CROPPER
an accountancy corporation
CERTIFIED PUBLIC ACCOUNTANTS

CLAYTON FINANCING AUTHORITY

ANNUAL FINANCIAL STATEMENT REPORT

YEAR ENDED JUNE 30, 2014

(With Auditors' Report Thereon)

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Clayton Financing Authority
Basic Financial Statements
June 30, 2014
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INDEPENDENT AUDITORS' REPORT

Governing Board of
Clayton Financing Authority
Clayton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Clayton Financing Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditors' Responsibility

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 from 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 entity'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 entity'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information Omitted

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis of the financial statements be presented to supplement the basic financial statements. Management has omitted this required supplementary information. 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. Our opinion on the basic financial statements is not affected by the missing required supplementary management discussion and analysis information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
December 12, 2014

Clayton Financing Authority
Statement of Net Position
June 30, 2014

ASSETS	
Restricted investments:	
Cash and cash equivalents	$ 819,273
Cash with fiscal agent	454,193
Accrued interest receivable	69,830
Investments in local obligations:	
Due within one year	281,000
Due after one year	3,012,000
TOTAL ASSETS	4,636,296
LIABILITIES	
Accrued interest payable	40,769
Bonds payable	
Due within one year	305,000
Due after one year	2,880,000
TOTAL LIABILITIES	3,225,769
NET POSITION	
Restricted for debt service	716,999
Unrestricted	693,528
TOTAL NET POSITION	$ 1,410,527

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

Clayton Financing Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES		
Interest income from participating agency	$	217,096
TOTAL OPERATING REVENUES		217,096
OPERATING EXPENSES		
Professional services, including paying agent fees		5,070
TOTAL OPERATING EXPENSES		5,070
OPERATING INCOME (LOSS)	$	212,026
NONOPERATING REVENUES (EXPENSES)		
Interest expense on long-term liabilities		(126,867)
Interest and investment income		5,533
TOTAL NONOPERATING REVENUES (EXPENSES)		(121,334)
Income before Contributions and Transfers		90,692
Capital Contributions to Participating Agencies		(22,799)
CHANGE IN NET POSITION		67,893
NET POSITION - BEGINNING		1,342,634
NET POSITION - ENDING	$	1,410,527

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

Clayton Financing Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Principal received from participating agency	$ 261,000
Interest received from participating agency	222,630
Payments to suppliers of services	(5,070)
Net cash provided by operating activities	478,560
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal payments on long-term liabilities	(285,000)
Interest payments on long-term liabilities	(130,212)
Net cash used by capital financing activities	(415,212)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	5,533
Capital contribution to participating agency	(22,799)
Net cash used by investing activities	(17,266)
Net increase in cash and equivalents	46,082
Cash and cash equivalents at beginning of year	1,227,384
Cash and cash equivalents at end of year	$ 1,273,466
Included in the Statement of Net Position as follows:	
Cash and cash equivalents	$ 819,273
Cash with fiscal agent	454,193
Total cash and equivalents at end of year	$ 1,273,466
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 212,026
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in accrued interest receivable	5,534
Decrease in loans receivable from participating agency	261,000
Net cash provided by operating activities	$ 478,560

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Clayton Financing Authority (the Authority) was created for the purpose of refunding the Authority's 1997 Special Tax Revenue Refunding Bonds (the "1997 Bonds"), finance the acquisition and construction of certain public capital improvements (the Project), establish a reserve fund for the 1997 Bonds (funded part in cash and part from a reserve fund surety bond), and to pay the costs of issuance of the Bonds. The 1997 Bonds were issued to purchase the CFD 1990-1 local obligations, which are recovered by special assessment revenues from CFD 1990-1. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non-city obligations and are secured by revenues received by the Authority as the result of the payment of debt service on the CFD 1990-1 local obligations. As of June 30, 2014, the outstanding balance of the non-city bond obligation was $3,185,000. The Authority meets the criteria set forth in accounting principles generally accepted in the United States of America as a fiduciary fund of the City because the governing body is the same as the City, and the City has fiduciary responsibility for the Authority.

B. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses when the liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the Authority is interest income from investments in local obligations.

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

C. 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all short-term highly liquid investments with an original maturity of three months or less, including restricted investments, to be cash and cash equivalents.

E. New Accounting Pronouncements

In March 2013, GASB issued GASBS No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority is required to implement the provisions of this Statement for the current fiscal year. This Statement resulted in a change in practice, but did not have a material effect on the financial statements.

In March 2013, GASB issued GASBS No. 66, *Technical Corrections – 2013 – and amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement is effective for the current fiscal year. The Authority has determined that this Statement is not applicable.

In June 2013, GASB issued GASBS No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by State and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. This Statement is effective for the current fiscal year. The Authority has determined that this Statement is not applicable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. New Accounting Pronouncements, Continued

In June 2013, GASB issued GASBS No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until the fiscal year ending June 30, 2015. The Authority has determined that this Statement is not applicable.

