

**Clayton Redevelopment Agency
Clayton, California**

*Basic Financial Statements and
Independent Auditors' Report*

For the fiscal year ended June 30, 2011

**Clayton Redevelopment Agency
Management's Discussion and Analysis
For the year ended June 30, 2011**

**Clayton Redevelopment Agency
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INDEPENDENT AUDITORS' REPORT

The City Council,
City of Clayton, California

We have audited the accompanying financial statements of the governmental activities and the major funds of the Clayton Redevelopment Agency (Agency), a component unit of the City of Clayton, California (City), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

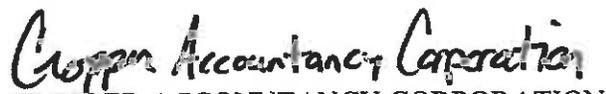
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 opinion:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major funds of the Agency as of June 30, 2011, and the respective changes in financial position, thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, we have also issued our report dated January 7, 2013, on our consideration of the Agency'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.

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

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the Agency's basic financial statements. The budgetary comparison exhibit is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The budgetary comparison exhibit has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
January 7, 2013

The discussion and analysis of the Clayton Redevelopment Agency's (Agency) financial performance provides an overall review of the Agency's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the Agency's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Agency were greater than the liabilities at the close of the fiscal year ended June 30, 2011 by \$6,767,054. The Agency typically issues debt to acquire or construct capital assets which it turns over to the City or other agencies. As a result, the Agency records the debt but has no corresponding assets. Debt payments are made by future revenues.
- As of the close of the fiscal year ended June 30, 2011, the Agency reported combined ending fund balances of \$6,767,054, an increase of \$346,897 from the prior year.
- The Agency's long-term liabilities decreased by \$2,670,000 to \$6,445,000.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency'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 required supplementary information in addition to the basic financial statements themselves.

The Agency is a component unit of the City of Clayton, which is the primary government and issues Basic Financial Statements that include the Agency's financial Statements.

Government-wide Financial Statements

The Government --wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These statements are designed to provide readers with a broad overview of the Agency's finances. They provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances.

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

The *statement of activities* presents information showing how the Agency'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.

**Clayton Redevelopment Agency
Management's Discussion and Analysis
For the year ended June 30, 2011**

All of the Agency's activities are considered to be governmental in nature and, as a result, no business-type activities are reported in these statements. Governmental activities are those that are principally supported by taxes and intergovernmental revenues. For the Agency, governmental activities consist of fostering vitality in the Clayton Downtown area and improving, preserving and supporting the development of quality affordable housing throughout the City.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements also report the Agency's operations in more detail than the Agency-wide statements by providing information about the Agency's most significant funds. All the Agency's funds are governmental funds. The Agency Board adopts an annual appropriated budget for each fund.

Notes to the Financial Statements

The *notes* provide additional information that is essential to a full understanding of the data provided in the Agency-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets can serve over time as a useful indicator of the Agency's financial position. At June 30, 2011, the Agency's assets were greater than the liabilities by \$3,697,668. The following table displays a year-to-date summary.

Statement of Net Assets

	June 30, 2011	June 30, 2010
Current and other assets	\$ 7,296,853	\$ 7,080,202
Non-current assets	4,266,430	4,190,728
Restricted assets	138,000	151,000
Total Assets	<u>11,701,283</u>	<u>11,421,930</u>
Current liabilities	2,168,615	1,287,067
Long-term liabilities	5,835,000	8,535,000
Total Liabilities	<u>8,003,615</u>	<u>9,822,067</u>
Net Assets:		
Restricted	633,252	12,928,640
Unrestricted	3,064,416	(11,328,777)
Total Net Assets	<u>\$ 3,697,668</u>	<u>\$ 1,599,863</u>

Clayton Redevelopment Agency
Management's Discussion and Analysis
For the year ended June 30, 2011

