June 30, 2007, and the respective changes in financial position and cash flows and the budgetary comparisons for the general fund and special revenue funds, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund of the Town of Clayton as of June 30, 2007 and the respective changes in financial position, thereof, and the budgetary comparisons for the nonmajor governmental funds, the Municipal Income Perm Fund and the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 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 the 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.

The Management's Discussion and Analysis on pages vi through xii is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the combining and individual fund financial statements and budgetary comparisons. The accompanying information listed as supporting schedules I through II are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grigo Professional Services, LLC

Albuquerque, New Mexico
November 30, 2007

Town of Clayton
Management's Discussion and Analysis
June 30, 2007

As management of Town of Clayton, we offer readers of Town of Clayton financial statements this narrative overview and analysis of the financial activities of Town of Clayton for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the financial statements of Town of Clayton and additional information provided.

FINANCIAL HIGHLIGHTS

- The assets of Town of Clayton exceeded its liabilities at the close of the most recent fiscal year by \$17,819,768 (*net assets*). Of this amount, \$3,293,014 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$318,144 during the fiscal year. The majority of this increase is due to Grants and Legislative Appropriations for the upgrade of city buildings, parks and equipment and Airport Taxiway Improvements as well as land purchase for future economic development for the year ended June 30, 2007 in the government activities.
- As of June 30, 2007, the Town's governmental funds reported combined ending fund balances of \$3,646,666. The total amount is unreserved.
- At the close of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$1,780,269, or 72 percent of total general fund expenditures.
- The Town of Clayton's total debt decreased by \$117,190, as a result of payments of principal, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Town of Clayton's basic financial statements. Town of Clayton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Town of Clayton's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Town of Clayton that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Town of Clayton include general government, public safety, public works, culture and recreation, and health and welfare. The business-type activities of the Town include joint utilities.

The government-wide financial statements can be found at Exhibits A-1 and A-2 of this report.

Town of Clayton
Management's Discussion and Analysis
June 30, 2007

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Town of Clayton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Town of Clayton can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Town of Clayton maintains sixteen individual governmental funds organized according to their type (special revenue, debt service and capital projects). Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Government Assistance Fund, Street Fund, and Municipal Income Perm Fund, all of which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Town of Clayton adopts an annual appropriated budget for its general fund and all other funds. A budgetary comparison statement has been provided for the General Fund, Government Assistance Fund, Street Fund, and Municipal Income Perm Fund to demonstrate compliance with this budget. In addition, the individual financial statements of the nonmajor governmental fund types include budgetary comparison data.

The basic governmental fund financial statements can be found at exhibits B-1 through C-3 of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the Town charges customers – either outside customers or internal units or departments of the Town. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The Town maintains one type of proprietary fund: joint utility.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-38 of this report.

Combining statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 40-57 of this report.

**Town of Clayton
Management's Discussion and Analysis
June 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB #34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. Comparative analysis of government-wide data has been included in this report.

Analysis of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$17,819,768 at the close of the most recent fiscal year.

The largest portion, 81.3%, of the Town's net assets (\$14,500,464) represents its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (18.6%) reflects the balances of its unrestricted net assets (\$3,315,071) which may be used to meet the Town's ongoing obligations to citizens and creditors. The remaining minor balance (\$4,233) reflects resources that are subject to external restrictions on how they may be used related to capital projects.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**TOWN OF CLAYTON'S NET ASSETS
(AMOUNTS IN THOUSANDS)**

	Governmental Activities		Business-type Activities		Total Government	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
ASSETS						
Current and other assets	\$3,804	\$3,185	\$599	\$592	\$ 4,403	\$ 3,777
Capital assets	<u>3,773</u>	<u>3,808</u>	<u>11,698</u>	<u>11,820</u>	<u>15,471</u>	<u>15,628</u>
Total assets	<u>\$7,577</u>	<u>\$6,993</u>	<u>\$12,297</u>	<u>\$12,412</u>	<u>\$19,874</u>	<u>\$19,405</u>
LIABILITIES						
Current and other liabilities	\$302	\$302	\$149	\$192	\$ 451	\$ 494
Long-term liabilities	<u>156</u>	<u>179</u>	<u>1,449</u>	<u>1,506</u>	<u>1,605</u>	<u>1,685</u>
Total liabilities	<u>\$458</u>	<u>\$481</u>	<u>\$1,598</u>	<u>\$1,698</u>	<u>\$ 2,056</u>	<u>\$ 2,179</u>
NET ASSETS						
Invested in capital assets, net of related debt	\$3,651	\$3,643	\$10,848	\$ 10,871	\$ 14,499	\$ 14,514
Restricted net assets	4	-	-	-	4	-
Unrestricted net assets	<u>3,464</u>	<u>2,869</u>	<u>(149)</u>	<u>(157)</u>	<u>3,315</u>	<u>2,712</u>
Total net assets	<u>\$7,119</u>	<u>\$6,512</u>	<u>\$10,699</u>	<u>\$10,714</u>	<u>17,818</u>	<u>\$17,226</u>

**Town of Clayton
Management's Discussion and Analysis
June 30, 2007**

Analysis of Changes in Net Assets

Overall net assets increased by \$592,920. This increase was a 3.4% increase from prior year. This is representative that charges for services and taxes are increasing and are growing at approximately the same rate as operating expenses. The main increase in expenses is caused by the increasing cost of services, mainly fuel. These increases are also explained in the government and business-type activities discussion below, and are, to some extent, a result of land purchase, building, park, and equipment and airport improvements.

**TOWN OF CLAYTON 'S CHANGES IN NET ASSETS
(AMOUNTS IN THOUSANDS)**

	Governmental Activities		Business-type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues						
Charges for services	\$ 267	\$ 167	\$820	\$784	\$1,087	\$951
Operating and capital grants	720	1,380	16	-	736	1,380
General Revenues						
Property taxes	106	106	-	-	106	106
Gross receipts taxes	1,730	808	-	-	1,730	808
Public service taxes	221	182	-	-	221	182
Other	<u>791</u>	<u>358</u>	-	-	<u>791</u>	<u>358</u>
Total Revenues	<u>3,835</u>	<u>3,001</u>	<u>836</u>	<u>784</u>	<u>4,671</u>	<u>3,785</u>
EXPENSES						
General government	1,225	928	-	-	1,225	928
Public safety	1,142	1,027	-	-	1,142	1,027
Public works	555	376	832	1,275	1,387	1,651
Culture and recreation	456	430	-	-	456	430
Health and welfare	138	190	-	-	138	190
Interest on long-term debt	<u>5</u>	-	-	-	<u>5</u>	-
Total Expenses	<u>3,521</u>	<u>2,951</u>	<u>832</u>	<u>1,275</u>	<u>4,353</u>	<u>4,226</u>
Increase in Net Assets	314	50	4	(491)	318	(441)
Before Transfers						
Transfers	<u>22</u>	<u>65</u>	<u>(22)</u>	<u>(75)</u>	-	<u>(10)</u>
Increase in Net Assets	<u>336</u>	<u>115</u>	<u>(18)</u>	<u>(566)</u>	<u>318</u>	<u>(451)</u>
Net Assets, 06/30/06	6,512	6,364	10,714	7,856	17,226	14,222
Prior Period Adjustment	<u>271</u>		<u>3</u>		<u>274</u>	
Net Assets, 06/30/06 Restated	<u>6,783</u>	<u>6,397</u>	<u>10,717</u>	<u>11,280</u>	<u>17,500</u>	<u>17,677</u>
Net Assets, 06/30/07	<u>\$7,119</u>	<u>\$6,512</u>	<u>\$10,699</u>	<u>\$10,714</u>	<u>\$17,818</u>	<u>\$17,226</u>

Governmental activities. Governmental activities increased Town of Clayton's net assets by \$336,232. The key element of this increase is improvements.

Business-type activities. Business-type activities decreased the Town's net assets by \$18,088. The key element of this decrease was due to transporting service fees for solid waste during the interim period of post-closure of our landfill, and the establishment of a new landfill.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, Town of Clayton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Town of Clayton's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Town of Clayton's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, and Capital Project Funds.

**Town of Clayton
Management's Discussion and Analysis
June 30, 2007**

As of the end of the current fiscal year, Town of Clayton's governmental funds reported combined ending fund balances of \$3,646,666, an increase of \$639,618 in comparison with the prior year. The increase is primarily due to cumulative restatements in the amount of \$271,133 made to correct certain accrued liabilities and accounts receivable with the remainder being due to an increase in gross receipts tax revenues due to the jail facility construction and abatements paid to the Town at closing to cover administrative costs related to the jail revenue bond transactions. 100 percent of this total amount, \$3,646,666, constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

Revenues for governmental functions overall totaled approximately \$3,835,321 in the fiscal year ended June 30, 2007, which represents an increase of \$708,809 from the fiscal year ended June 30, 2006. Expenditures for governmental functions, totaling \$3,496,524, increased by approximately \$126,573 from the fiscal year ended June 30, 2006. In the fiscal year ended June 30, 2007, revenues for governmental functions exceeded expenditures by \$338,797.

The General Fund is the chief operating fund of Town of Clayton. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$1,780,269.

The fund balance of Town of Clayton's general fund increased by \$768,814 during the current fiscal year, due to an increase in municipal taxes in the amount of \$549,231 (mostly from gross receipts tax revenues), as well as a \$328,141 abatement related to the jail facility revenue bonds (classified in agreement revenue). Overall, the general fund's performance resulted in revenues over expenditures in the fiscal year ended June 30, 2007 of \$517,072.

Proprietary Fund. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for Joint Utility were \$10,699,793. The total decrease in net assets for the enterprise funds was \$14,445 (including prior period restatement). Factors concerning the finances of this fund have been addressed previously in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The Statement of Revenues, Expenses, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual for the General Fund can be found on page 9 of this report. Budgets for the revenues were increased by \$170,692 during the year to account for expected increases in revenue. Actual revenue was recorded at \$2,635,771 (cash basis) which approximated original budgeted amounts due to increased revenues not coming to fruition during 2007. Expense budgets were increased from \$2,504,956 to \$2,706,833 with an actual expenditure amount of \$2,443,751. This left a budget balance of approximately \$263,000. Expenditures followed a linear relationship with revenues and the Town maintained control over expenditures as actual revenues did not accumulated in the amounts estimated in the final budget.

	Final Budget	Actual	Variance
Revenues	\$ 2,793,081	\$ 2,635,771	(157,310)
Expenditures	2,706,833	2,443,751	263,082
Other financing sources	(86,248)	(1,268)	84,980

The Town Council, Manager and Clerk-Treasurer have considered several factors in establishing the 2008 budget. The most major impact is the revenue that will be provided from the Northeast New Mexico Detention Facility that is currently under construction. It is estimated that this project will provide nearly \$2 million dollars in gross receipts to the Town. The increased labor force for the construction will positively affect our revenues through gross receipts. Once operational, the Town will receive over \$500,000 in annual revenue from gross receipts and payment in lieu of taxes. An ancillary effect from this 200 job facility is the increased revenue from gross receipts due to the increase in population and annual visitors to the facility.

The highway improvement project has brought in a labor force that is temporarily helping to increase revenue, as are new CO2 well developments. New power line installation and future wind farm development in the area. Several developers are interested in installing new housing developments, a large truck stop and a high tech manufacturing company and will substantially increase revenues. Our neighboring Texas community of Dalhart has constructed a large cheese plant, projected to be the largest in the world that is projected to create nearly 6000 direct and indirect jobs. Clayton hopes to participate in this population increase through a comprehensive housing development program and expect to entice more people to reside in Clayton, thereby helping our revenue stream.

**Town of Clayton
Management's Discussion and Analysis
June 30, 2007**

We have been witnessing a steady increase in traffic volume on US 87 as a direct result of the Ports to Plains initiative that has widened this highway for a substantial length, and will eventually be completed into a four-lane highway from Interstate 40 to Interstate 25. Because of this project, the cheese plant and jail project, the Town has been in contact with various developers and businesses interested in locating in Clayton.

Because of these trends and revenue streams, the Town is looking into investment accounts where the interest earnings can be used to offset general expenditures. This will help in decreasing our reliance on general fund dollars. More grants are being pursued to also help reduce our reliance of Town funds for needed improvements. We are witnessing the beginnings of a small explosion in Clayton and are optimistic about future revenues.

