CROPPER
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CERTIFIED PUBLIC ACCOUNTANTS

SUCCESSOR AGENCY TO THE CLAYTON REDEVELOPMENT AGENCY
CLAYTON, CALIFORNIA

FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCEPTION (FEBRUARY 1, 2012) TO JUNE 30, 2012

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Successor Agency to the Clayton Redevelopment Agency
Financial Statements
For the period from inception (February 1, 2012) to June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Governing Board and Oversight Committee of the
Successor Agency to the Clayton Redevelopment Agency
Clayton, California

Report on Financial Statements

We have audited the accompanying statement of fiduciary net position of the Successor Agency to the Clayton Redevelopment Agency (the "Successor Agency"), as of June 30, 2012, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the fiduciary net position of the Successor Agency as of June 30, 2012, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary information

Management has omitted the Management's Discussion and Analysis ("MD&A") that accounting principles generally accepted in the United States of America require to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board ("GASB"), who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
October 30, 2013

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FINANCIAL STATEMENTS

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Successor Agency to the Clayton Redevelopment Agency
Statement of Fiduciary Net Position
June 30, 2012

ASSETS	Redevelopment Retirement Trust Fund	Redevelopment LMI Retirement Trust Fund	Eliminations	Total
Current assets:				
Cash and investments	$ 1,913,695	$ 5,422,247	$ -	$ 7,335,942
Cash and investments with fiscal agents	925,006	-	-	925,006
Total current assets	2,838,701	5,422,247	-	8,260,948
Noncurrent assets:				
Notes receivable	-	4,160,650	-	4,160,650
Advance to other funds	-	592,412	(592,412)	-
Loans to other funds	196,073	-	-	196,073
Total noncurrent assets	196,073	4,753,062	(592,412)	4,356,723
Total assets	$ 3,034,774	$ 10,175,309	$ (592,412)	$ 12,617,671
LIABILITIES AND NET POSITION				
Liabilities				
Current liabilities:				
Accounts payable	$ 1,117	560	$ -	$ 1,677
Accrued interest payable	106,284	-	-	106,284
Current portion of long term debt	280,000	-	-	280,000
Due to the City of Clayton	976,899	-	-	976,899
Total current liabilities	1,364,300	560	-	1,364,860
Noncurrent liabilities:				
Deferred revenue	196,073	3,406,200	-	3,602,273
Long term debt, net of current portion	4,855,000	-	-	4,855,000
Advance from LMI fund	592,412	-	(592,412)	-
Total noncurrent liabilities	5,643,485	3,406,200	(592,412)	8,457,273
Total liabilities	7,007,785	3,406,760	(592,412)	9,822,133
NET POSITION				
Held in trust for other governments	(3,973,011)	6,768,549	-	2,795,538
Total liablilities and net position	$ 3,034,774	$ 10,175,309	$ (592,412)	$ 12,617,671

The accompanying notes are an integral part of the financial statements

Successor Agency to the Clayton Redevelopment Agency
Statement of Changes in Fiduciary Net Position
For the period from inception (February 1, 2012) to June 30, 2012

	Redevelopment Retirement Trust Fund	Redevelopment LMI Retirement Trust Fund	Total
Additions			
Tax increment revenue	$ 828,915	$ -	$ 828,915
Investment income	38,929	38,273	77,202
Total additions	867,844	38,273	906,117
Deductions			
Interest expense	106,284	-	106,284
Project costs	-	200,000	200,000
Other expenses	6,013	13,264	19,277
Total deductions	112,297	213,264	325,561
Extraordinary gain (loss)	(4,439,698)	6,904,680	2,464,982
Transfers	(288,860)	38,860	(250,000)
Change in net position	(3,973,011)	6,768,549	2,795,538
Net position held in trust - beginning	-	-	-
Net position held in trust - ending	$ (3,973,011)	$ 6,768,549	$ 2,795,538

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

On December 29, 2011, the California Supreme upheld Assembly Bill X1 26 (the "Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Clayton that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution No. 03-2012.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the Department of Finance and State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

The Successor Agency was activated on February 1, 2012. The City Council of the City of Clayton serves as the governing body of the Successor Agency and exercises all rights, powers, duties and privileges of the Successor Agency. The primary purpose of the Successor Agency is to wind down the affairs of the dissolved Clayton Redevelopment Agency (the "Agency") and to, among other things, make payments due for enforceable obligations, perform obligations required pursuant to any enforceable obligation, dispose of all assets of the former Agency, and to remit unencumbered balances of the Agency, including housing funds, to the County Auditor-Controller for distribution to taxing entities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