Statement of Activities
For Fiscal Year Ended

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Revenues:			
Program Revenues:			
Charges for Services	\$ 225,725	\$ -	N/A
General Revenue:			
Property taxes	5,094,863	5,232,312	(3)
Investment earnings	86,523	189,154	(54)
Miscellaneous	13,800	14,500	(5)
Total revenues	<u>5,420,911</u>	<u>5,435,966</u>	(0)
Expenses:			
Community service and facilities	8,265	37,860	(78)
Economic Development	-	200,744	100
Planning and development	2,329,635	4,616,361	(50)
Interest on long term debt and fiscal charges	459,731	432,620	6
Total expenses	<u>2,797,631</u>	<u>5,287,585</u>	(47)
Transfers from (to) the City of Clayton	<u>(525,475)</u>	<u>283,523</u>	(285)
Changes in net assets	2,097,805	431,904	386
Net assets beginning of year	<u>1,599,863</u>	<u>1,167,959</u>	37
Net assets end of year	<u>\$ 3,697,668</u>	<u>\$ 1,599,863</u>	131

Property tax revenues *decreased* due to decreased property values. Investment income decreased due to the fair market value of investments adjusted to GASB 31 valuations; the continued reduction in cash reserves caused by bond calls; and general interest rate declines. Transfers to the City of Clayton decrease primarily due to the increased debt service payments required to pay off all obligations prior to the Agency hitting the tax increment cap of \$55,000,000.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Agency's funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

All of the Agency's funds were presented as major funds as follows:

**Clayton Redevelopment Agency
Management's Discussion and Analysis
For the year ended June 30, 2011**

Capital Projects Fund – This fund accounts for 80% of the redevelopment property tax increment revenue, \$4,075,890, in project expenditures for the Agency's project area. This fund records the administrative expenditures required to support the Agency's capital projects and includes pass-through payments to other taxing entities and tax increment revenue shifted to the State Educational Revenue Augmentation Fund. This fund balance totaled \$(50,038) at June 30, 2011, compared to \$(334,867) a year earlier.

Affordable Housing Program Fund – This fund accounts for 20% of the redevelopment property tax increment revenue, \$1,018,973, as a set aside for affordable housing developments. This fund balance totaled \$6,183,840 at June 30, 2011, compared to \$5,593,899 a year earlier. \$493,419 of the increase was due to a prior period adjustment recorded to correct an error in the prior years' financial statements (see footnote 9 on page 34).

Redevelopment low and moderate income housing funds supported the Diamond Terrace Senior Housing Project with a subsidy of \$200,000.

Debt Service Fund – This fund accounts for the Agency's series 1996A, and 1999 Tax Allocation Bonds debt service payments. Revenues are transferred from the Capital Projects Fund. This fund balance totaled \$633,252 at June 30, 2011, compared to \$1,161,125 a year ago.

DEBT ADMINISTRATION

Debt Service: The Agency issued Redevelopment Tax Allocation Bonds in 1993, 1996, and 1999 in the amount of \$19,590,000. The proceeds from these bond issues have been used to fund various projects throughout the City. Principal and interest payments totaled \$2,576,639 during 2010-11. The Clayton Redevelopment Agency tax increment cap of \$55 million is net of the housing set aside and revenue sharing agreements. Through solid assessed value growth, the Agency will have collected approximately \$47 million in tax increment against the cap through fiscal year 2011. Although this leaves \$8 million to be collected under the cap, the Agency will reach the cap in 2014. Therefore, all of the outstanding bonds should be defeased on or prior to 2014. To this end, the Agency called \$1,940,000 in bonds in August 2010, and has planned to call an additional \$700,000 in February of 2012. By calling outstanding Agency bonds beginning in 2004, the Agency should stay in compliance with the increment cap test. A gradual bond retirement program is planned that will allow all of the outstanding bonds to be redeemed prior to the Agency reaching its \$55 million tax increment cap.

ECONOMIC FACTORS

The Agency's actual revenues exceeded staff estimates by \$361,114 during this past year. The increase is primarily due to Secured Property Tax revenues that totaled \$5,094,863 and exceeded original budgeted revenues by \$167,966. Most of the excess revenue is due to conservative budgeting estimates, and an increase in property sales.

Clayton Redevelopment Agency
Management's Discussion and Analysis
For the year ended June 30, 2011

Out of the Agency's gross revenue stream, \$3,984,569 (80%) flows to our Agency's discretionary-use fund while the balance \$1,230,770 (20%) is deposited in our state-required Low-Moderate Housing fund. The Agency has carefully managed its fiscal resources, and does have adequate tax increment revenues available that will not disrupt pre-existing debt obligations or operations.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Manager, 6000 Heritage Trail, Clayton, CA 94517.