In January 2014, GASB issued GASBS No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is not effective until the fiscal year ending June 30, 2015. The Authority has not determined the effect of this Statement.

In April 2014, GASB issued GASBS No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by State and local governments that extend and receive non-exchange financial guarantees. The Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for the current fiscal year. The Authority has determined that this Statement is not applicable.

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2. RESTRICTED INVESTMENTS

Cash and cash equivalents and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position:		
Cash and investments	$	819,273
Cash with fiscal agents		454,193
Total	$	1,273,466
Cash and investments as of June 30, 2014 consist of the following:		
City of Clayton investment pool	$	819,273
Government agency notes		245,116
Money market mutual funds		209,077
Total	$	1,273,466

The Authority reports its investments at fair value. At June 30, 2014, $1,273,466 of the cash and cash equivalents were held as reserves for debt service. All policies for investing cash and cash equivalents are governed by the bond indentures.

Disclosures Relating to Interest Rate Risk

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The investments are restricted to securities which will by their terms mature not later than the date the Agency estimates the monies represented by the particular investment will be needed for withdrawal from such fund. Monies invested in a reserve account shall be invested in investment securities which will by their terms mature prior to the date which is the final maturity date of the bonds.

		Remaining Maturity (in Months)					
Investment Type	Totals	12 Months or Less	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months	More than 60 Months
City of Clayton Investment Pool	$ 819,273	$ 819,273	$ -	$ -	$ -	$ -	$ -
Held by bond trustees:							
Federal Home Loan Bank	245,116	245,116	-	-	-	-	-
Money Market Mutual Funds	209,077	209,077	-	-	-	-	-
Municipal Bonds	3,293,000	281,000	296,000	316,000	342,000	362,000	1,696,000
	$ 4,566,466	$ 1,554,466	$ 296,000	$ 316,000	$ 342,000	$ 362,000	$ 1,696,000

2. RESTRICTED INVESTMENTS, Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Minimum Legal Rating	Exempt from Disclosure	AAA	AA	A	Not Rated
City of Clayton Investment Pool	N/A	$ -	$ -	$ -	$ -	$ 819,273
Held by bond trustees:						
Federal Home Loan Bank	N/A	-		-	-	245,116
Money Market Mutual Funds	N/A	-	209,077	-	-	
Municipal Bonds	N/A	-	-	-	-	3,293,000
Total		$ -	$ 209,077	$ -	$ -	$ 4,357,389

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are no investments that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits of governmental entities by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

3. INVESTMENTS IN LOCAL OBLIGATIONS

Middle School Community Facilities District- Original Issue $6,400,000

Middle School Community Facilities District (CFD) Bonds in the principal amount of $6,400,000 were issued on September 2, 1990 by the Authority under the Mello-Roos Community Facilities Act of 1982. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are secured solely by special assessment revenue from CFD No. 1990-1. As of June 30, 2014, the outstanding balance of the bond obligation was $3,293,000.

Changes in investments in local obligations for the period ended June 30, 2014, were as follows:

Investment in CFD No. 1990-1 Bonds at June 30, 2013	$ 3,554,000
Principal payments received September 2, 2013	(261,000)
Investment in CFD No. 1990-1 Bonds at June 30, 2014	$ 3,293,000

4. LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2014:

Clayton Financing Authority 2007 Special Tax Revenue Refunding Bonds-Original Issue $5,060,000

Refunding bonds were issued on May 17, 2007 by the Clayton Financing Authority in the principal amount of $5,060,000 to refund the Authority's 1997 Special Tax Revenue Refunding Bonds (the "1997 Bonds"), finance the acquisition and construction of certain public capital improvements (the Project), establish a reserve fund for the Bonds (funded part in cash and part from a reserve fund surety bond), and to pay the costs of issuance of the Bonds. The 1997 Bonds were issued to purchase the CFD 1990-1 local obligations, which are recovered by special assessment revenues from CFD 1990-1. Principal payments are payable on September 2 of each year. Interest payments are payable semi-annually on March 2 and September 2. The bonds are non city obligations and are secured by revenues received by the Authority as the result of the payment of debt service on the CFD 1990-1 Local Obligations. As of June 30, 2014, the outstanding balance of the non-city bond obligation was $3,185,000.

Principal payments on the bonds are due September 2nd each year through final maturity in 2022. Interest payments are due on March 2nd and September 2nd. Total principal and interest remaining on the bonds is $3,789,542, payable through September 2022. For the current year, principal and interest paid were $285,000 and $130,154, respectively.

4. LONG-TERM LIABILITIES, Continued

Changes in long-term liabilities for the period ended June 30, 2014, were as follows:

Bonds payable at June 30, 2013	$ 3,470,000
Principal payments paid September 2, 2013	(285,000)
Bonds payable at June 30, 2014	$ 3,185,000

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2014, 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.

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INDEPENDENT AUDITORS' 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*

Governing Board of
Clayton Financing Authority
Clayton, California

We have audited, in accordance with the 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, the financial statements of the Clayton Financing Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
December 12, 2014