The assets and liabilities transferred from the dissolved Agency to the Successor Agency on February 1, 2012 were as follows:

	Transfers from:	Transfers to:	
	Former Redevelopment Agency	Redevelopment Retirement Trust Fund	Redevelopment LMI Retirement Trust Fund
Assets			
Current assets:			
Cash	$ 6,896,266	$ 1,332,504	$ 5,563,762
Investment with fiscal agent	1,771,200	1,771,200	-
Noncurrent assets:			
Advance to non-LMI fund	592,412	-	592,412
Advance to other funds	244,380	244,380	-
Notes receivable	4,553,062	-	4,553,062
	14,057,320	3,348,084	10,709,236
Liabilities			
Current liabilities:			
Interest payable	146,354	146,354	-
Noncurrent liabilities:			
Advances from the LMI fund	592,412	592,412	-
Advances from the City of Clayton	976,899	976,899	-
Deferred revenues	3,448,930	242,730	3,206,200
Long-term debt	5,835,000	5,835,000	-
	10,999,595	7,793,395	3,206,200
Net position (deficit)	$ 3,057,725	$ (4,445,311)	$ 7,503,036

B. Basis of Accounting

The accounts of the Successor Agency are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting, Continued

The Successor Agency's Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The Financial Statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, property taxes and investment income are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

C. Investments

The Successor Agency's investments are stated at fair value, except for interest-earning contracts. Fair value is based on quoted market prices as of the valuation date. The gain/loss resulting from valuation is reported as "investment income" in the Statement Changes in Fiduciary Net Position.

The Successor Agency's policy is to hold investments until maturity, or until fair values equal or exceed cost. The Successor Agency's portfolio did not hold investments in any of the following: items required to be reported at amortized cost, items in external pools that are not SEC-registered, items subject to involuntary participation in an external pool, and items associated with a fund other than the fund to which the income is assigned.

D. Property Taxes

The Successor Agency's primary source of revenue comes from property taxes. The assessed valuation of all property within each project area was determined on the date of adoption of the Project Area. Except for certain amounts provided by specific agreement, property taxes related to the incremental increase in assessed values after the adoption of the Project Area have been allocated to the Successor Agency, while all property taxes on the "frozen" assessed valuation as of the adoption date have been allocated to the City and other districts.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1 and become delinquent on December 11 and April 11. The County bills and collects the property taxes and allocates installments to various jurisdictions throughout the year.

The County is permitted by California State constitution, as amended, to levy taxes at 1% of full market value (assessed value). The growth in the full market value is limited to 2% annually and the value of new construction and improvements. The Successor Agency receives a share of this basic levy resulting from incremental growth of the assessed value over a base value established when the Agency project area was formed or amended.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions and affect certain reported amounts and disclosure. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The Successor Agency has pooled its cash and investments of $7,335,942 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 Successor Agency's funds, which the City invests to enhance interest earnings. The pooled interest earned is allocated to the Successor 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 but are not limited to 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 quarterly based on the average cash and investment balances of the various funds and related entities of the City.

Cash and investments in the accompanying Statement of Net Position include investment earnings accrued through June 30, 2012.

The Successor Agency also had cash with fiscal agents in the amount of $925,006 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. LOANS TO OTHER FUNDS

Notes Receivable transferred from former RDA to Successor Agency, effective February 1, 2012:

The former RDA provided assistance to special assessment districts within the City, to fund repairs and improvements. There are three districts which received loans from the former RDA. As of June 30, 2012, the outstanding balance of the loans due to the Successor Agency was $196,073.

On September 21, 1999, the former RDA made a loan to the Professional Apartment Management, Inc. ("PAM") in the amount of $750,000, at a non-interest bearing rate, to construct and develop an affordable senior assisted living center on the site known as "Diamond Terrace." The note is secured by the Deed of Trust. The former RDA loaned an additional $1,286,000 on October 24, 2001. On December 1, 2003, PAM began drawing on a $2,000,000 loan from the former RDA in the amount of $200,000 annually. The principal balance is payable commencing on October 1, 2005 through October 1, 2030. As of June 30, 2012, the outstanding balance of the loan due to the Successor Agency was $3,406,200.