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Basic Financial Statements

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Government-Wide Financial Statements

Clayton Redevelopment Agency
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 6,220,832
Cash with fiscal agent	<u>1,076,021</u>
Interest receivable	
Total Current Assets	<u>7,296,853</u>
Noncurrent Assets:	
Notes receivable	4,266,430
Investment in bonds	<u>138,000</u>
TOTAL ASSETS	<u>11,701,283</u>
LIABILITIES	
Accounts payable	4,231
Due to other funds	442,769
Advances from the City of Clayton	976,899
Interest payable	134,716
Long-term debt due within one year	610,000
Long-term debt due in more than one year	<u>5,835,000</u>
TOTAL LIABILITIES	<u>8,003,615</u>
NET ASSETS	
Restricted	633,252
Unrestricted	<u>3,064,416</u>
TOTAL NET ASSETS	<u>\$ 3,697,668</u>

The accompanying notes are an integral part of these financial statements

Clayton Redevelopment Agency
Statement of Activities
For the fiscal year ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental activities				
Community services and facilities	\$ 8,265	\$ -	\$ -	\$ -
Planning and development	2,329,635	225,725	-	-
Interest and fiscal charges	459,731	-	-	-
Total governmental activities	<u>\$ 2,797,631</u>	<u>\$ 225,725</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues and transfers:

Taxes:	
Property taxes	5,094,863
Total Taxes	<u>5,094,863</u>
Investment income (loss)	86,523
Miscellaneous	13,800
Transfers to the City of Clayton	(525,475)
Total general revenues and transfers	<u>4,669,711</u>
Change in Net Assets	2,097,805
Net assets - beginning of fiscal year	<u>1,599,863</u>
Net assets - end of fiscal year	<u>\$ 3,697,668</u>

The accompanying notes are an integral part of these financial statements

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Governmental Funds Financial Statements

The Clayton Redevelopment Agency has determined all of its funds to be major funds.

The *Capital Projects Fund* accounts for project expenditures in the Agency's project area.

The *Low/Moderate Capital Projects Fund* accounts for redevelopment property tax increments, which must be set aside for low and moderate income housing.

The *Debt Service Fund* accounts for the Agency's Series 1996A, and 1999 Tax Allocation Bonds debt service payments.

Clayton Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	RDA Capital Projects Fund	RDA Low/ Moderate Income Capital Projects Fund	RDA Debt Service Fund	Eliminations	Total
ASSETS					
Cash and investments	\$ 1,381,221	\$ 4,839,611	\$ -	\$ -	\$ 6,220,832
Cash and investments with fiscal agents	-	-	1,076,021	-	1,076,021
Notes receivable	244,380	4,614,462	-	(592,412)	4,266,430
Investment in bonds	138,000	-	-	-	138,000
Due from other funds	-	-	-	-	-
Advance to other funds	-	-	-	-	-
TOTAL ASSETS	<u>\$ 1,763,601</u>	<u>\$ 9,454,073</u>	<u>\$ 1,076,021</u>	<u>\$ (592,412)</u>	<u>\$ 11,701,283</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 1,598	\$ 2,633	\$ -	\$ -	\$ 4,231
Deferred revenue	242,730	3,267,600	-	-	3,510,330
Notes payable	592,412	-	-	(592,412)	-
Due to the City of Clayton	-	-	442,769	-	442,769
Advance from the City of Clayton	976,899	-	-	-	976,899
TOTAL LIABILITIES	<u>1,813,639</u>	<u>3,270,233</u>	<u>442,769</u>	<u>(592,412)</u>	<u>4,934,229</u>
FUND BALANCE					
Restricted	-	-	633,252	-	633,252
Assigned	(50,038)	6,183,840	-	-	6,133,802
TOTAL FUND BALANCE	<u>(50,038)</u>	<u>6,183,840</u>	<u>633,252</u>	<u>-</u>	<u>6,767,054</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,763,601</u>	<u>\$ 9,454,073</u>	<u>\$ 1,076,021</u>	<u>\$ (592,412)</u>	<u>\$ 11,701,283</u>

The accompanying notes are an integral part of these financial statements

Clayton Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds **\$ 6,767,054**

Amounts reported for governmental activities in the Statement of Net Assets were different because:

Interest payable on long-term debt does not require current financial resources. (134,716)

Revenues which are deferred on the Governmental Funds Balance Sheet because they are not available currently are recorded revenue in the Statement of Activities and accordingly increase the net assets on the Statement of Net Assets. 3,510,330

Long-term liabilities are not due and payable in the current period and therefore