Town budgets reflect the same pattern as seen in the revenue and expenditures of the Town. The State of New Mexico budget process is defined under state law and regulation. To enhance the process of developing a budget at the Town level, Town of Clayton utilizes goals and objectives defined by the Town Trustees, community input meetings, long term plans and input from various staff groups to develop the Town budget. Town priorities are well defined through this process.

GASB Statement No. 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

The Town's final budget differs from the original budget due to budget increases and decreases that were made during the fiscal year.

The Capital Project Funds (nonmajor) are not included in the original budget which is submitted to the Department of Finance and Administration (DFA). These funds are spent on a project-by-project basis so the budgets are constantly changing. Instead, the budgets for these funds are created during the year through budget adjustment requests (BAR's).

Capital Asset and Debt Administration

Capital assets. Town of Clayton's capital assets for its governmental and business-type activities as of June 30, 2007 amount to \$15,471,572 (net of accumulated depreciation). Capital assets include land improvements, buildings, and machinery & equipment. The total increase in the Town's capital assets (excluding accumulated depreciation) for the current fiscal year was \$200,796 for governmental activities. The increase in business-type capital assets during the current fiscal year was \$168,868.

**Capital Assets, Net of Depreciation
June 30, 2007**

	<u>Governmental Activities</u>	<u>Business-like Activities</u>	<u>Total</u>
Land and Land Improvements	\$ 104,584	\$ 745,966	\$ 850,550
Water Utility System	—	7,900,987	7,900,987
Sewer Utility System	—	8,419,795	8,419,795
Buildings and improvements	5,265,503	—	5,265,503
Furniture, Fixtures and Equipment	2,217,138	701,574	2,918,712
Construction in Progress	—	37,098	37,098
Total Capital Assets	7,587,225	17,805,420	25,392,645
Accumulated Depreciation	(3,814,158)	(6,106,915)	(9,921,073)
Capital Assets, net of Accumulated Depreciation	<u>\$ 3,773,067</u>	<u>\$ 11,698,505</u>	<u>\$ 15,471,572</u>

For government-wide financial statement presentation, all depreciable capital assets were depreciated from their acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Current year purchases consisted mainly of equipment for both the governmental and business-type activities. See Note 5 in the accompanying Notes to the Financial Statements for further information regarding capital assets.

**Town of Clayton
Management's Discussion and Analysis
June 30, 2007**

Debt Administration. At the end of the current fiscal year, Town of Clayton had total long-term obligations outstanding of \$992,450 \$1,112,892.

**Town of Clayton's Outstanding Debt
As of June 30, 2007**

	<u>Governmental Activities</u>	<u>Business-like Activities</u>	<u>Total</u>
Notes Payable	\$ 72,129	\$ 827,564	\$ 899,693
Lease Purchase Payable	<u>49,359</u>	<u>-</u>	<u>49,359</u>
Total long-term liabilities	<u>\$ 121,488</u>	<u>\$ 827,564</u>	<u>\$ 949,052</u>

The Town did not enter into debt obligations during fiscal year 2007. As a result, the Town was able to retire \$43,399 (26%) of the debt within the governmental activities and \$120,441 (12.7%) of debt related to the business-type activities. In addition, the County entered into \$77,585,000 of conduit debt for the construction of a jail facility within the City limits. The debt is not an obligation of the Town and will be paid from revenues generated by the facility once it is operational.

See Note 6 in the accompanying Notes to the Financial Statements for further information regarding Town of Clayton's long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Town of Clayton will soon have a 660 bed jail facility that will lease bed space to the State for medium level security inmates. This was a revenue bond transaction with no recourse or obligation of Town funds. The Town contracted with a private company, The GEO Group of Boca Raton, Florida, to construct and operate the facility. As such, the revenue for the leased bed space is a taxable income thereby benefiting Clayton in an amount estimated at \$250,000 annually. In addition, the Town will see a Payment in Lieu of Taxes estimated to be \$280,000 annually. Once the revenue bond term of twenty-two (22) years is fulfilled, all of the lease payment beyond operating expenses will be directed to the Town of Clayton.

The Town has structured increases on all utility rates with a step increase for the next four consecutive years instituted through ordinance to help deter rising operating costs. The Town has implemented use of the multiple utility system improvement grants to begin improvements on our water system. A comprehensive plan is in the works for upgrades to the Town's sewer system and Clayton has been awarded grants for Main Street improvements and infrastructure for an Industrial Park. With recent activities in and around Clayton, we have seen an increase in our gross receipts revenue and do not see an end to this trend for the next couple of years.

In addition to these variables, the Town has been aggressively looking at reducing spending through consolidations and streamlining delivery of services. All of these factors indicate a positive impact on our budget.

- Inflationary trends in the region compare favorably to national indices.

The above factors were considered in preparing Town of Clayton's budget for the 2008 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Town of Clayton's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Clayton Administration, Town of Clayton, 1 Chestnut, Clayton NM 88415. Questions concerning any of the information regarding the Town of Clayton Housing Authority report, requests for additional financial information or to review a copy of the financial statements should be addressed to the Executive Director, Town of Clayton Housing Authority, 200 Aspen, Clayton, NM 88415.

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BASIC FINANCIAL STATEMENTS

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STATE OF NEW MEXICO

Exhibit A-1

Town of Clayton
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,318,247	\$ 570,226	\$ 3,888,473	\$ 103,907
Taxes receivable	378,408	9,406	387,814	-
Accounts receivable, net of allowances	108,256	19,480	127,736	2,643
Inventories, net of allowance	-	-	-	5,433
Prepaid Expenses	-	-	-	3,943
Total Current Assets	3,804,911	599,112	4,404,023	115,926
Noncurrent Assets				
Restricted cash and cash equivalents	-	-	-	4,225
Capital assets	7,587,225	17,805,420	25,392,645	2,916,950
Less: accumulated depreciation	(3,814,158)	(6,106,915)	(9,921,073)	(1,641,502)
Total Noncurrent Assets	3,773,067	11,698,505	15,471,572	1,279,673
Total Assets	\$ 7,577,978	\$ 12,297,617	\$ 19,875,595	\$ 1,395,599

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Clayton
Statement of Net Assets
June 30, 2007

Exhibit A-1

	Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Current Liabilities				
Accounts payable	\$ 91,139	\$ 62,899	\$ 154,038	\$ 7,578
Accrued salaries and wages	67,106	20,019	87,125	-
Accrued compensated absences	102,540	-	102,540	-
Accrued interest payable	2,165	-	2,165	-
Deposits payable	-	-	-	4,225
Current portion of notes payable	39,203	66,835	106,038	-
Total Current Liabilities	302,153	149,753	451,906	11,803
Noncurrent Liabilities				
Accrued compensated absences	73,565	33,086	106,651	-
Landfill closure and post closure	-	632,200	632,200	-
Loans and notes payable	82,285	782,785	865,070	-
Total Noncurrent Liabilities	155,850	1,448,071	1,603,921	-
Total Liabilities	458,003	1,597,824	2,055,827	11,803
Net Assets				
Invested in capital assets, net of related debt	3,651,579	10,848,885	14,500,464	1,275,448
Restricted for:				
Capital projects	4,233	-	4,233	-
Unrestricted	3,464,163	(149,092)	3,315,071	108,348
Total Net Assets	7,119,975	10,699,793	17,819,768	1,383,796
Total Liabilities and Net Assets	\$ 7,577,978	\$ 12,297,617	\$ 19,875,595	\$ 1,395,599

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Statement of Activities
For the Year Ending June 30, 2007

Exhibit A-2

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
General government	\$ 1,224,674	\$ 14,168	\$ 292,726	\$ -
Public safety	1,142,398	253,227	219,061	-
Public works	554,855	-	95,926	62,638
Culture and recreation	456,194	-	2,000	-
Health and welfare	137,941	-	47,825	-
Interest on long-term debt	5,254	-	-	-
<i>Total governmental activities</i>	<u>3,521,316</u>	<u>267,395</u>	<u>657,538</u>	<u>62,638</u>
Business-type Activities:				
Joint Utility	739,183	572,808	15,884	-
Solid Waste	92,650	247,603	-	-
<i>Total business type activities</i>	<u>831,833</u>	<u>820,411</u>	<u>15,884</u>	<u>-</u>
Component Unit				
Housing Authority	311,550	239,408	15,884	-
<i>Total</i>	<u>\$ 4,353,149</u>	<u>\$ 1,087,806</u>	<u>\$ 673,422</u>	<u>\$ 62,638</u>

General Revenues:

Taxes
Property taxes
Franchise taxes
Gross receipts taxes
Public service taxes
Interest income
Miscellaneous income
Gain / Loss on disposal of assets
Transfers

Total General Revenues and Transfers
Excess (deficiency) of revenues over expenses

Change in net assets

Net assets, beginning

Restatements

Net assets restated, beginning of year

Net assets, ending

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Town of Clayton
 Statement of Activities
 For the Year Ending June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Government Activities	Business Type Activities	Total	Component Units
\$ (917,780)	\$ -	\$ (917,780)	\$ -
(670,110)	-	(670,110)	-
(396,291)	-	(396,291)	-
(454,194)	-	(454,194)	-
(90,116)	-	(90,116)	-
(5,254)	-	(5,254)	-
<u>(2,533,745)</u>	<u>-</u>	<u>(2,533,745)</u>	<u>-</u>
-	(150,491)	(150,491)	
-	154,953	154,953	
<u>-</u>	<u>4,462</u>	<u>4,462</u>	<u>-</u>
-	-	-	(72,142)
<u>(2,533,745)</u>	<u>4,462</u>	<u>(2,529,283)</u>	<u>(72,142)</u>
106,341	-	106,341	-
72,114	-	72,114	-
1,729,969	-	1,729,969	-
220,553	-	220,553	-
159,673	-	159,673	2,825
559,100	-	559,100	391
(323)	-	(323)	-
<u>22,550</u>	<u>(22,550)</u>	<u>-</u>	<u>-</u>
<u>2,869,977</u>	<u>(22,550)</u>	<u>2,847,427</u>	<u>3,216</u>
<u>336,232</u>	<u>(18,088)</u>	<u>318,144</u>	<u>(68,926)</u>
336,232	(18,088)	318,144	(68,926)
6,512,610	10,714,238	17,226,848	1,452,722
<u>271,133</u>	<u>3,643</u>	<u>274,776</u>	<u>-</u>
<u>6,783,743</u>	<u>10,717,881</u>	<u>17,501,624</u>	<u>1,452,722</u>
<u>\$ 7,119,975</u>	<u>\$ 10,699,793</u>	<u>\$ 17,819,768</u>	<u>\$ 1,383,796</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Clayton
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Government Assistance Fund	Street Fund	Municipal Income Perm Fund	Other Governmental Fund	Total
<i>Assets</i>						
Cash and cash equivalents	\$ 543,567	\$ 3,646	\$ 1,300	\$ -	\$ 151,144	\$ 699,657
Investments	899,950	-	-	1,220,351	498,289	2,618,590
Accounts and taxes receivable	431,767	-	47,180	5,906	1,811	486,664
Due from other funds	4,530	-	-	-	300	4,830
<i>Total assets</i>	<u>\$ 1,879,814</u>	<u>\$ 3,646</u>	<u>\$ 48,480</u>	<u>\$ 1,226,257</u>	<u>\$ 651,544</u>	<u>\$ 3,809,741</u>
<i>Liabilities and fund balances</i>						
<i>Liabilities</i>						
Accounts payable	\$ 40,046	\$ 34,433	\$ 7,793	\$ -	\$ 8,867	\$ 91,139
Accrued salaries and wages	59,499	-	7,112	-	495	67,106
Accrued compensated absence	-	-	-	-	-	-
Due to other funds	-	-	-	-	4,830	4,830
Deferred revenue	-	-	-	-	-	-
<i>Total liabilities</i>	<u>99,545</u>	<u>34,433</u>	<u>14,905</u>	<u>-</u>	<u>14,192</u>	<u>163,075</u>
<i>Fund balances</i>						
Unreserved:						
Undesignated, reported in:						
General fund	1,780,269	-	-	-	-	1,780,269
Capital projects funds	-	-	-	-	-	-
Special revenue funds	-	(30,787)	33,575	1,226,257	637,352	1,866,397
<i>Total fund balances</i>	<u>1,780,269</u>	<u>(30,787)</u>	<u>33,575</u>	<u>1,226,257</u>	<u>637,352</u>	<u>3,646,666</u>
<i>Total liabilities and fund balances</i>	<u>\$ 1,879,814</u>	<u>\$ 3,646</u>	<u>\$ 48,480</u>	<u>\$ 1,226,257</u>	<u>\$ 651,544</u>	<u>\$ 3,809,741</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Clayton

