

CLAYTON FINANCING AUTHORITY
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2015
(With Auditors' Report Thereon)

Clayton Financing Authority
Basic Financial Statements
June 30, 2015
Table of Contents

	Page(s)
FINANCIAL SECTION	
Independent Auditors' Report	1 – 2
Basic Financial Statements	
<i>Financial Statements:</i>	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
<i>Notes to Basic Financial Statements</i>	6 – 10
ADDITIONAL REPORT	
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 <i>Government Auditing Standards</i>	11 – 12

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, 2015, 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.

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, 2015, 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 October 29, 2015, 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.


CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California
October 29, 2015

Clayton Financing Authority
Statement of Net Position
June 30, 2015

ASSETS

Restricted investments:

Cash and cash equivalents \$ 817,700

Cash with fiscal agent 458,732

Accrued interest receivable 38,000

Investments in local obligations:

Due within one year 296,000

Due after one year 2,716,000

TOTAL ASSETS

4,326,432

LIABILITIES

Accrued interest payable 65,300

Bonds payable

Due within one year 315,000

Due after one year 2,565,000

TOTAL LIABILITIES

2,945,300

NET POSITION

Restricted for debt service 681,644

Unrestricted 699,488

TOTAL NET POSITION

\$ 1,381,132

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, 2015

OPERATING REVENUES

Interest income from participating agency	\$ 116,193
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TOTAL OPERATING REVENUES	116,193
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OPERATING EXPENSES

Professional services, including paying agent fees	8,726
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TOTAL OPERATING EXPENSES	8,726
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OPERATING INCOME (LOSS)	\$ 107,467
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NONOPERATING REVENUES (EXPENSES)

Interest expense on long-term liabilities	(144,026)
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Interest and investment income	7,164
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TOTAL NONOPERATING REVENUES (EXPENSES)	(136,862)
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CHANGE IN NET POSITION	(29,395)
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NET POSITION - BEGINNING	1,410,527
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NET POSITION - ENDING	\$ 1,381,132
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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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Principal received from participating agency	\$ 281,000
Interest received from participating agency	148,023
Payments to suppliers of services	<u>(8,726)</u>
Net cash provided by operating activities	<u>420,297</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal payments on long-term liabilities	(305,000)
Interest payments on long-term liabilities	<u>(119,495)</u>
Net cash used by capital financing activities	<u>(424,495)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	7,164
Capital contribution to participating agency	<u>-</u>
Net cash used by investing activities	<u>7,164</u>

Net increase in cash and equivalents 2,966

Cash and cash equivalents at beginning of year 1,273,466

Cash and cash equivalents at end of year \$ 1,276,432

Included in the Statement of Net Position as follows:

Cash and cash equivalents	\$ 817,700
Cash with fiscal agent	<u>458,732</u>
Total cash and equivalents at end of year	<u><u>\$ 1,276,432</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 107,467
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in accrued interest receivable	31,830
Decrease in loans receivable from participating agency	<u>281,000</u>
Net cash provided by operating activities	<u><u>\$ 420,297</u></u>

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

Clayton Financing Authority
Notes to Financial Statements
For the fiscal year ended June 30, 2015

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, 2015, the outstanding balance of the non-city bond obligation was \$2,880,000. 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.

This financial report is designed to provide a general overview of the City of Clayton's Financing Authority. 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, California 94517.

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.

**Clayton Financing Authority
Notes to Financial Statements
For the fiscal year ended June 30, 2015**

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.

2. CASH AND INVESTMENTS

Cash and cash equivalents and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 817,700
Cash with fiscal agents	458,732
Bonds held in refunding	<u>3,012,000</u>
Total	<u>\$ 4,288,432</u>

Cash and investments as of June 30, 2015 consist of the following:

City of Clayton investment pool	\$ 817,700
Money market mutual funds	458,732
Municipal bonds	<u>3,012,000</u>
Total	<u>\$ 4,288,432</u>

The Authority reports its investments at fair value. At June 30, 2015, \$681,644 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.

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Clayton Financing Authority
Notes to Financial Statements
For the fiscal year ended June 30, 2015

2. CASH AND INVESTMENTS, Continued

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.

Investment Type	Totals	Remaining Maturity (in Months)					
		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	\$ 817,700	\$ 817,700	\$ -	\$ -	\$ -	\$ -	\$ -
Held by bond trustees:							
Federal Home Loan Bank	-	-	-	-	-	-	-
Money Market Mutual Funds	458,732	458,732	-	-	-	-	-
Municipal Bonds	<u>3,012,000</u>	<u>296,000</u>	<u>316,000</u>	<u>342,000</u>	<u>362,000</u>	<u>383,000</u>	<u>1,313,000</u>
	<u>\$ 4,288,432</u>	<u>\$ 1,572,432</u>	<u>\$ 316,000</u>	<u>\$ 342,000</u>	<u>\$ 362,000</u>	<u>\$ 383,000</u>	<u>\$ 1,313,000</u>

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	Not Rated
City of Clayton Investment Pool	N/A	\$ -	\$ -	\$ 817,700
Held by bond trustees:				
Money Market Mutual Funds	N/A	-	458,732	
Municipal Bonds	N/A	-	-	<u>3,012,000</u>
Total		<u>\$ -</u>	<u>\$ 458,732</u>	<u>\$ 3,829,700</u>

Clayton Financing Authority
Notes to Financial Statements
For the fiscal year ended June 30, 2015

2. CASH AND INVESTMENTS, Continued

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, 2015, the outstanding balance of the bond obligation was \$3,012,000.

Changes in investments in local obligations for the period ended June 30, 2015, were as follows:

Investment in CFD No. 1990-1 Bonds at June 30, 2014	\$ 3,293,000
Principal payments received September 2, 2014	<u>(281,000)</u>
Investment in CFD No. 1990-1 Bonds at June 30, 2015	<u>\$ 3,012,000</u>

Clayton Financing Authority
Notes to Financial Statements
For the fiscal year ended June 30, 2015

4. LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2015:

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, 2015, the outstanding balance of the non-city bond obligation was \$2,880,000.

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 \$3,365,046, payable through September 2022. For the current year, principal and interest paid were \$305,000 and \$119,496, respectively.

Changes in long-term liabilities for the period ended June 30, 2015, were as follows:

Bonds payable at June 30, 2014	\$ 3,185,000
Principal payments paid September 2, 2014	<u>(305,000)</u>
Bonds payable at June 30, 2015	<u>\$ 2,880,000</u>

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 29, 2015, 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.

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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 29, 2015.

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

Walnut Creek, California

October 29, 2015