Long-term debt - current portion (610,000)

Long-term debt -noncurrent portion (5,835,000)

Net Assets of Governmental Activities **\$ 3,697,668**

The accompanying notes are an integral part of these financial statements

Clayton Redevelopment Agency
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Major Funds			Total
	RDA Capital Projects Fund	RDA Low/ Moderate Income Capital Projects Fund	RDA Debt Service Fund	
REVENUES				
Property taxes	\$ 4,075,890	\$ 1,018,973	\$ -	\$ 5,094,863
Program income	-	225,725	-	225,725
Sales taxes	-	-	-	-
Permits, licenses and fees	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	9,360	77,163	-	86,523
Other revenue	13,800	-	-	13,800
TOTAL REVENUES	\$ 4,099,050	\$ 1,321,861	\$ -	\$ 5,420,911
EXPENDITURES				
General Government				
Community services and facilities	-	-	8,265	8,265
Planning and development	1,278,134	815,742	-	2,093,876
Loss on sale of land held of resale	-	259,502	-	259,502
Principal	-	-	2,195,000	2,195,000
Interest and fiscal charges	42,225	-	392,780	435,005
Capital Outlay	50,310	-	-	50,310
TOTAL EXPENDITURES	1,370,669	1,075,244	2,596,045	5,041,958
REVENUES OVER (UNDER) EXPENDITURES	2,728,381	246,617	(2,596,045)	378,953
OTHER FINANCING SOURCES				
Transfers in	-	-	2,068,172	2,068,172
Transfers out	(2,443,552)	(150,095)	-	(2,593,647)
TOTAL OTHER FINANCING SOURCES (USES)	(2,443,552)	(150,095)	2,068,172	(525,475)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	284,829	96,522	(527,873)	(146,522)
FUND BALANCES:				
Beginning of year, as previously reported	(334,867)	5,593,899	1,161,125	6,420,157
Prior period adjustment to correct error (See Note 13)	-	493,419	-	493,419
Beginning of fiscal year, as restated	(334,867)	6,087,318	1,161,125	6,913,576
End of fiscal year	\$ (50,038)	\$ 6,183,840	\$ 633,252	\$ 6,767,054

The accompanying notes are an integral part of these financial statements

Clayton Redevelopment Agency
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund
Balances to the Government-wide Statement of Activities
For the fiscal year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds **\$ (146,522)**

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Certain notes receivable are reported as expenditures in the Governmental Funds (400,947)

Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets.

This amount represents long-term debt repayments. 2,670,000

Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. This amount represents the change in interest payable. (24,726)

Change in Net Assets of Governmental Activities **\$ 2,097,805**

The accompanying notes are an integral part of these financial statements

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Clayton Redevelopment Agency of the City of Clayton, California, (Agency) have been prepared in conformity with accounting principles generally accepted in the U.S.A. (USGAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Agency's significant accounting policies are described below.

A. Description of Reporting Entity

The Agency is a blended component unit of the City of Clayton (City). The City Manager acts as the Agency's Executive Director and the City Council acts as the governing commission, which exerts significant influence over its operations. Accordingly, the financial operations of the Agency have also been included in the financial statements issued by the City.

The Agency was established in June 1987. The Agency Board members are the elected officials of the City Council. Redevelopment Plans were adopted in June 1987 for the Redevelopment Project Area. The Agency was established pursuant to the Community Development Law of the State of California as codified in Part I of Division 24 of the State of California Health and Safety Code. As such, the Agency acts as a legal entity, separate and distinct from the City, even though the City Council serves as the Agency's Board of Directors.

The actions of the Agency are binding and its representatives routinely transact business, including the incurrence of long-term debt, in the Agency's name. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition and within the Project Area.

B. Basis of Accounting/Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - wide Financial Statements - The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Agency.

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting/Measurement Focus, continued

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Agency did not have any significant program revenues at June 30, 2011. The majority of the Agency’s revenues were considered to be general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. The following interfund activities have been eliminated:

- Transfers in/out

Governmental Funds Financial Statements - Governmental funds financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all major funds.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue source, which has been treated as susceptible to accrual by the Agency, is property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting/Measurement Focus, continued

The Reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The Agency has the following major funds:

- *Capital Project Fund* – This fund accounts for project expenditures in the Agency’s project area.
- *Low/moderate Capital Projects Fund* – This fund accounts for redevelopment property tax increments, which must be set aside for low and moderate income housing.
- *Debt Service Fund* – This fund accounts for the Agency’s Series 1993, 1996A, and 1999 Tax Allocation Bonds debt service payments.

C. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency’s policy is to apply restricted net assets first.

D. Cash and Investments

The Agency pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts with original maturities of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Cash and Investments, continued

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

E. Land Held for Resale

The Agency acquires parcels of land from time to time as part of its primary purpose to develop or redevelop City properties. The property is carried at the lower of cost or net realizable value.

F. Long-Term Liabilities

Government-wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Fund Balances

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes a hierarchy based on the extent to which a government is bound to observe spending constraints that govern how it can use amounts reported in the governmental funds balance sheet.

The Fund Financial Statements consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts.

Nonspendable fund balance represents amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as an endowment fund).

Restricted fund balance represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or enabling legislation.

Committed fund balance represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or staff member to whom the governing body delegates authority.

Unassigned fund balance represents amounts that are available for any purpose; these amounts are reported only in the general fund, or when a fund has a negative fund balance.

H. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. The Agency had no net assets that were invested in capital assets net of related debt.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

I. Use of Estimates

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

J. Implementation of New GASB Pronouncements

The Agency has implemented the following accounting standards during the fiscal year ended June 30, 2011:

- GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in March 2009. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additional disclosure concerning the implementation of GASB Statement No. 54 is above in note 1G.

2. CASH AND INVESTMENTS

The Agency has pooled its cash and investments of \$6,220,832 with the City in order to achieve a higher return on investment. The City maintains a cash and investment pool, which includes cash balances and authorized investments of all the Agency's funds, which the City invests to enhance interest earnings. The pooled interest earned is allocated to the Agency's funds quarterly, based on average daily cash and investment balances in these funds. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents. The investments made by the City are limited to those allowable under State statutes and include the following types of investments:

- U.S. Government Securities
- Certificates of Deposit
- Mutual Funds
- Guaranteed Investment Contracts
- Commercial Paper
- Repurchase Agreements
- Deposits with Banks
- State of California Local Agency Investment Fund

All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds and related entities of the City.

2. CASH AND INVESTMENTS, CONTINUED

Cash and investments in the accompanying Statement of Net Assets include investment earnings accrued through June 30, 2011.

The Agency also had cash with fiscal agents in the amount of \$1,076,021 which was designated for debt service payments. These funds were all invested in money market accounts.

See the City's Basic Financial Statements for disclosures related to cash and investments and the disclosures related to credit risk, concentration of credit risk, and interest rate risk.

3. NOTES RECEIVABLE

At June 30, 2011, notes receivable consisted of the following:

<u>Description</u>	<u>Beginning Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2011</u>
Professional Apartment Management, Inc.	\$ 3,129,000	\$ 200,000	\$ 61,400	\$ 3,267,600
Eden Housing, Inc. (formerly Peace Grove)	567,000	-	-	567,000
Second Mortgage Program	187,450	-	-	187,450
Assessment District Loans	295,718	-	51,338	244,380
 Total	 <u>\$ 4,179,168</u>	 <u>\$ 200,000</u>	 <u>\$ 112,738</u>	 <u>\$ 4,266,430</u>

Professional Apartment Management, Inc.

On September 21, 1999, the Agency made a loan to the Professional Apartment Management, Inc. ("PAM") in the amount of \$750,000, at non-interest bearing rate, to construct and develop an affordable senior assisted living center on the site to be known as "Diamond Terrace." The note is secured by the Deed of Trust. On October 1, 2001, the Agency entered into an agreement to loan PAM up to \$4,036,000 including the \$750,000 note previously advanced. The additional loan is at a non-interest bearing rate. Repayment of the loan is commenced on October 1, 2005, with annual payments through October 1, 2023. As of June 30, 2011, the outstanding balance of the loan was \$3,267,600.

Eden Housing, Inc.

On October 13, 1992, the Agency made a loan to the Eden Housing Inc. (formerly Peace Grove, Inc.) in the amount of \$567,000, at a non-interest bearing rate, for the purchase of land for redevelopment and housing project for low-income mental health system clients. The loan is secured by a Deed of Trust. The loan has been assumed by Eden Housing, Inc. The principal balance is payable on December 18, 2052. As of June 30, 2011, the outstanding balance of the loan was \$567,000.