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2007

Exhibit B-1

Page 2 of 2

Amounts reported for governmental activities in the statements of net assets are different because:

Fund balances - total governmental funds	\$	3,646,666
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		3,773,067
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds		(121,488)
Accrued interest payable		(2,165)
Accrued compensated Absences		<u>(176,105)</u>
Net assets of governmental activities	\$	<u><u>7,119,975</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Clayton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2007

	General Fund	Government Assistance Fund	Street Fund	Municipal Income Perm Fund	Other Governmental Funds	Total
<i>Revenues:</i>						
Municipal Taxes	\$ 1,074,701	\$ -	\$ 152,079	\$ -	\$ 118,375	\$ 1,345,155
Licenses and Fees	9,247	-	-	-	-	9,247
State Shared Taxes	684,926	-	196,427	-	1,997	883,350
Charges for Services	211,048	-	-	-	-	211,048
Fines	31,681	-	-	-	11,835	43,516
Miscellaneous Income	146,713	-	15,865	-	73,416	235,994
Interest Income	59,596	-	1,828	64,041	29,155	154,620
State Grants	146,829	61,869	-	-	96,863	305,561
Federal Grants	35,101	769	-	-	12,391	48,261
Agreement Revenues	598,569	-	-	-	-	598,569
	<u>2,998,411</u>	<u>62,638</u>	<u>366,199</u>	<u>64,041</u>	<u>344,032</u>	<u>3,835,321</u>
<i>Expenditures:</i>						
<i>Current:</i>						
General Government	972,912	-	-	-	6,998	979,910
Public Safety	1,030,399	-	-	-	148,161	1,178,560
Public Works	-	72,384	413,725	-	-	486,109
Culture and Recreation	324,247	-	-	-	131,947	456,194
Health and Welfare	-	-	-	-	130,122	130,122
Capital Outlay	152,513	25,196	12,031	-	27,234	216,974
<i>Debt Service:</i>						
Principal	-	-	14,845	-	28,554	43,399
Interest	-	-	3,358	-	1,898	5,256
	<u>2,480,071</u>	<u>97,580</u>	<u>443,959</u>	<u>-</u>	<u>474,914</u>	<u>3,496,524</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>518,340</u>	<u>(34,942)</u>	<u>(77,760)</u>	<u>64,041</u>	<u>(130,882)</u>	<u>338,797</u>
<i>Other financing sources (uses)</i>						
Note proceeds	-	-	-	-	-	-
Transfers In	48,412	85	-	-	143,738	192,235
Transfers (Out)	(49,680)	-	-	(62,857)	(50,010)	(162,547)
<i>Total other financing sources (uses)</i>	<u>(1,268)</u>	<u>85</u>	<u>-</u>	<u>(62,857)</u>	<u>93,728</u>	<u>29,688</u>
<i>Net change in fund balance</i>	517,072	(34,857)	(77,760)	1,184	(37,154)	368,485
<i>Fund balance - beginning of year</i>	1,011,455	4,070	96,765	1,225,073	669,685	3,007,048
<i>Restatements</i>	251,742	-	14,570	-	4,821	271,133
<i>Fund balance restated, beginning of</i>	<u>1,263,197</u>	<u>4,070</u>	<u>111,335</u>	<u>1,225,073</u>	<u>674,506</u>	<u>3,278,181</u>
<i>Fund balance - end of year</i>	<u>\$ 1,780,269</u>	<u>\$ (30,787)</u>	<u>\$ 33,575</u>	<u>\$ 1,226,257</u>	<u>\$ 637,352</u>	<u>\$ 3,646,666</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Clayton
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ending June 30, 2007

Exhibit B-2
Page 2 of 2

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

Net change in fund balances - total governmental funds	\$	368,485
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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 and reported as depreciation expense:

Capital expenditures		216,974
Depreciation expense		(244,693)
Loss on disposal of assets		(323)
Transfer to enterprise funds		(7,138)

The issuance of long-term debt (e.g. bonds, notes, leases) provides 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. Also, governmental funds
report the effect of issuance costs, premiums, discounts, and similar items when
debt is first issued, whereas these amounts are deferred and amortized in the
statement of activities:

Principal payments on notes payable		43,399
Decrease in accrued interest payable		2
Increase in accrued compensated absences		<u>(40,474)</u>

Change in net assets of governmental activities	\$	<u><u>336,232</u></u>
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The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Clayton
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ending June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ 1,013,597	\$ 1,013,597	\$ 925,565	\$ (88,032)
Licenses and Fees	1,250	1,250	9,247	7,997
State Shared Taxes	710,862	710,862	649,892	(60,970)
Charges for Services	0	0	143,096	143,096
Fines	0	0	31,681	31,681
Miscellaneous Income	793,680	949,172	146,713	(802,459)
Grants	103,000	118,200	146,829	28,629
Agreement Revenues	0	0	582,748	582,748
<i>Total revenues</i>	<u>2,622,389</u>	<u>2,793,081</u>	<u>2,635,771</u>	<u>(157,310)</u>
<i>Expenditures:</i>				
Current:				
General Government	930,840	1,055,314	972,817	82,497
Public Safety	1,207,563	1,208,323	1,074,571	133,752
Public Works	-	-	-	-
Culture and Recreation	361,905	396,455	317,616	78,839
Health and Welfare	-	-	-	-
Capital Outlay	4,648	46,741	78,747	(32,006)
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>2,504,956</u>	<u>2,706,833</u>	<u>2,443,751</u>	<u>263,082</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>117,433</u>	<u>86,248</u>	<u>192,020</u>	<u>105,772</u>
<i>Other financing sources (uses)</i>				
Designated Cash	(117,433)	(86,248)	-	86,248
Transfers In	-	-	48,412	48,412
Transfers Out	-	-	(49,680)	(49,680)
<i>Total other financing sources (uses)</i>	<u>(117,433)</u>	<u>(86,248)</u>	<u>(1,268)</u>	<u>84,980</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	190,752	190,752
<i>Fund Balance - Beginning of Year</i>	-	-	1,183,558	1,183,558
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,374,310</u>	<u>\$ 1,374,310</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Governmental Assistance Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variations
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	-	-	-	-
Grants	2,248,540	2,265,783	61,869	(2,203,914)
Agreement Revenue	-	-	-	-
Total revenues	2,248,540	2,265,783	61,869	(2,203,914)
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	52,810	54,732	37,951	16,781
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	2,109,011	2,127,687	25,196	2,102,491
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	2,161,821	2,182,419	63,147	2,119,272
<i>Excess (deficiency) of revenues over expenditures</i>	86,719	83,364	(1,278)	(84,642)
<i>Other financing sources (uses)</i>				
Designated Cash	(87,128)	(82,955)	-	82,955
Transfers In	-	-	85	85
Transfers Out	409	(409)	-	409
Total other financing sources (uses)	(86,719)	(83,364)	85	83,449
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(1,193)	(1,193)
<i>Fund Balance - Beginning of Year</i>	-	-	4,070	4,070
Fund Balance - End of Year	\$ -	\$ -	\$ 2,877	\$ 2,877

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Clayton

Street Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ 126,109	\$ 126,109
Licenses and Fees	-	-	-	-
State Shared Taxes	52,000	52,000	189,787	137,787
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	229,203	325,129	30	(325,099)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>281,203</u>	<u>377,129</u>	<u>315,926</u>	<u>(61,203)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	411,813	(411,813)
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	7,000	14,273	14,399	(126)
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,000</u>	<u>14,273</u>	<u>426,212</u>	<u>(411,939)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>274,203</u>	<u>362,856</u>	<u>(110,286)</u>	<u>(473,142)</u>
<i>Other financing sources (uses)</i>				
Designated Cash	(274,203)	(362,856)	-	362,856
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(274,203)</u>	<u>(362,856)</u>	<u>-</u>	<u>362,856</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(110,286)	(110,286)
<i>Fund Balance - Beginning of Year</i>	-	-	109,758	109,758
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (528)</u>	<u>\$ (528)</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Town of Clayton
Proprietary Funds
Statement of Net Assets
June 30, 2007

	<u>Joint Utility</u>
<i>Assets</i>	
<i>Current assets</i>	
Cash	\$ 170,226
Investments	400,000
Accounts receivable (less allowance for doubtful accounts of \$0)	21,705
Taxes receivable	7,181
<i>Total current assets</i>	<u>599,112</u>
<i>Capital assets</i>	
Capital assets	17,805,420
Accumulated depreciation	(6,106,915)
<i>Total Capital assets</i>	<u>11,698,505</u>
<i>Total Assets</i>	<u>\$ 12,297,617</u>
 <i>Liabilities and Net Assets</i>	
<i>Liabilities:</i>	
<i>Current liabilities</i>	
Accounts payable	\$ 62,899
Accrued salaries and wages	20,019
Due to other funds	0
Current maturity of notes payable	44,778
<i>Total current liabilities</i>	<u>127,696</u>
<i>Noncurrent liabilities</i>	
Landfill closure and post closure liability	632,200
Compensated absences	55,143
Notes payable	782,785
<i>Total noncurrent liabilities</i>	<u>1,470,128</u>
<i>Total liabilities</i>	<u>1,597,824</u>
 <i>Net Assets:</i>	
Unreserved	
Unreserved, undesignated	10,699,793
<i>Total net assets</i>	<u>10,699,793</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 12,297,617</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	<u>Joint Utility</u>
<i>Operating revenues:</i>	
Charges for services	\$ 725,203
<i>Total operating revenues</i>	725,203
<i>Operating expenses:</i>	
Depreciation expense	290,233
Personal services	232,066
Contractual services	290,744
Materials & Supplies	66,600
Fixed Charges	(42,608)
Miscellaneous	-
<i>Total operating expenses</i>	837,035
<i>Operating income (loss)</i>	(111,832)
<i>Non-operating revenues (expenses):</i>	
Taxes	71,023
Miscellaneous income	45,271
Transfers	(22,550)
<i>Total non-operating revenues (expenses)</i>	93,744
<i>Change in net assets</i>	(18,088)
<i>Total net assets, beginning of year</i>	10,714,238
<i>Restatements</i>	3,643
<i>Total net assets restated, beginning of year</i>	10,717,881
<i>Total net assets, end of year</i>	\$ 10,699,793

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2007

	<u>Joint Utility</u>
<i>Cash flows from operating activities:</i>	
Cash received from user charges	\$ 644,341
Government contributions	71,023
Miscellaneous income	45,271
Cash payments to employees and suppliers	(511,661)
<i>Net cash used for operating activities</i>	248,974
<i>Cash flows from noncapital financing activities:</i>	
State and Federal Grants (Miscellaneous income)	45,271
State appropriation of taxes	71,023
Transfer to the General Fund	(22,550)
Increase in liability for landfill closure and post-closure	(15,100)
Additions to capital assets	(165,225)
<i>Net cash provided from noncapital financing activities:</i>	(86,581)
<i>Cash flows from capital and related financing activities:</i>	
Principal payments on bonds payable	(120,442)
<i>Net cash provided from capital and related financing activities:</i>	(120,442)
<i>Net increase in cash and cash equivalents</i>	41,951
<i>Cash and cash equivalents - beginning of year</i>	528,275
<i>Cash and cash equivalents - end of year</i>	\$ 570,226
<i>Reconciliation of operating income (loss) to net cash provided (used)</i>	
<i>by operating activities</i>	
Operating income (loss)	(111,832)
Adjustments to reconcile operating (loss) to net cash (used)	
by operating activities	
Depreciation	290,233
Changes in assets and liabilities	
Receivables	35,432
Interfund account	(366)
Accrued compensated absences	(1,381)
Accrued salaries and wages	1,346
Accounts payable	35,542
<i>Net cash (used) by operating activities</i>	\$ 248,974

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies

The Town of Clayton (Town) was incorporated under provisions of Chapter 3, Article 2, NMSA, 1978 as amended. The Town operates under a Trustee-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire); highways and streets; water and sewer services; refuse collection; health and social services; culture-recreation; public improvements; planning and zoning; and general administrative services.

The Town of Clayton is a body politic and corporate under the name and form of government selected by its qualified electors. The Town may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico;
6. Protect generally the property of its municipality and its inhabitants;
7. Preserve peace and order within the municipality; and
8. Establish rates for services provided by municipal utilities and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

The financial statements of Town of Clayton have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the Town's accounting policies are described below.