On October 13, 1992, the former RDA made a loan to the Peace Grove, Inc. in the amount of $567,000, at a non-interest bearing rate, for the purchase of land for a redevelopment and housing project for low-income mental health system clients. The loan is secured by the Deed of Trust. The principal balance is payable on December 18, 2052. As of June 30, 2012, the outstanding balance of the loan due to the Successor Agency was $567,000.

The former RDA participated 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 outstanding. As of June 30, 2012, the outstanding balance of the loans due to the Successor Agency was $187,450.

4. DUE TO THE CITY OF CLAYTON

On June 17, 1999, the former RDA purchased a parcel of land for $475,000, from the City. In exchange for the parcel of land the former RDA issued a note in the amount of $475,000 to the City. The principal amount is payable by the Successor Agency on or before January 1, 2023. As of June 30, 2012, the outstanding balance of the note was $475,000.

On February 16, 2010, the former RDA recognized a debt owed to the City in the amount of $501,899. The debt resulted from the former RDA omitting payment to the City of an annual 2% election payment for twenty-one fiscal years. The City recognized this note receivable and the former RDA agreed to pay back this note in four annual installments of $125,475. As of June 30, 2012, the balance due from the Successor Agency is $501,899.

5. ADVANCE FROM LMI FUND

On May 10, 2011, the former Redevelopment Agency 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 2011-12 fiscal year via the Supplemental Educational Revenue Augmentation Funds (SERAF). The loan is to be repaid by the Successor Agency without interest by June 30, 2015.

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt transactions for the five months ended June 30, 2012:

	Balance Jan. 30, 2012	Transfers from Clayton Redevelopment Agency	Deletions	Balance June 30, 2012	Due within One Year	Due in more than One Year
1996 Series A Refunding Tax Allocation Bonds	-	$ 930,000	$ (700,000)	$ 230,000	-	$ 230,000
1999 Tax Allocation Bonds	-	4,905,000	-	4,905,000	280,000	4,625,000
Eden Housing	-	-	-	-	-	-
Second Mortgage Program	-	-	-	-	-	-
Assessment District Loans	-	-	-	-	-	-
Total	-	$ 5,835,000	$ (700,000)	$ 5,135,000	$280,000	$ 4,855,000

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 former RDA. 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, 2011 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 Successor Agency to the RDA and are secured by the Successor Agency to the RDA's tax increment revenue.

6. LONG-TERM DEBT, Continued

1996 Series A Refunding Tax Allocation Bonds, Continued

The annual debt service requirements to amortize the Successor Agency's 1996 Refunding Tax Allocation Bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	-	12,181	12,181
2014	-	12,181	12,181
2015	-	12,181	12,181
2016	-	12,181	12,181
2017	55,000	12,181	67,181
2018-2022	175,000	25,265	200,265
Total	$ 230,000	$ 86,170	$ 316,170

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 former RDA. 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 Successor Agency to the RDA and are secured by the Successor Agency to the RDA's tax increment revenues.

The annual debt service requirements to amortize the Successor Agency's 1999 Tax Allocation Bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	335,000	176,541	511,541
2018-2022	1,950,000	606,500	2,556,500
2023-2025	1,415,000	108,375	1,523,375
Total	$ 4,905,000	$ 1,750,812	$ 6,665,812

7. TRANSFERS TO THE CITY OF CLAYTON

In June 2012, $250,000 was transferred to the City's General Fund. The transfer was made to reimburse the City for general and administrative expenses incurred during the year.

8. COMMITMENTS AND CONTINGENCIES

Management believes, in consultation with legal counsel that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirement of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the Successor Agency.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 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.

In accordance with AB 1484 Due Diligence reviews of the Low and Moderate Income Housing Fund (LMIF) must be submitted to the Oversight Board, the county auditor-controller, the State Controller's Office and the Department of Finance. The Oversight Board will then review, approve, and transmit to the Department of Finance and county auditor-controller the determination of the amount of cash and cash equivalents that are available for disbursement to taxing entities.

As of the date of this report, a draft Due Diligence Review for LMIF was initiated, however has not been finalized. The report finalization was awaiting the acceptance by the State Department of Finance on the Successor Housing Asset Transfers, which occurred in March 2013. The Due Diligence review for all other funds has not yet been initiated as this process was pending the completion and issuance of the City's fiscal year 2010-11 and 2011-12 audited financial statements, which was finalized in November 2013.

It is expected that the Due Diligence Reviews will be completed by June 2014.