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

3. NOTES RECEIVABLE, CONTINUED

Second Mortgage Program

The Agency participates in a second mortgage assistance program, whereby qualified applicants are loaned money for a “silent second” down payment to purchase a home in the Stranahan development within the City. There are seven individual loans. As of June 30, 2011, the outstanding balance of the loans was \$187,450.

Assessment District Loans

The Agency has provided assistance to special assessment districts within the City, to fund repairs and improvements. There are three districts which received loans. As of June 30, 2011, the outstanding balance of the loans were \$244,380.

4. INTERFUND TRANSACTIONS

Interfund Transfers

During the fiscal year ended June 30, 2011, the Agency had the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects Fund	\$ -	\$ 2,443,552
Low/Moderate Capital Projects Fund	-	150,095
Debt Service Fund	2,068,172	-
City of Clayton	525,475	-
	<u>\$ 2,593,647</u>	<u>\$ 2,593,647</u>

The Agency transferred \$2,068,172 from the capital projects fund to the debt service fund for the current debt service payments.

5. INTERFUND NOTE

On May 10, 2011, the Capital Projects Fund received a loan from the Low to Moderate Income Housing Fund in the amount of \$592,412 to partially cover a demand from the California Department of Finance for property tax revenues to K-12 schools during the 2009-10 fiscal year via the Supplemental Educational Revenue Augmentation Funds (SERAF). The loan is to be repaid without interest by June 30, 2015.

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
June 30, 2011

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2011:

Description	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Amounts Due Within One Year	Amounts Due in More Than One Year
Governmental activities:						
1996 Refund Tax Allocation						
Bonds	\$ 3,210,000	\$ -	\$ (1,940,000)	\$ 1,270,000	\$ 340,000	\$ 930,000
1999 Tax Allocation Bonds	5,430,000	-	(255,000)	5,175,000	270,000	4,905,000
Advances from City of Clayton	475,000	501,899	-	976,899	-	976,899
Total governmental activities	<u>\$ 9,115,000</u>	<u>\$ 501,899</u>	<u>\$ (2,195,000)</u>	<u>\$ 7,421,899</u>	<u>\$ 610,000</u>	<u>\$ 6,811,899</u>

1996 Series A Refunding Tax Allocation Bonds

1996 Series A Refunding Tax Allocation Bonds in the principal amount of \$7,225,000 were issued on November 16, 1996, by the Agency. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing after August 1, 2010, are subject to call on any interest payment date at par, plus a premium 1 % to 2% of the principal amount. The bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue. In the current year early bond calls in the amount of \$1,615,000 are included in the current year debt service.

The annual debt service requirements to amortize the 1996 Refunding Tax Allocation Bonds outstanding at June 30, 2011, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 340,000	\$ 59,083	\$ 399,083
2013	-	49,987	49,987
2014	-	49,987	49,987
2015	-	49,987	49,987
2016	-	49,987	49,987
2017 – 21	930,000	153,189	1,083,189
Total	<u>\$ 1,270,000</u>	<u>\$ 412,220</u>	<u>\$ 1,682,220</u>

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

6. LONG-TERM DEBT, CONTINUED

1999 Tax Allocation Bonds

1999 Issue Tax Allocation Bonds in the principal amount of \$7,460,000 were issued on June 15, 1999 by the Agency. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. The bonds are special obligations of the Agency and are secured by the Agency's tax increment revenues.

The annual debt service requirements to amortize the 1999 Tax Allocation Bonds outstanding at June 30, 2011, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	270,000	248,930	518,930
2013	280,000	236,140	516,140
2014	295,000	222,554	517,554
2015	310,000	208,030	518,030
2016	320,000	192,672	512,672
2017 – 21	1,860,000	701,666	2,561,666
2022 – 25	1,840,000	189,750	2,029,750
Total	<u>\$ 5,175,000</u>	<u>\$ 1,999,742</u>	<u>\$ 7,174,742</u>

Advances from the City of Clayton

On June 17, 1999, the Agency received a loan from the City in the amount of \$475,000, at an interest rate of 6.5%. The interest is payable quarterly and the principal balance payable in full on or before January 1, 2023.

In February of 2011, the Agency recognized a debt owed to the City in the amount of \$501,899. The debt resulted from the Agency omitting payment to the City of an annual 2% election payment for the past twenty-one years. The City has recognized this advance of funds and the Agency has agreed to pay back this advance in four annual installments of \$125,475. As of June 30, 2011, the balance of the advances from the City was \$976,899.