A. *Financial Reporting Entity*

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB-14. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town of Clayton and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town of Clayton and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, the Town has a Housing Authority that will be considered a component unit, however, the Town was not a component unit of another governmental agency during the fiscal year ended June 30, 2007.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

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 or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular 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 even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town follows FASB statements and interpretations issued on or before November 30, 1989, Accounting Principles Board opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Town has elected to apply FASB statements and interpretations issued after November 30, 1989 for the government-wide, business-type activities and proprietary funds, unless those pronouncements conflict with GASB pronouncements.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The Town follows FASB statements and interpretations issued on or before November 30, 1989, Accounting Principles Board opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Town has elected to apply FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Governmental funds are used to account for the Town's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets and the servicing of general long-term debt. Governmental funds include:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the Town except for items included in other funds.

Under the requirements of GASB No. 34, the Town is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following (in addition to the General Fund) which include funds that were not required to be presented as major but were at the discretion of management:

The *Government Assistance Capital Project Fund* is used to account for funds from federal, state and local sources for capital projects throughout the Town.

The *Street Special Revenue Fund* is used to account for the Town's streets and highway improvements not funded by special sources. Financing is provided by the state gasoline tax. (Section 7-1-6.27 NMSA 1978) The fund was created by local ordinance pursuant to Section 3-34-1 NMSA 1978.

The *Municipal Income Permanent Fund* is used to account for cash received from the sale of the Town's electric utility. The fund was established by local ordinance 548 on February 17, 1984 in accordance with Section 6-6-19, NMSA 1978.

The government reports its proprietary fund as a major governmental fund.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Additionally, the government reports the following fund types:

The *fiduciary funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The Town's fiduciary funds are used to account for the collection and payment of motor vehicle fees to other governmental agencies

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Town reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The Town does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Town's enterprise fund is charges for services at the Town's Utilities. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments: The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Town are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Receivables and Payables: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds or internal balances” (i.e., the current portion of interfund loans) or “advances to/from other funds or internal balances” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and the Town may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Union County bills, collects and remits the Town of Clayton’s share of property taxes.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and proprietary financial statements.

Capital Assets: Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are to be included as part of the governmental capital assets reported in the government wide statements. Donated capital assets are recorded at estimated fair market 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Utility Systems	10-100
Infrastructure	20-75
Buildings & improvements	20-100
Furniture, fixtures & equipment	5-10

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Deferred Revenues: Accounting principles generally accepted in the United States of America require that grant revenue be recognized at the time the related expense is made if the expenditure of funds is the prime factor for determining eligibility for reimbursement; therefore, amounts received and not expended in the Special Revenue Funds are shown as deferred revenues. In addition, property taxes receivable but uncollected within sixty (60) days of year-end are classified as deferred revenue.

Compensated Absences: Town employees may accumulate limited amounts of vacation. Vested or accumulated vacation leave that is expected to be liquidated within the next twelve months with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated within the next twelve months are reported in the government-wide statement of net assets.

Normally, vacation time is not cumulative from year to year. Qualified employees unable to utilize all their accumulated vacation pay on their anniversary date may petition the Town Manager for permission to carry over the vacation hours for three additional months or request payment in the form of wages. Vacation leave is accrued as follows:

40 hours after 1 full year of employment
80 hours after the 2nd year through the 5th year of employment
120 hours after the 6th year and thereafter

Qualified employees are entitled to accumulate sick leave at a rate of one day per month for full time employees up to ninety days cumulative maximum. Excess sick leave over ninety days will be paid at one-half rate on the anniversary date of the employee. Sick leave reserves are payable upon separation as follows:

20% in the sixth year of employment
40% in the seventh year of employment
60% in the eighth year of employment
80% in the ninth year of employment
100% in the tenth year of employment

Vested or accumulated vacation leave that is expected to be liquidated within the next twelve months with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated within the next twelve months are reported in the government-wide statement of net assets.

Long-term Obligations: In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Fund equity was reserved or designated for:

Reserved for non-appropriable permanent reserve- The Board of Trustees passed local ordinance 548 on February 17, 1984 to legally restrict the cash received from the sale of the electric utility.

Reserved for perpetual care- The Board of Trustees have legally restricted the used of funds within the cemetery fund for the perpetual care of the Town's Cemetery.

Unreserved, undesignated- Amounts that have not been reserved or designated for any purpose. These funds are available for use by the Town.

Interfund Transactions: Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund from expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets of the Town are prepared prior to June 1 and must be approved by resolution of the Town Councilors, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Town Councilors and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

The Town is required to balance its budgets each year. Accordingly, amounts that are excess or deficient are presented as changes in cash designated for expenditures, not as an excess or deficiency of revenues over expenditures.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2007 is presented.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 2. Stewardship, Compliance and Accountability (continued)

Budgetary Information (continued)

The following is reconciliation between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis for the Town's major funds.

	General Fund	Fund	Governmental Assistance Street Fund
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP basis)	\$ 517,072	\$ (34,857)	\$ (77,760)
Adjustments:			
To adjust revenues for tax accruals, earnings on investments, and other deferrals and accruals.	(362,640)	—	(48,445)
Adjustments:			
To adjust expenditures for payables, payroll taxes, prepaid expenses and other accruals.	36,320	33,664	15,919
Excess (deficiency) of revenues And other sources (uses) over expenditures (Budget Basis)	\$ 190,952	\$ (424)	\$ (110,286)

NOTE 3. Cash and Investments

State statutes authorize the investment of Town funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Town properly followed State investment requirements as of June 30, 2007.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Town. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 3. Cash and Investments (continued)

The collateral pledged is listed on Schedule 1 of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

The schedule listed below discloses the State of New Mexico, Office of the State Auditor's requirements on reporting the insured portion of the County's deposits:

	First National Bank	Farmers & Stockmans Bank	Totals
Amount of Deposits	\$ 1,402,385	\$ 2,752,354	\$ 4,154,739
FDIC Coverage	200,000	200,000	400,000
Total uninsured public funds	<u>1,202,385</u>	<u>2,552,354</u>	<u>3,754,739</u>
Collateral requirement (50% of uninsured public funds)	601,193	1,276,177	1,877,370
Pledged collateral held by the pledging bank's trust department or agent but not in the Town's name	<u>816,654</u>	<u>1,300,000</u>	<u>2,116,654</u>
(Over)/under collateralized	<u>\$ (215,462)</u>	<u>\$ (23,823)</u>	<u>\$ (239,285)</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk, other than the following state statutes as put forth in the Public Money Act (Sections 6-10-1 to 6-10-3, NMSA 1978). At June 30, 2007, \$3,754,739 of the Town's bank balance of \$4,154,739 was exposed to custodial credit risk because it was uninsured and the collateral was held by the pledging bank's trust department, not in the Town's name. At June 30, 2007 the carrying amount of those deposits was \$3,887,775. All investments are cash or certificates of deposit whose fair market value approximates face value plus any accrued interest. The Town has no investments that are highly sensitive to changes in interest rates. The Town's policy related to investments is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

NOTE 4. Receivables

Accounts Receivables

Accounts receivable at June 30, 2007, consisted of the following:

	Governmental Activities	Business-Type Activities
Other Accounts Receivable	\$ 95,047	\$ 19,480
Accrued Interest	<u>13,209</u>	<u>—</u>
Net Accounts Receivable	<u>\$ 108,256</u>	<u>\$ 19,480</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 4. Receivables (continued)

Taxes Receivable

Amounts due from Municipal and State Shared taxes at June 30, 2007, consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Municipal Taxes	\$ 342,509	\$ 9,406
State Shared Taxes	<u>35,904</u>	<u>0</u>
Net Taxes Receivable	<u>\$ 378,408</u>	<u>\$ 9,406</u>

The above governmental receivables are deemed 100% collectible.

NOTE 5. Interfund Receivables, Payables, and Transfers

Net operating transfers, made to supplement other funding sources, were as follows:

Governmental Activities:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 48,412	\$ 49,680
Senior Citizens Fund	27,558	—
Governmental Assistance Fund	85	—
RUS Reserve	32,652	—
Recreation Fund	20,671	—
EMS Fund	—	1,695
Municipal Income Perm Fund	—	62,857
Municipal Income Interest Fund	<u>62,857</u>	<u>48,315</u>
Total Governmental Activities	<u>\$ 192,235</u>	<u>\$ 162,547</u>
 Business-Type Activities:		
Joint Utility to General Fund	<u>\$ —</u>	<u>\$ 29,688</u>
Total Business-Type Activities	<u>\$ —</u>	<u>\$ 29,688</u>
Total Primary Government	<u>\$ 192,235</u>	<u>\$ 192,235</u>

Receivables and payables from interfund transactions as of June 30, 2007 are listed below. Interfund receivables and payables represent short-term loans and are expected to be repaid within one year.

Governmental Activities:	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	4,530	—
Nonmajor Funds:		
Cemetery Fund	<u>—</u>	<u>4,530</u>
Total Governmental Activities	<u>\$ 4,530</u>	<u>\$ 4,530</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 6. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2007 follows. Land is not subject to depreciation.

Governmental Activities:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2007</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 71,260	\$ 33,324	\$ —	\$ —	\$ 104,584
Construction in Progress	<u>523,720</u>	<u>—</u>	<u>—</u>	<u>(523,720)</u>	<u>—</u>
Net Capital Assets, Not Being Depreciated:	<u>594,980</u>	<u>33,324</u>	<u>—</u>	<u>(523,720)</u>	<u>104,584</u>
Capital Assets, Being Depreciated:					
Governmental Activities					
Buildings & Improvements	4,667,946	80,975	—	516,582	5,265,503
Furniture, Fixture & Equipment	<u>2,123,504</u>	<u>102,675</u>	<u>(9,041)</u>	<u>—</u>	<u>2,217,138</u>
Total Governmental Assets	<u>7,386,430</u>	<u>216,974</u>	<u>(9,041)</u>	<u>(7,138)</u>	<u>7,587,225</u>
Accumulated Depreciation:					
Buildings & Improvements	1,973,390	95,860	—	—	2,069,250
Furniture & Equipment	<u>1,604,793</u>	<u>148,833</u>	<u>8,718</u>	<u>—</u>	<u>1,744,908</u>
Total Accumulated Depreciation	<u>3,578,183</u>	<u>244,693</u>	<u>8,718</u>	<u>—</u>	<u>3,814,158</u>
Net Book Value	<u>\$ 3,808,247</u>	<u>\$ (27,719)</u>	<u>\$ (323)</u>	<u>\$ (7,138)</u>	<u>\$ 3,773,067</u>

Depreciation expense for the year ended June 30, 2007 was charged to the following functions and funds:

Public Safety	\$ 96,654
Public Works	66,601
Health & Welfare	7,819
General Government	<u>73,619</u>
Total depreciation expense: governmental activities	<u>\$ 244,693</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 6. Capital Assets (continued)

Business-Type Activities:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 745,966	—	—	—	745,966
Net Capital Assets, Not Being Depreciated:	<u>745,966</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>745,966</u>
Capital Assets, Being Depreciated:					
Business-Type Activities					
Construction in Process	—	37,098	—	—	37,098
Water Utility System	7,852,563	12,674	—	35,750	7,900,987
Sewer Utility System	8,379,795	40,000	—	—	8,419,795
Furniture & Equipment	<u>658,228</u>	<u>36,208</u>	<u>—</u>	<u>7,138</u>	<u>701,574</u>
Total Business-Type Assets	<u>17,636,552</u>	<u>125,980</u>	<u>-</u>	<u>42,888</u>	<u>17,805,420</u>
Accumulated Depreciation:					
Water Utility System	2,476,121	137,128	—	—	2,613,249
Sewer Utility System	2,953,024	120,760	—	—	3,073,784
Furniture & Equipment	<u>387,537</u>	<u>32,345</u>	<u>—</u>	<u>—</u>	<u>701,574</u>
Total Accumulated Depreciation	<u>5,816,682</u>	<u>290,233</u>	<u>—</u>	<u>—</u>	<u>6,106,915</u>
Net Book Value	<u>\$ 11,819,870</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,698,505</u>

Depreciation expense relating to business-like activities for the year ended June 30, 2007 totaled \$290,233.

NOTE 7. Long-term Debt

During the year ended June 30, 2007, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

Governmental Long-Term Debt:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Maturities</u>
Loan Payable – NMFA	\$ 100,683	\$ —	\$ 28,554	\$ 72,129	\$ 23,581
Lease Payable – Sweeper	64,204	—	14,845	49,359	15,622
Compensated Absences	<u>135,631</u>	<u>119,447</u>	<u>78,973</u>	<u>176,105</u>	<u>102,540</u>
Total Long-Term Debt	<u>\$ 300,518</u>	<u>\$ 119,447</u>	<u>\$ 122,372</u>	<u>\$ 297,593</u>	<u>\$ 141,743</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 7. Long-term Debt (continued)

The annual requirements to amortize the long term debt to NMFA as of June 30, 2007, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 23,581	\$ 1,554
2009	24,014	1,122
2010	<u>24,534</u>	<u>604</u>
Total	<u>\$ 72,129</u>	<u>\$ 3,280</u>

The annual requirements to amortize the loan payable for the Sweeper as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 15,622	\$ 2,581
2009	16,439	1,764
2010	<u>17,298</u>	<u>905</u>
Total	<u>\$ 49,359</u>	<u>\$ 5,250</u>

In prior years, the general fund was typically used to liquidate long-term liabilities other than debt.

Business-Type Long-Term Debt

The Water and Sewer fund has incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment. The following schedule shows the changes to its various forms of debt during the fiscal year ended June 30, 2007:

Governmental Long-Term Debt:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Maturities</u>
Loan Payable – RUS	\$ 371,000	\$ —	\$ 5,000	\$ 366,000	\$ 5,000
Loan Payable – RIP	133,816	—	17,464	116,352	17,988
Loan Payable – NMFA	295,851	—	16,207	279,644	16,822
Loan Payable – NMFA	70,000	—	4,432	65,568	4,968
Lease Purchase Payable	77,338	—	77,338	—	—
Compensated Absences	<u>56,525</u>	<u>15,174</u>	<u>16,556</u>	<u>55,143</u>	<u>22,057</u>
Total Long-Term Debt	<u>\$ 1,004,530</u>	<u>\$ 15,174</u>	<u>\$ 136,997</u>	<u>\$ 882,707</u>	<u>\$ 66,835</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE.7. Long-Term Debt (continued)

The annual requirements to amortize the loan payable to RUS as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 5,000	\$ 19,000
2009	5,000	19,000
2010	5,000	18,000
2011	5,000	18,000
2012	5,000	18,000
2013-2017	25,000	86,000
2018-2022	50,000	76,000
2023-2027	50,000	64,000
2028-2032	75,000	49,000
2033-2037	90,000	30,000
2038-2042	<u>51,000</u>	<u>6,000</u>
Total	<u>\$ 366,000</u>	<u>\$ 403,000</u>

The annual requirements to amortize the loan payable to RIP as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 17,988	\$ 3,491
2009	18,527	2,951
2010	19,083	3,185
2011	19,656	3,185
2012	20,245	1,232
2013-2017	<u>20,853</u>	<u>625</u>
Total	<u>\$ 116,352</u>	<u>\$ 14,669</u>

The annual requirements to amortize the loan payable to NMFA as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 16,822	\$ 11,524
2009	17,464	10,881
2010	18,139	10,208
2011	18,844	9,504
2012	19,586	8,762
2013-2017	110,584	31,182
2018-2022	<u>78,205</u>	<u>6,875</u>
Total	<u>\$ 279,644</u>	<u>\$ 88,936</u>

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE.7. Long-Term Debt (continued)

The annual requirements to amortize the loan payable to NMFA as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 4,968	\$ 164
2009	4,981	152
2010	4,993	139
2011	5,006	126
2012	5,018	114
2013-2017	25,281	330
2018-2022	<u>15,321</u>	<u>128</u>
Total	<u>\$ 65,568</u>	<u>\$ 1,153</u>

Conduit Debt

The Town maintains debt entered as Jail Project Revenue Bonds, Series 2006 bond agreements which reflect conduit debt. As reflected in the bond agreement, the bonds do not constitute an indebtedness to the Town within the meaning of any constitutional, charter or statutory provision or limitation, are not general obligations of the Town and are payable and collectable solely from revenues from the net revenues derived from the projected jail facilities to be constructed. According to the bond agreement, the owners of the bonds may not look to any general or other fund of the Town for the payment of the bonds. The total amount of debt related to the bonds totaled \$77,585,000 at June 30, 2007. The bond proceeds, including an offering premium of \$2,627,241, have been deposited with an escrow agent pending the construction of the facility.

NOTE 8. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. The Town of Clayton participates in the New Mexico Self-Insurer's Fund risk pool. Listed below is a summary of insurance coverage in force for the fiscal year ended June 30, 2007:

The Town has not filed any claims for which the settlement amount exceeded the insurance coverage during the past three years. However, should a claim be filed against the Town which exceeds the insurance coverage, the Town would be responsible for a loss in excess of the coverage amounts. As claims are filed, the New Mexico Self-Insurers' Fund assesses and estimates the potential for loss and handles all aspects of the claim. Insurance coverage's have not changed significantly from prior years and coverage's are expected to be continued.

At June 30, 2007, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Town of Clayton. New Mexico Self-Insurers' Fund has not provided information or an entity by entity basis that would allow for a reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 9. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the Combining Statements - Overview of certain information concerning individual funds including:

Deficit fund balance of individual funds: The funds with deficit fund balances as of June 30, 2007 were as follows

Government Assistance Fund	30,787
Senior Citizens Fund	5,266
Recreation Fund	1,018
Law Enforcement Fund	<u>204</u>
 Total Governmental Funds	 <u>37,275</u>

NOTE 10. Landfill Closure and Post-Closure Costs

State and federal laws and regulations require the Town place a final cover on landfills when closed and perform certain maintenance and monitoring functions at the site for a period of 30 years. The Town originally estimated these costs and recorded a liability of \$310,500. In July 2005, the Town re-evaluated the Closure and Post Closure Costs and arrived at a new estimated liability for landfill closure and post closure care costs is \$662,400. In 2006, the Town was consistent in its estimate of reduction of the liability and again reduced the liability in the amount of \$15,100. The roll forward from prior year is as follows:

Landfill post-closure costs (2006 f/s)	\$647,300
Current year reduction	<u>15,100</u>
 Balance at 6/30/07	 <u>\$632,200</u>

NOTE 11. PERA Pension Plan

Plan Description. Substantially all of the Town of Clayton's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978.) The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Covered employees of the Town of Clayton are eligible for receiving benefits when the age and service requirements have been met, as follows:

- a. age sixty-five years or older and five or more years of credited service;
- b. age sixty-four years and eight or more years of credited service;
- c. age sixty-three years and eleven or more years of credited service;
- d. age sixty-two years and fourteen or more years of credited service;
- e. age sixty-one years and seventeen or more years of credited service;
- f. age sixty year and twenty or more years of credited service;
- g. any age and twenty five or more years of credited service.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 11. PERA Pension Plan (continued)

Disability benefits are provided to members who are qualified for such coverage as determined by the disability review committee, pursuant to Chapter 10, Article 11.10.1 NMSA 1978.

Funding Policy. Regular employees, who are covered under “Municipal general member coverage plan 1” (Chapter 10, Article 11.45 through 11.49 NMSA 1978) contribute 7% of their defined gross salary to the plan. Employee contributions are 7% of the employee’s defined gross salary. Under municipal general member coverage plan 1, the amount of pension is equal to two percent of the final average salary multiplied by credited service. The amount shall not exceed sixty percent of the final average salary. The requirements may be amended by acts of the legislature. The Town’s contributions to PERA for the years ended June 30, 2007, 2006 and 2005 were \$ 170,921, \$120,188, and \$135,993 equal to the amount of the required contributions for the years, respectively.

NOTE 12. Post-Employment Benefits

The Retiree Health Care Act (the “Act”) (Chapter 10, Article 7C, NMSA, 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into Retiree Health Care Fund and by co-payments or out-of-pocket payments to eligible retirees. The Town has elected not to participate in the post employment health insurance plan

NOTE 13. Contingent Liabilities

The Town is party to various claims and lawsuits arising in the normal course of business.

Management and the Town’s attorney are unaware of any material pending or threatened litigation, claims or assessments against the Town which are not covered by the Town’s insurance as described in Note 8.

NOTE 14. Federal and State Grants

In the normal course of operations, the Town receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE 15. Subsequent Accounting Standard Pronouncements

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which is effective for financial statements for periods beginning after December 15, 2006. This statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The Town is analyzing the effect that this standard will have on its financial statements.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 15. Subsequent Accounting Standard Pronouncements (continued)

In June 2005, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 47, Accounting for Termination Benefits, which is effective for financial statements for periods beginning after June 15, 2005 or in conjunction with implementation of GASB No. 45. This statement establishes accounting standards for termination benefits. The Town is analyzing the effect that this standard will have on its financial statements.

In September 2006, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, which is effective for financial statements for periods beginning after December 15, 2006. This statement establishes the criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The Town is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In November 2006, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which is effective for financial statements for periods beginning after December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current and potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Town is analyzing the effect that this standard will have on its financial statements.

In May 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 50, Pension Disclosures, which is effective for financial statements for periods beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits. The Town is analyzing the effect that this standard will have on its financial statements.

In June 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which is effective for financial statements for periods beginning after June 15, 2009. This statement requires that all intangible assets not specifically excluded by its scope provision be classified as capital assets. The Town is analyzing the effect that this standard will have on its financial statements.

NOTE 16. Changes in Estimate- Capital Assets

In addition, the State of New Mexico, through Legislation, enacted HB 1074 amending Section 12-6-10, NMSA 1978, and changing the capitalization threshold for movable chattel and equipment for items costing more than \$1,000 to items costing more than \$5,000. According to the SAO, this change is to be accounted for as a change in an estimate per APB 20 paragraph 31. This change states that old inventory items that do not meet the new capitalization threshold should remain on the inventory list and continue to be depreciated; any new items received after June 17, 2005 should be added to the inventory list only if they meet the new capitalization threshold; and there will be no prior period adjustment.

STATE OF NEW MEXICO
Town of Clayton
Notes to Financial Statements
June 30, 2007

NOTE 17. Restatement of Net Assets

Governmental: During the current fiscal year, the Town discovered errors within the financial records for the fiscal year ended June 30, 2006. The beginning net assets of \$6,512,610 have been increased by \$ 271,133 resulting in restated net assets at the beginning of the year of \$6,783,743. These restatements were the result of corrections to certain accrued liability and accounts receivable accounts. The following is a detail of the errors:

General Fund understated	251,742
Street Fund understated	14,570
Senior Citizens Fund understated	3,602
Recreation Fund understated	<u>1,219</u>
Total Governmental Funds	<u>271,133</u>

Proprietary: The above corrections also resulted in immaterial restatements to the Town's proprietary fund. The beginning net assets of \$10,714,238 were increased by \$3,643 to a restated balance of \$10,717,881.

NOTE 18. Joint Powers Agreements

Joint Communications Agreement

Purpose

To establish, operate and maintain a consolidated communication center.

Participants

Town of Clayton, Union County and the Clayton Consolidated School District

Responsible Party for Operation and Audit

Town of Clayton

Beginning and Ending Date of Agreement

August 1, 2004 until terminated

Total Estimated Amount of Project and Actual Amount Contributed

Unknown

Fairgrounds Memorandum of Understanding

Purpose

To provide the development and implementation of long range planning for improving and maintaining the facilities at the Fairgrounds complex

Participants

Union County and Town of Clayton

Responsible Party for Operation and Audit

County

Beginning and Ending Date of Agreement

July 1, 2002 until terminated

Total Estimated Amount of Project and Actual Amount Contributed

Unknown

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NONMAJOR GOVERNMENTAL FUNDS

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Fund Descriptions

Senior Citizen's Fund – To account for the operation and maintenance of the senior citizen's meal program. Funding is provided by federal, state and local sources. The federal funding sources are: Cash in Lieu of Commodities, authorized by the Older Americans Act of 1965, Titles III-B, III-C III-O and III-F, and the United States Department of Agriculture. The state funds are authorized by the New Mexico General Appropriations Act (Chapter 3, 1999 Laws of New Mexico). The fund was established by local ordinance

Library Fund – To account for the State Grants- In-Aid to public libraries, to be used for the acquisition of library materials. (NMSL Rule 92-1). The Fund was established by local ordinance in accordance with Section 3-18-14, NMSA 1978.

Cemetery Fund – To account for funds received from sale of lots and donations for the purpose of maintaining a community cemetery. The fund was established by local ordinance authorized by 3-40-1, NMSA 1978.