7. RISK MANAGEMENT

As a component unit of the City, the Agency participates in joint power agreements through the Municipal Pooling Authority of Northern California (Authority) which provides insurance coverage for liability and workers' compensation claims. Claims liabilities are accrued when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The Authority covers claims in an amount up to \$29,000,000. The City has a deductible of \$5,000 per claim for liability cases and no deductible for workers' compensation claims. Once the City's deductible is met, the Authority becomes responsible for payment of all claims. The Authority is self-insured up to \$1,000,000 per claim and has excess coverage to a maximum of \$29,000,000.

The Authority is governed by a board consisting of representatives from member municipalities. The board controls the operations of the Authority including selection of management, approval of operating budgets and is independent of any influence by member municipalities beyond their representation on the Board. The Executive Director of the Agency (i.e. City Manager) is a Board member of the Authority.

The City's general liability premium payments to the Authority in the amount of \$81,736 for fiscal year 2010-2011 are in accordance with formulas established by the Authority. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Detailed financial information may be obtained from the Authority at the following address:

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

8. OTHER FUND DISCLOSURES

A. Expenditures over Appropriations

The following funds had an excess of expenditures over budgeted appropriations in the current fiscal year:

	<u>Amount</u>
<i>RDA Low/Moderate</i>	399,472
<i>RDA Debt Service</i>	527,873

B. Deficit Fund Balance

At June 30, 2011, the RDA Capital Projects Fund had a deficit fund balance of \$ (50,038).

Clayton Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

9. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2011, management determined that deferred revenues for the RDA Low/Moderate Capital Projects Fund were not being properly matched to the corresponding note receivable, resulting in improper recognition of revenues for fiscal years ended June 30, 2007, through June 30, 2010. Therefore, the beginning fund balance of the RDA Low/Moderate Capital Projects Fund has been restated and increased by \$493,419. The effect on revenues and other financing sources over expenditures and other financing uses for the RDA Low/Moderate Capital Projects Fund for the fiscal year ended June 30, 2010, would have been a decrease of \$279,332.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 7, 2013, the date on which the financial statements were available to be issued. There are no known material violations of finance-related legal and contractual provisions.

Other Supplementary Information

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BUDGETARY PRINCIPLES

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

- By June 30, the City Manager submits to the City Council a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the City Council as part of the adoption of subsequent year's budgets. The City and Agency routinely conduct a public Mid-Year Budget Review each year in late January or early February.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution during a City Council meeting in the month of June.
- The City Manager is authorized to transfer budgeted amounts within an activity, within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- Formal budgeting is employed as a management control device during the year for the general, certain special revenue and debt service funds.
- Budgets for the debt service and capital project funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as originally adopted or as amended by the City Council. Budget amendments were not material in relation to the original appropriations.

Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances.

Clayton Redevelopment Agency
Budgetary Comparison Schedule
For the fiscal year ended June 30, 2011
RDA Capital Projects Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 3,941,518	\$ 4,075,890	\$ 134,372
Use of money and property	5,000	9,360	4,360
Other revenue	<u>5,000</u>	<u>13,800</u>	<u>8,800</u>
TOTAL REVENUES	<u>3,951,518</u>	<u>4,099,050</u>	<u>147,532</u>
EXPENDITURES			
Planning and development	1,263,788	1,278,134	(14,346)
Interest and fiscal charges	30,875	42,225	(11,350)
Capital outlay	<u>15,000</u>	<u>50,310</u>	<u>(35,310)</u>
TOTAL EXPENDITURES	<u>1,309,663</u>	<u>1,370,669</u>	<u>(61,006)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>2,641,855</u>	<u>2,728,381</u>	<u>86,526</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	338,510	-	(338,510)
Transfers out	<u>(3,226,475)</u>	<u>(2,443,552)</u>	<u>782,923</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,887,965)</u>	<u>(2,443,552)</u>	<u>444,413</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (246,110)</u>	284,829	<u>\$ 530,939</u>
FUND BALANCES:			
Beginning of fiscal year		<u>(334,867)</u>	
End of fiscal year		<u>\$ (50,038)</u>	

Clayton Redevelopment Agency
Budgetary Comparison Schedule
For the fiscal year ended June 30, 2011
RDA Low/Moderate Income Capital Projects Fund