Lodgers' Tax Fund – To account for funds received from a special local lodger's tax that is to be used for promotion of the Town. The fund was established by local ordinance authorized by Section 3-38-13 through 3-38-24, NMSA 1978.

Fire Fund – To account for the proceeds of the state fire allotment, and the expenditures for public safety there from. New Mexico state law requires that these funds be used to help maintain the fire department. The fund was established by local ordinance and in accordance with Section 979, Article 52, of the New Mexico State Insurance Code.

Recreation Fund – To account for receipts, such as the cigarette tax revenue, this is restricted for use in recreation areas only. Funding source is one-third of the cigarette tax. The fund was established by local ordinance. The cigarette tax is imposed and collected as authorized by Section 7/12-1 through 7-12-17, NMSA 1978.

EMS Fund – To account for the State Emergency Medical Services grant, to be used for specific medical services provided through fire department activities. This state grant comes through the New Mexico Department of Health per EMS Regulation DOH 94-11. The fund was created by local ordinance. Section 24-10A-1 to 24-10A-10, NMSA 1978 provides funds to municipalities for use in the establishment and enhancement of local emergency medical services.

Local Government Correction Fund – To account for the fees collected by the municipal judge, which are legally restricted to expenditures for jail related costs. The fund was established by local ordinance in order to comply with Section 35-14-11, NMSA 1978.

Law Enforcement Fund – To account for the state grant to be used for the repair and/or replacement of law enforcement equipment, according to state law, Section 29-13.1 through 29-13.9, NMSA 1978. The fund was established by local ordinance to comply with state statutes.

Municipal Income Interest Fund – To account for the interest income earned in the Town's Permanent Fund. The fund was established by local ordinance 548 on February 17, 1984. The fund is in compliance with Section 6-19, NMSA 1978.

CDBG Fund – To account for the proceeds of a Community Development Block Grant (CDBG) from the U.S. Department of Housing and Urban Development. The grant is being used for water and sewer improvements. Grant proceeds flow through the State Department of Finance and Administration. Pass thru #95-C-RS-I-1-H-56.

RUS Reserve Fund – To account for funds set aside as a reserve for future payments on the U.S. Department of Agriculture Rural Utilities Services loan.

STATE OF NEW MEXICO
Town of Clayton
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

	Senior Citizens		Cemetery Fund	Lodgers' Tax	Fire Fund
	Fund	Library Fund		Fund	
<i>Assets</i>					
Cash and cash equivalents	\$ 65	\$ 5,909	\$ 10,709	\$ 19,357	\$ 24,568
Investments	-	100,000	100,009	24,000	-
Accounts and taxes receivable	-	-	-	-	-
Other receivables	-	571	488	179	183
Due from other governments	(1)	-	-	-	-
Inventory	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Due from other funds	-	-	300	-	-
Total assets	\$ 64	\$ 106,480	\$ 111,506	\$ 43,536	\$ 24,751
<i>Liabilities</i>					
Accounts payable	\$ 5,224	\$ 312	\$ 646	\$ 78	\$ 568
Accrued expenses	106	-	-	-	295
Accrued compensated absences	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	4,830	-	-
Total liabilities	5,330	312	5,476	78	863
<i>Fund balances</i>					
Unreserved					
Designated for subsequent year	-	-	-	-	-
Unreserved, undesignated	(5,266)	106,168	106,030	43,458	23,888
Total fund balances	(5,266)	106,168	106,030	43,458	23,888
Total liabilities and fund balances	\$ 64	\$ 106,480	\$ 111,506	\$ 43,536	\$ 24,751

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Clayton

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

Schedule A-1

Page 2 of 2

Recreation Fund	EMS Fund	Local Government Correction Fund	Law Enforcement Fund	Municipal Income Interest Fund	CDBG Fund	RUS Reserve	Total Nonmajor Governmental Funds
\$ 249	\$ 4,345	\$ 36,192	\$ -	\$ 16,628	\$ -	\$ 33,122	\$ 151,144
-	-	224,280	-	50,000	-	-	498,289
-	21	3	1	368	-	-	1,814
-	-	(2)	-	-	-	-	(3)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	300
<u>\$ 249</u>	<u>\$ 4,366</u>	<u>\$ 260,473</u>	<u>\$ 1</u>	<u>\$ 66,996</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 651,544</u>
\$ 1,173	\$ 633	\$ 28	\$ 205	\$ -	\$ -	\$ -	\$ 8,867
94	-	-	-	-	-	-	495
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	4,830
<u>1,267</u>	<u>633</u>	<u>28</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,192</u>
-	-	-	-	-	-	-	-
(1,018)	3,733	260,445	(204)	66,996	-	33,122	637,352
<u>(1,018)</u>	<u>3,733</u>	<u>260,445</u>	<u>(204)</u>	<u>66,996</u>	<u>-</u>	<u>33,122</u>	<u>637,352</u>
<u>\$ 249</u>	<u>\$ 4,366</u>	<u>\$ 260,473</u>	<u>\$ 1</u>	<u>\$ 66,996</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 651,544</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

	Senior Citizens Fund	Library Fund	Cemetery Fund	Lodgers' Tax Fund	Fire Fund	Recreation Fund
<i>Revenues:</i>						
Municipal Taxes	\$ -	\$ -	\$ -	\$ 118,073	\$ -	\$ 302
Licenses and Fees	-	-	-	-	-	-
State Shared Taxes	-	-	-	-	-	1,997
Charges for Services	-	-	-	-	-	-
Fines	-	-	-	-	-	-
Miscellaneous Income	37,708	16,302	18,351	2,118	3,963	6,497
Grants	47,825	-	-	-	25,135	-
Agreement Revenues	-	-	-	-	-	-
<i>Total revenues</i>	<u>85,533</u>	<u>16,302</u>	<u>18,351</u>	<u>120,191</u>	<u>29,098</u>	<u>8,796</u>
<i>Expenditures:</i>						
Current:						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	126,426	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	12,862	-	90,472	-	28,613
Health and Welfare	118,575	-	11,547	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
<i>Total expenditures</i>	<u>118,575</u>	<u>12,862</u>	<u>11,547</u>	<u>90,472</u>	<u>126,426</u>	<u>28,613</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(33,042)</u>	<u>3,440</u>	<u>6,804</u>	<u>29,719</u>	<u>(97,328)</u>	<u>(19,817)</u>
<i>Other financing sources (uses)</i>						
Bond Proceeds	-	-	-	-	-	-
Transfers In	27,558	-	-	-	-	20,671
Transfers Out	-	-	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>27,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,671</u>
<i>Net change in fund balances</i>	(5,484)	3,440	6,804	29,719	(97,328)	854
<i>Fund balances - beginning of year</i>	(3,384)	102,728	99,226	13,739	121,216	(3,091)
<i>Restatements</i>	3,602	-	-	-	-	1,219
<i>Fund balance restated, beginning of year</i>	218	102,728	99,226	13,739	121,216	(1,872)
<i>Fund balances - end of year</i>	<u>\$ (5,266)</u>	<u>\$ 106,168</u>	<u>\$ 106,030</u>	<u>\$ 43,458</u>	<u>\$ 23,888</u>	<u>\$ (1,018)</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Town of Clayton