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Budget Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 985,379	\$ 1,018,973	\$ 33,594
Program income	61,400	225,725	164,325
Use of money and property	<u>60,000</u>	<u>77,163</u>	<u>17,163</u>
TOTAL REVENUES	<u>1,106,779</u>	<u>1,321,861</u>	<u>215,082</u>
EXPENDITURES			
Planning and development	460,689	815,742	(355,053)
Loss on sale of land held for resale	<u>-</u>	<u>259,502</u>	<u>(259,502)</u>
TOTAL EXPENDITURES	<u>460,689</u>	<u>1,075,244</u>	<u>(614,555)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>646,090</u>	<u>246,617</u>	<u>(399,473)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(150,095)</u>	<u>(150,095)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(150,095)</u>	<u>(150,095)</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 495,995</u>	<u>96,522</u>	<u>\$ (399,473)</u>
FUND BALANCES:			
Beginning of fiscal year, as previously reported		5,593,899	
Prior period adjustment		<u>493,419</u>	
Beginning of fiscal year, as restated		<u>6,087,318</u>	
End of fiscal year		<u>\$ 6,183,840</u>	

Clayton Redevelopment Agency
Budgetary Comparison Schedule
For the fiscal year ended June 30, 2011
RDA Debt Service Fund

	Final Budget	Actual	Variance from Final Budget Favorable (Unfavorable)
REVENUES			
Use of money and property	\$ 1,500	\$ -	\$ (1,500)
TOTAL REVENUES	<u>1,500</u>	<u>-</u>	<u>(1,500)</u>
EXPENDITURES			
Community services and facilities	8,265	8,265	-
Principal	2,335,000	2,195,000	140,000
Interest and fiscal charges	509,330	392,780	116,550
TOTAL EXPENDITURES	<u>2,852,595</u>	<u>2,596,045</u>	<u>256,550</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,851,095)</u>	<u>(2,596,045)</u>	<u>255,050</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,851,095	2,068,172	(782,923)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,851,095</u>	<u>2,068,172</u>	<u>(782,923)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>(527,873)</u>	<u>\$ (527,873)</u>
FUND BALANCES:			
Beginning of fiscal year		<u>1,161,125</u>	
End of fiscal year		<u>\$ 633,252</u>	



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The City Council
City of Clayton, California

We have audited the basic financial statements of the Clayton Redevelopment Agency (Agency) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Agency Board of Directors, others within the entity, and the California State Controller's Offices Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
January 7, 2013

ONGOING MAINTENANCE

The SFB project report recommends continued monitoring of the existing piezometers and inclinometers as well as monitoring of the water levels in the new wells and the inclinometer casings attached to each well. SFB recommends that several monitoring sessions be performed in order to evaluate noticeable trends in the monitoring data.

Per SFB, it is unknown if the dewatering wells and associated drainage system will have an impact on the general stability of the area unless the area is monitored and geotechnical evaluations are performed. It should not be assumed that the lowering of the ground water levels in the area of the wells will reduce or stop future ground movement.

It is not anticipated that any significant maintenance work will be required.

FISCAL IMPACT

This project has been funded by \$725,000 in lawsuit settlement funds (paid by several parties including William Lyon Homes) from the recently settled lawsuits in the Oakhurst Country Club development. Since the total project costs were less than the budgeted amount, the settlement agreement called for any remaining funds to be split between the GHAD and William Lyon Homes on a 20/80 basis.

Therefore, the GHAD will receive \$6,448.64 of the \$32,239.83 remaining funds. So much for the good news.

SFB has submitted the attached proposal for the ongoing monitoring that will cost the GHAD \$11,700 the first year and \$9,600 each year thereafter for two inspections each year. Since the GHAD receives only about \$33,000 annually from assessments, the fiscal impact will be severe. Since there is really no need to begin the inspections immediately, Staff is recommending that this issue be addressed at the time the Board reviews the GHAD's budget for next fiscal year. This will also allow staff more time to develop possible options for the Board's consideration.

CONCLUSION

The project is complete and the work has satisfied the project's specifications. Therefore, Staff recommends approval of this Resolution accepting the work as complete, ordering the filing of a Notice of Completion, and the payment of all retained funds 35 days after filing of the notice.

Attachments: Resolution
 Notice of Completion
 Final Project Report – staff
 Final Project Report – SFB
 Monitoring Proposal from SFB