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

Schedule A-2

Page 2 of 2

EMS Fund	Local Government Corrections Fund	Law Enforcement Fund	Municipal Income Interest Fund	CDBG Fund	RUS Reserve	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,375
-	-	-	-	-	-	-
-	-	-	-	-	-	1,997
-	-	-	-	-	-	-
-	11,835	-	-	-	-	11,835
347	12,640	(1)	3,505	-	1,141	102,571
14,494	-	21,800	-	-	-	109,254
-	-	-	-	-	-	-
<u>14,841</u>	<u>24,475</u>	<u>21,799</u>	<u>3,505</u>	<u>-</u>	<u>1,141</u>	<u>344,032</u>
-	-	-	6,998	-	-	6,998
9,564	8,119	4,052	-	-	-	148,161
-	-	-	-	-	-	-
-	-	-	-	-	-	131,947
-	-	-	-	-	-	130,122
3,823	-	23,411	-	-	-	27,234
-	-	-	-	-	28,554	28,554
-	-	-	-	-	1,898	1,898
<u>13,387</u>	<u>8,119</u>	<u>27,463</u>	<u>6,998</u>	<u>-</u>	<u>30,452</u>	<u>474,914</u>
<u>1,454</u>	<u>16,356</u>	<u>(5,664)</u>	<u>(3,493)</u>	<u>-</u>	<u>(29,311)</u>	<u>(130,882)</u>
-	-	-	-	-	-	-
-	-	-	62,857	-	32,652	143,738
(1,695)	-	-	(48,315)	-	-	(50,010)
<u>(1,695)</u>	<u>-</u>	<u>-</u>	<u>14,542</u>	<u>-</u>	<u>32,652</u>	<u>93,728</u>
(241)	16,356	(5,664)	11,049	-	3,341	(37,154)
3,974	244,089	5,460	55,947	-	29,781	669,685
-	-	-	-	-	-	4,821
<u>3,974</u>	<u>244,089</u>	<u>5,460</u>	<u>55,947</u>	<u>-</u>	<u>29,781</u>	<u>674,506</u>
<u>\$ 3,733</u>	<u>\$ 260,445</u>	<u>\$ (204)</u>	<u>\$ 66,996</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 637,352</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Senior Citizens Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	91,681	91,681	37,708	(53,973)
Grants	44,288	44,288	47,825	3,537
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>135,969</u>	<u>135,969</u>	<u>85,533</u>	<u>(50,436)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	120,469	120,469	118,575	1,894
Capital Outlay	15,500	15,500	-	15,500
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>135,969</u>	<u>135,969</u>	<u>118,575</u>	<u>17,394</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(33,042)	(33,042)
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	27,558	27,558
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	<u>27,558</u>	<u>27,558</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(5,484)	(5,484)
<i>Fund Balance - Beginning of Year</i>	-	-	5,549	5,549
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65</u>	<u>\$ 65</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ (5,484)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Library Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	20,632	20,632	15,731	(4,901)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
Total revenues	20,632	20,632	15,731	(4,901)
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	17,770	17,770	12,862	4,908
Health and Welfare	-	-	-	-
Capital Outlay	2,862	2,862	-	2,862
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	20,632	20,632	12,862	7,770
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	2,869	2,869
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	2,869	2,869
<i>Fund Balance - Beginning of Year</i>	-	-	90,178	90,178
Fund Balance - End of Year	\$ -	\$ -	\$ 93,047	\$ 93,047
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			571	
Adjustments to expenditures (liabilities)			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ 3,440	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Cemetery Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	21,315	21,315	17,864	(3,451)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>21,315</u>	<u>21,315</u>	<u>17,864</u>	<u>(3,451)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	14,200	14,200	11,547	2,653
Capital Outlay	7,000	7,000	-	7,000
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>21,200</u>	<u>21,200</u>	<u>11,547</u>	<u>9,653</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>115</u>	<u>115</u>	<u>6,317</u>	<u>6,202</u>
<i>Other financing sources (uses)</i>				
Designated Cash	(115)	(115)	-	115
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(115)</u>	<u>(115)</u>	<u>-</u>	<u>115</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	6,317	6,317
<i>Fund Balance - Beginning of Year</i>	-	-	104,401	104,401
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,718</u>	<u>\$ 110,718</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			487	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ 6,804</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Lodgers' Tax Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ 92,000	\$ 92,000	\$ 118,073	\$ 26,073
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	2,000	2,000	1,939	(61)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
Total revenues	94,000	94,000	120,012	26,012
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	103,000	105,939	90,472	15,467
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	103,000	105,939	90,472	15,467
<i>Excess (deficiency) of revenues over expenditures</i>	(9,000)	(11,939)	29,540	41,479
<i>Other financing sources (uses)</i>				
Designated Cash	9,000	11,939	-	(11,939)
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total other financing sources (uses)	9,000	11,939	-	(11,939)
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	29,540	56,946
<i>Fund Balance - Beginning of Year</i>	-	-	13,817	13,817
Fund Balance - End of Year	\$ -	\$ -	\$ 43,357	\$ 70,763
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			179	
Adjustments to expenditures (liabilities)			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ 29,719	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Fire Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	1,700	1,700	3,780	2,080
Grants	122,312	122,312	25,135	(97,177)
Agreement Revenue	-	-	-	-
Total revenues	124,012	124,012	28,915	(95,097)
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	123,226	123,226	126,426	(3,200)
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	33,000	33,000	-	33,000
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	156,226	156,226	126,426	29,800
<i>Excess (deficiency) of revenues over expenditures</i>	(32,214)	(32,214)	(97,511)	(65,297)
<i>Other financing sources (uses)</i>				
Designated Cash	32,214	32,214	-	(32,214)
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total other financing sources (uses)	32,214	32,214	-	(32,214)
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(97,511)	(97,511)
<i>Fund Balance - Beginning of Year</i>	-	-	122,079	122,079
<i>Fund Balance - End of Year</i>	\$ -	\$ -	\$ 24,568	\$ 24,568
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			183	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			\$ (97,328)	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Recreation Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variences
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ 580	\$ 580	\$ 302	\$ (278)
Licenses and Fees	-	-	-	-
State Shared Taxes	2,885	2,885	1,997	(888)
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	38,036	38,036	6,497	(31,539)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>41,501</u>	<u>41,501</u>	<u>8,796</u>	<u>(32,705)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	41,501	41,501	28,613	12,888
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>41,501</u>	<u>41,501</u>	<u>28,613</u>	<u>12,888</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(19,817)</u>	<u>(19,817)</u>
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	20,671	20,671
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>20,671</u>	<u>20,671</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	<u>-</u>	<u>-</u>	<u>854</u>	<u>854</u>
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>(29,218)</u>	<u>(29,218)</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,364)</u>	<u>\$ (28,364)</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ 854</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
EMS Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	300	300	326	26
Grants	14,473	14,473	14,494	21
Agreement Revenue	-	-	-	-
Total revenues	14,773	14,773	14,820	47
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	11,473	11,473	9,564	1,909
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	3,300	3,300	3,823	(523)
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	14,773	14,773	13,387	1,386
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	1,433	1,433
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	(1,695)	(1,695)
Total other financing sources (uses)	-	-	(1,695)	(1,695)
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(262)	(262)
Fund Balance - Beginning of Year	-	-	4,607	4,607
Fund Balance - End of Year	\$ -	\$ -	\$ 4,345	\$ 4,345
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			21	
Adjustments to expenditures (liabilities)			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ (241)	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Local Government Corrections Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	9,200	9,200	11,835	2,635
Miscellaneous Income	2,100	2,100	12,637	10,537
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>11,300</u>	<u>11,300</u>	<u>24,472</u>	<u>13,172</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	3,850	3,850	8,119	(4,269)
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>3,850</u>	<u>3,850</u>	<u>8,119</u>	<u>(4,269)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>7,450</u>	<u>7,450</u>	<u>16,353</u>	<u>8,903</u>
<i>Other financing sources (uses)</i>				
Designated Cash	(7,450)	(7,450)	-	7,450
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(7,450)</u>	<u>(7,450)</u>	<u>-</u>	<u>7,450</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	16,353	16,353
<i>Fund Balance - Beginning of Year</i>	-	-	244,119	244,119
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,472</u>	<u>\$ 260,472</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			3	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ 16,356</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Law Enforcement Protection Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	5,661	5,661	(1)	(5,662)
Grants	21,800	21,800	21,800	-
Agreement Revenue	-	-	-	-
Total revenues	27,461	27,461	21,799	(5,662)
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	800	800	4,052	(3,252)
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	26,661	26,661	23,411	3,250
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	27,461	27,461	27,463	(2)
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(5,664)	(5,664)
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	(5,664)	(5,664)
Fund Balance - Beginning of Year	-	-	5,664	5,664
Fund Balance - End of Year	\$ -	\$ -	\$ -	\$ -
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ (5,664)	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Municipal Interest Income Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	56,809	56,809	3,138	(53,671)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
Total revenues	56,809	56,809	3,138	(53,671)
<i>Expenditures:</i>				
<i>Current:</i>				
General Government	-	-	6,998	(6,998)
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	-	6,998	(6,998)
<i>Excess (deficiency) of revenues over expenditures</i>	56,809	56,809	(3,860)	(60,669)
<i>Other financing sources (uses)</i>				
Designated Cash	(145,718)	45,436	-	(45,436)
Transfers In	-	-	62,857	62,857
Transfers Out	88,909	(102,245)	(48,315)	53,930
Total other financing sources (uses)	(56,809)	(56,809)	14,542	71,351
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	10,682	10,682
<i>Fund Balance - Beginning of Year</i>	-	-	48,948	48,948
Fund Balance - End of Year	\$ -	\$ -	\$ 59,630	\$ 59,630
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			367	
Adjustments to expenditures (liabilities)			-	
Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)			\$ 11,049	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
CDBG Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	-	-	-	-
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	-	-	-	-
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	-	-	-	-
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	-	-
<i>Fund Balance - Beginning of Year</i>	-	-	-	-
<i>Fund Balance - End of Year</i>	\$ -	\$ -	\$ -	\$ -
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			\$ -	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
RUS Reserve Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variations
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
State Shared Taxes	-	-	-	-
Charges for Service	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	26,000	26,000	1,141	(24,859)
Grants	-	-	-	-
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>26,000</u>	<u>26,000</u>	<u>1,141</u>	<u>(24,859)</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Health and Welfare	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	26,000	26,000	23,800	2,200
Interest	-	-	-	-
<i>Total expenditures</i>	<u>26,000</u>	<u>26,000</u>	<u>23,800</u>	<u>2,200</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	(22,659)	(22,659)
<i>Other financing sources (uses)</i>				
Designated Cash	-	-	-	-
Transfers In	-	-	26,000	26,000
Transfers Out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	<u>26,000</u>	<u>26,000</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	3,341	3,341
<i>Fund Balance - Beginning of Year</i>	-	-	<u>29,781</u>	<u>29,781</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 33,122</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ 3,341</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Municipal Income Perm Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (Non-GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Revenues:</i>				
Municipal Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Fees	-	-	-	-
Fines	-	-	-	-
Miscellaneous Income	54,000	62,858	64,041	1,183
Agreement Revenue	-	-	-	-
<i>Total revenues</i>	<u>54,000</u>	<u>62,858</u>	<u>64,041</u>	<u>1,183</u>
<i>Expenditures:</i>				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>54,000</u>	<u>62,858</u>	<u>64,041</u>	<u>1,183</u>
<i>Other financing sources (uses)</i>				
Designated Cash	(108,000)	-	-	-
Transfers In	-	-	-	-
Transfers Out	54,000	(62,858)	(62,857)	1
<i>Total other financing sources (uses)</i>	<u>(54,000)</u>	<u>(62,858)</u>	<u>(62,857)</u>	<u>1</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	1,184	1,184
<i>Fund Balance - Beginning of Year</i>	-	-	1,225,073	1,225,073
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,226,257</u>	<u>\$ 1,226,257</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			-	
Adjustments to expenditures (liabilities)			-	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ 1,184</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Town of Clayton
Joint Utility Proprietary Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Charges for Service	\$ -	\$ -	\$ 770,041	\$ 770,041
Taxes	33,435	33,435	67,485	34,050
Miscellaneous	819,937	876,147	43,046	(833,101)
<i>Total revenues</i>	<u>853,372</u>	<u>909,582</u>	<u>880,572</u>	<u>(29,010)</u>
<i>Expenditures:</i>				
Personnel services	-	-	229,692	(229,692)
Contractual services	-	-	327,398	(327,398)
Materials & supplies	834,937	914,097	66,600	847,497
Fixed charges	-	-	(42,608)	42,608
Miscellaneous	60,400	308,201	88,882	219,319
<i>Total expenditures</i>	<u>895,337</u>	<u>1,222,298</u>	<u>669,964</u>	<u>552,334</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(41,965)</u>	<u>(312,716)</u>	<u>210,608</u>	<u>523,324</u>
<i>Other financing sources (uses)</i>				
Designated Cash	41,965	312,716	-	(312,716)
Transfers In	-	-	-	-
Transfers Out	-	-	(29,688)	(29,688)
<i>Total other financing sources (uses)</i>	<u>41,965</u>	<u>312,716</u>	<u>(29,688)</u>	<u>(342,404)</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)</i>	-	-	180,920	180,920
<i>Fund Balance - Beginning of Year</i>	-	-	389,672	389,672
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,592</u>	<u>\$ 570,592</u>
<i>Reconciliation to GAAP Basis:</i>				
Adjustments to revenues (assets)			(39,075)	
Adjustments to expenditures (liabilities)			<u>(159,933)</u>	
<i>Excess (deficiency) of revenues and other sources (uses) over expenditures (GAAP Basis)</i>			<u>\$ (18,088)</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
JUNE 30, 2007

Schedule I

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2007	Name and Location of Safekeeper
First National Bank of NM	FHLB 3133XAW94 3/242008	\$ 50,000	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	Eastern NM 27678NAK9 8/15/2011	\$ 50,000	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	FHLB 3133X3RPO 2/17/2009	200,000	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	FHLB 31282U5A1 9/1/2008	301,626	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	FHLB 31391MDF7 11/1/1932	115,028	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	FHLB 3133XBXT7 12/1/2008	50,000	Federal Home Loan Bank Dallas, Texas
First National Bank of NM	Eastern NM 276785UA8 4/1/2014	50,000	Federal Home Loan Bank Dallas, Texas
Farmers & Stockmens Bank	Federal Home Loan Bank 3133X8ZY1 10/22/2004	600,000	Federal Home Loan Bank Dallas, Texas
Farmers & Stockmens Bank	Federal Home Loan Bank 3133XHTE2 11/9/2007	700,000	Federal Home Loan Bank Dallas, Texas
		<u>\$ 2,116,654</u>	

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

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STATE OF NEW MEXICO
TOWN OF CLAYTON
SCHEDULE OF CASH AND TEMPORARY INVESTMENT ACCOUNTS
JUNE 30, 2007

Schedule II

<u>Bank Account Type/Name</u>	<u>First National Bank of NM</u>	<u>Farmers & Stockmens Bank</u>	<u>Total</u>
Payroll	\$ 64,365	\$ -	\$ 64,365
Special Revenue	99,555	-	99,555
Money Market	57,859	-	57,859
Certificates of Deposit	1,180,606	-	1,180,606
Checking- Capital Projects	-	3,646	3,646
Checking- General	-	221,794	221,794
Checking- Library	-	(39)	(39)
Checking RUS	-	33,122	33,122
Checking Utility	-	86,198	86,198
Money Market	-	569,608	569,608
Certificates of Deposit	-	1,838,025	1,838,025
 Total On Deposit	 1,402,385	 2,752,354	 4,154,739
Reconciling Items	<u>(99,204)</u>	<u>(167,760)</u>	<u>(266,964)</u>
 Total per bank, June 30, 2007	 <u>\$ 1,303,181</u>	 <u>\$ 2,584,594</u>	 <u>3,887,775</u>
 Plus petty cash			 <u>698</u>
 Total, all banks and petty cash			 <u>\$ 3,888,473</u>

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

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SUPPLEMENTARY INFORMATION

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Griego Professional Services, LLC

Certified Public Accountants

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*

Garth Boyce, Mayor
Town Trustees
Town of Clayton
Clayton, New Mexico
and
Hector Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the basic financial statements of the governmental activities the business-type activities, each major fund, the budgetary comparisons for the general fund and major special revenue funds, and the aggregate remaining fund information which collectively comprise the Town's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 30, 2007. We have also audited the financial statements of each of the Town's nonmajor governmental funds and all the budgetary comparisons presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2007. 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 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 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 *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatements of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS 07-01, and items 2007-1, 2007-2, 2007-3 and 2007-4.

We noted a certain matter that is required to be reported under *Government Auditing Standards January 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as item 2007-05.

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

This report is intended solely for the information and use of the board of trustees, management, the Office of the State Auditor, the New Mexico State Legislature and its committees, the New Mexico Department of Finance and Administration, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grigo Professional Services, LLC

Albuquerque, New Mexico
November 30, 2007

STATE OF NEW MEXICO
Town of Clayton
Findings and Responses
June 30, 2007

FS 07-01 — Employee Personnel Files and Employee Time Sheets

Criteria: To ensure employees are paid the correct hourly or salary amount, contracts or documents supporting compensation must be included in the employee personnel files. Required documents include starting pay as well as increases or decreases in hourly or salary rate. For insurance eligible employees, an insurance authorization or waiver form should be kept as well.

Condition: Our audit procedures revealed that seven out of the twenty-five personnel files tested did not have an hourly or salary rate consistent with the hourly or salary rate being paid. Also, we noted that two of the files tested did not have an insurance waiver form. Finally, we found that one of the timesheets tested was incomplete.

Cause: The City has not properly maintained personnel files with the required employee documentation in all instances (personnel action forms, contracts, hourly rate, and insurance waivers).

Effect: Personnel documentation is essential to ensure the Town does not encounter possible penalties and interest imposed by the internal revenue service, create possible liabilities relating to contract issues and/or possible fraudulent activities. Failure to maintain employee documentation requirements may also result in possible legal complications.

Auditor's Recommendations: The Town must include documentation for all employees whether it is an hourly or salary employee. The Town must also include all other required personnel forms in each personnel file. The Town must require employees to complete all necessary forms and retain the forms in the personnel file. We recommend that the Town make every effort to locate the missing items and ensure that copies of all required forms are retained in the personnel files. In addition the Town should make periodic checks to ensure all such information is being properly maintained.

Management's Response: The Town recognizes that personnel files did not include pay rate sheets for an across the board increase to employees in January of 2007 as we normally do for step, merit or incentive pay increases. In an effort to come in compliance with this finding, the Town will include hard copy documentation, in addition to the system account documentation, in the employee's personnel file for across the board employee salary increases.

The Town has never been aware of a requirement to obtain a waiver from those employees not wishing to participate in the health insurance plan. To come in compliance with this finding the Town will ensure those employees eligible but not participating in the health plan to sign a waiver which will be placed in their personnel file.

Although the Town makes every effort to ensure that all personnel proceedings are in tact, certain instances open up the risk for errors such as employees assuming new job responsibilities. Management made changes in office personnel duties and responsibilities during the fiscal year which gave the payroll processing duties to another employee. The incomplete timesheet error was made during the training period of the employees' new responsibilities in payroll processing. We believe this to be an isolated incident and will take precautions to safeguard against these types of errors.

Separately Issued Housing Authority (Component Unit) Findings

Item 2007-01 — Budget Authority (Component Unit)

Statement of Condition: During our review of the U.S. Department of Housing and Urban Development (HUD) Low Rent Budget for the fiscal year ended June 30, 2007, we noted that the final budget limited operating expenses to \$183,555. During the fiscal year, operating expenses amounted to \$204,703 an excess of \$21,148 from the final budget. The Authority's staff failed to monitor expenditures to insure they did not exceed the established budget constraints.

Criteria: As discussed in footnote ID, the Authority submits its budget to the U.S. Department of Housing and Urban Development for final approval. The budget is a guideline to operations and the budget is not a legally enforceable document. However, the Authority should have made sufficient amendments to insure that its expenses did not exceed the established limits.

Effect: Although the budget is not a legally enforceable document, the Authority should attempt to limit expenses to the authorized budgetary authority. The expenses are only a part of the budget. Revenues and projected cash balance becomes an integral part of the budget. If actual revenues fall short of budgeted revenues, as they did in the current year, then overspending authorized expenses adds to the short fall of anticipated cash balances.

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Item 2007-01 — Budget Authority (Component Unit) (Continued)

Cause: On March 1, 2007, the Authority revised the original budget creating the final revised budget. On that date, management used actual expenses for the first nine months of the fiscal year and the estimated expenses for the fourth quarter to create the necessary adjustments for the revised budget. Management failed to correctly anticipate projected expenses for the last three months of the fiscal year. Additionally, management failed to adhere to the final revised budget.

Recommendation: We suggest that the Authority limit expenses to the authorized budget. If budget adjustments are necessary during the fiscal year the budget should be amended as required. However, the budget should not be merely amended to avoid excess in authorized budget amounts.

Views of Responsible Officials and Planned Corrective Actions: The budget was revised in March 2007; however, the revisions were not close enough to eliminate the excess expenditures. Clayton Housing Authority will monitor more closely the budget on a month to month basis and watch expenses to eliminate the expense overrun.

Item 2007-02 — Davis-Bacon Act (Component Unit)

Statement of Condition: While performing our audit fieldwork, we requested the payroll and wage statements provided by the contractor providing construction services for the Authority. The Authority stated they did not have the forms and they would contact the contractor. A week after we completed the audit fieldwork, the Authority provided the forms to us. The Authority failed to comply with the Davis-Bacon Act by not requiring the contractor to submit to the Authority the payroll and wage statements during the period of construction.

Criteria: The Davis-Bacon Act (Public Resolution No. 403 — 74th Congress) requires that all entities, receiving federal funds, include in their construction contracts a provision that the contractor or subcontractor submit a copy and a statement of compliance for each week in which the contract work is performed. This is required until the contractor or subcontractor completes the project.

Effect: Without the Authority obtaining copies of all payroll and wage statements and statements of compliance, the Authority cannot determine if the contractor or subcontractor is in compliance with the Davis-Bacon Act and U.S. Department of Labor regulations. Noncompliance with the Davis-Bacon Act and U.S. Department of Labor regulations could subject officials and employees, including the contractor, to punishment as defined by federal law.

Cause: During the current fiscal year, the employee who reviewed the documents passed away. The new staff hired was not informed of the requirements of the Davis-Bacon Act and U.S. Department of Labor rules and regulations.

Recommendation: We recommend that the Authority review the requirements of the Davis- Bacon Act and U.S. Department of Labor regulations to ensure compliance with applicable rules and regulations. Furthermore, we recommend that the Authority contact their contractor, to provide copies of the payroll and wage statements, as well as, the statements of compliance for the prior year's project.

Views of Responsible Officials and Planned Corrective Actions: All construction contracts issued in the future by Clayton Housing Authority will be monitored during construction to ensure all requirements are met which will include payroll reports from the contractor adhering to the Davis-Bacon Act and U.S. Department of Labor regulations.

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Item 2007-03 — Tenant Eligibility (Component Unit)

Statement of Condition: During the course of our audit, we performed audit tests of the tenant files retained by the Authority. We selected twelve tenant files to test. Our tests revealed the following mailers:

- One occasion where the income for the applicant was not verified.
- Four occasions where, the applicant did not fill out Form 9886, *Authorization for the Release of Information/Privacy Act Notice*.
- Four occasions where the applicant did not fill out Form 214, *Personal Declaration of Status* correctly.
- Two occasions where the applicant did not fill out the Community Service/Self Sufficiency Policy.

Criteria: The Authority has established policies and procedures regarding the retention of tenant information in order to substantiate eligibility as required by the U.S. Department of Housing and Urban Development (24 CFR sections 5.230, 5.601, 5.609, 960.253, 960.255, and 960.259).

24 CFR section 5.230 states that *'as a condition of admission or continued occupancy, the Authority requires the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility'*.

24 CFR section 5.601 *et seq.* states that the Authority *'determines income eligibility and calculates the tenant's rent payment using the documentation from third party verification'*. Furthermore, 24 CFR sections 960.253, 960.257, and 960.259 states that the Authority *'reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third party verification'*.

Furthermore, the Quality Housing and Work Responsibility Act of 1998 requires that *'all non-exempt public housing adult residents (18 or older) contribute eight (8) hours per month of community service (volunteer work) or participate in eight (8) hours of training, counseling, classes and other activities which help an individual toward self sufficiency and economic independence. This is a requirement of the Public Housing Lease.'*

Effect: Not complying with rules and regulations established by the U.S. Department of Housing and Urban Development could jeopardize funding from the federal agency. Further, the agency may have penalties regarding noncompliance with their rules and regulations.

Cause: The staff did not verify that all the HUD forms were properly completed prior the tenants moving into the dwelling units.

Recommendation: We suggest that Authority employees follow established rules and procedures regarding the completion of tenant files and the retention of the completed files.

Views of Responsible Officials and Planned Corrective Actions: The Housing Authority has established a check list to check off all required forms and ensuring they are properly filled out and filed within the tenants' files.

Item 2007-04 — Authority Credit Cards Expenditures

Statement of Condition: During our testing of thirty-nine Authority credit card expense transactions, we noted the following conditions:

- Eight transactions that total \$2,065 where the Authority didn't have an invoice and/or receipt to support the expenditure, which is 49% of the total agency credit card charges for the fiscal year. Subsequent to our audit fieldwork, the Authority located one invoice to substantiate one charge of \$1,025.
- Of the eight transactions discussed above, three transactions that total \$1,544, where the credit card charges were for travel expenses of a board member of a local nonprofit organization that provides housing and other services for the community of Clayton. This individual was not a board member or an employee of the Authority.

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Item 2007-04 — Authority Credit Cards Expenditures (Continued)

Criteria: The Authority has established policies and procedures regarding the retention of documentation. The Authority requires all expenditures of funds to be properly supported with documents such as invoices. The Authority's staff failed to follow the established procedures regarding the eight credit card transactions. The Authority provided travel and lodging expense for an individual who was not affiliated with the Authority. Management states that the individual was sent to Washington, D.C. to obtain information regarding the availability of federal funds for construction of housing in the Town of Clayton. While the process of determining the availability of federal funds may be related to the function of the Authority, the payment of the expenses incurred by an individual not affiliated with the Authority is not appropriate. The Authority appears to have violated the New Mexico State Constitution Article IX, Section 14, which prohibits state and local governmental entities from using public funds to pay for or aid any person, or association.

Effect: Not complying with the Authority's policies and procedures could allow unauthorized transactions to occur and could cause the misappropriation of the Authority's assets. Additionally, noncompliance with the New Mexico State Constitution could result in punishment as defined within the Constitution or state statutes.

Cause: The Authority's staff did not insure that all supporting documentation was kept on file for all of the credit card expenditures of the Authority. In regards to the travel expenses, management determined that the expenditures would benefit the community of Clayton in general and in particular, the Authority.

Recommendation: We suggest that Authority employees review established rules and procedures regarding agency credit cards, and update their accounting policies and procedures as necessary. Further, we recommend that the Authority seek reimbursement for the travel expenses from the individual or the nonprofit organization.

Views of Responsible Officials and Planned Corrective Actions: The purpose of the \$1,544 expenditure was to try and find monies to construct housing for persons coming to Clayton to work at the new prison, presently being built. This decision was based on the request of the mayor and city manager. The expenditure was a legitimate Housing Authority expense according to Department of Housing and Urban Development (HUD) rules and regulations, however, the non-affiliated Clayton Housing individual that was contracted to go to represent the Clayton Housing Authority may be a questionable issue presently being researched by legal staff. Receipts for all expenditures have been accounted for. The response to this issue is to always check with HUD and or legal staff to verify if these expenditures will be legitimate Housing Authority expense.

Item 2007-05 — Expenses and Expenditures

Statement of Condition: During our testing of twenty-five expense transactions of the Authority, we noted the following conditions:

- A five hundred dollar payment to a contractor could not be substantiated with an invoice. Subsequent to our completion of our audit fieldwork, the Authority obtained a copy of the invoice.
- A four hundred dollar payment to the Clayton Art Festival for the purchase of a piece of art work for the administrative office could not be substantiated with an invoice. The executive director of the Authority is attempting to obtain an invoice for the Authority's files.

Criteria: The Authority has established policies and procedures regarding the retention of documentation and the process concerning cash disbursements.

Effect: Not complying with the Authority's policies and procedures could allow unauthorized transactions performed on the behalf of the Authority. Furthermore, that could cause the misappropriation of the Authority's assets.

Cause: The Authority's staff did not insure that supporting documents such as invoices were on hand prior to the issuance of checks for the services rendered or items purchased.

Recommendation: We suggest that Authority employees review established rules and procedures regarding cash disbursements, and adhere to their accounting policies and procedures as required.

Views of Responsible Officials and Planned Corrective Actions: Invoices for expenditures will be emphasized from now forward. Nothing will be paid for unless the expenditure has an invoice or receipt.

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Prior Year Audit Findings – Town of Clayton

FS 06-01 — Procurement Process (bids). Resolved.
FS 06-02 — Procurement Process (purchasing). Resolved.

Prior Year Audit Findings – Housing Authority

Item 2006-01 — Budget Authority Repeated as Item 2007-01.
Item 2006-02 — Expenses and Expenditures Repeated as Item 2007-05.
Item 2006-03 — Department of Housing and Urban Development Resolved.
Item 2006-04 — Tenant Eligibility Repeated as Item 2007-03.
Item 2006-05 — Anti-Donation Clause Resolved.

Other Disclosures

Exit conference

On November 29, 2007, an exit conference was held with JJ Griego, CPA and Armando Sanchez, CPA of Griego Professional Services, LLC, with Garth Boyce, Mayor and Theresa Gard, Town Clerk.-Treasurer

Preparation of Financial Statements

These financial statements have been prepared by the independent auditor, Griego Professional Services, LLC. The contents of these financial statements remain the responsibility of the Town.

