

CLAYTON FINANCING AUTHORITY
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2016

Prepared by

Finance Department

T. Kevin Mizuno, CPA
Finance Manager

**Clayton Financing Authority
Basic Financial Statements
For the year ended June 30, 2016
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**INDEPENDENT
AUDITORS' REPORT**

INDEPENDENT AUDITOR'S REPORT

To the Governing Body 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, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2016, and the respective changes in financial position and, where applicable, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–10 be presented to 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 to 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 our 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 any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, 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 25, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

As management of the Clayton Financing Authority (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The Authority's total assets are \$4,039,505. The primary asset of the Authority is the investment in the Clayton Community Facilities District (CFD) No. 1990-1 local obligations in the amount of \$2,716,000.
- The Authority's liabilities consisted mainly of the 2007 special tax revenue refunding bonds totaling \$2,565,000 as of June 30, 2016, which are secured by the .CFD 1990-1 local obligations investment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. Financial Statements are designed to provide readers with a broad overview of the Authority's finances.

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

The *statement of revenues, expenses, and changes in net position* presents information showing how the Authority's net position changed during the most recent period. All changes in net position 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 the statement for some items that will only result in cash flows in future fiscal periods.

Statement of Cash Flows

The *statement of cash flows* presents information about the cash receipts and cash payments of the Authority during the most recent period. When used with related disclosures and information in the other financial statements, the information provided in this statement

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

Statement of Cash Flows, Continued

should help financial report users assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they become due and its need for external financing.

It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Authority's financial position of its cash and its noncash investing, capital and related financing transactions during the period.

The financial statements can be found on pages 13 through 15 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. Net position at June 30, 2016 was \$1,440,405. The primary asset of the Authority is the investment in CFD 1990-1 local obligations, which decreased by \$296,000 during the year. The primary liability is the outstanding balance of the revenue refunding bonds. Both the local obligations investment and bonds payable balances will reduce over time, as the Authority's bonds are retired.

During the fiscal year ended June 30, 2016, CFD paid principal of \$296,000 to the Authority in accordance with the bonds' debt service schedule. The Authority used those funds, in addition to investment interest earnings, to pay down a portion of the special revenue tax bonds in accordance with those bonds' debt service schedule.

Total net position increased by \$59,273 during the fiscal year ended June 30, 2016. This increase in net position is primarily the result of the debt service of the CFD 1990-1 local obligations exceeding that of the 2007 special tax refunding bonds during the fiscal year ended June 30, 2016. The decrease in total assets of \$286,927 was primarily attributable to the maturity of the CFD 1990-1 local obligation investments.

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

FINANCIAL ANALYSIS, Continued

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2016 and 2015:

Condensed Statements of Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current assets	\$ 1,639,505	\$ 1,610,432
Noncurrent assets	2,400,000	2,716,000
Total Assets	<u>4,039,505</u>	<u>4,326,432</u>
Liabilities		
Current liabilities:	359,100	380,300
Noncurrent liabilities:	2,240,000	2,565,000
Total Liabilities	<u>2,599,100</u>	<u>2,945,300</u>
Net Position		
Restricted for debt service	726,317	681,644
Unrestricted	714,088	699,488
Total Net Position	<u>\$ 1,440,405</u>	<u>\$ 1,381,132</u>

Of the City's total net position, \$726,317, or approximately 50.4% of total net position, was restricted for debt service. This is a slight increase over the prior year, where \$681,644 of net position, or 49.35% was restricted for debt service. This modest increase was a result of the debt service on the 2007 Special Tax Refunding Bonds exceeding that of the CFD 1990-1 local obligations during the fiscal year ended June 20, 2016. This reserve balance will gradually be reduced to meet debt service requirements through the maturity of the 2007 Special Tax Refunding Bonds.

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

FINANCIAL ANALYSIS, Continued

The following table summarizes changes in net position for the fiscal years ended June 30, 2016 and 2015:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2016	June 30, 2015
Operating revenues		
Interest income from participating government	\$ 119,146	\$ 116,193
Total operating revenues	119,146	116,193
Operating expenses		
Professional services, including paying agent fees	8,266	8,726
Total operating expenses	8,266	8,726
Operating income (loss)	110,880	107,467
Nonoperating revenues (expenses)		
Interest expense on long-term liabilities	(76,940)	(144,026)
Interest and investment income	17,067	7,164
Other income	8,266	-
Total nonoperating revenues (expenses)	(51,607)	(136,862)
Change in Net Position	59,273	(29,395)
Net Position		
Beginning of Fiscal Year	1,381,132	1,410,527
End of Fiscal Year	\$ 1,440,405	\$ 1,381,132

Overall revenues and expenses remained relatively consistent with the prior year. The increase in interest and investment income was attributable to the Authority's cash held in the City investment pool making up a larger proportion of the total pool after the conclusion of AB 1484 All Other Funds and Low-Moderate Income Funds due diligence reviews over the course of the current and prior fiscal years. Reductions in interest expense pertained to a much smaller accrued interest liability balance at June 30, 2016 compared to the prior fiscal year.

LONG TERM DEBT

Refunding bonds were issued on May 17, 2007 by the Authority in the principal amount of \$5,060,000 to refund the Authority's 1997 Special Tax Revenue Refunding Bonds (the "1997

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

LONG TERM DEBT, Continued

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 bonds (the "Local Obligations", which are recovered by special assessment revenues from CFD 1990-1. CFD 1990-1 annually levies parcels within the district boundaries in order to repay the Local Obligations held by the Authority. The Local Obligations were issued for the purpose of paying a portion of the cost of construction of a middle school located with the jurisdiction of the Mt. Diablo School District, located in the City of Clayton. In addition, proceeds of the Local Obligations were used to acquire certain site preparation work on the ball and playing field property conveyed to the City. All construction improvements were completed as of the fiscal year ended June 30, 2016.

Principal payments on the 2007 Special Tax Revenue Refunding Bonds 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, 2016, the outstanding balance of the non-city bond obligation was \$2,565,000.

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 \$2,941,906, payable through September 2022. For the current year, principal and interest paid were \$296,000 and \$108,140, respectively. As the debt service on the Local Obligations exceeds that of the 2007 Special Tax Revenue Refunding bonds, the application of levy credits is considered annually by the City Council in their review and approval of the annual CFD 1990-1 parcel tax levy. These levy credits result in the gradual use of the balance of net position restricted for debt service through the maturity of the 2007 bonds.

FACTORS AFFECTING ECONOMIC CONDITIONS

On May 22, 2014 Standard & Poor's Rating Services affirmed its rating of "A" and stable outlook for the Authority's 2007 Special Tax Revenue Refunding bonds. The 2007 bonds, secured entirely by repayment of the Local Obligations by CFD 1990-1, have been paid on time and in full and continue to maintain their tax exempt status provided by the federal government for qualified municipal bonds. As of the most recent annual parcel tax levy report filed published by CFD 1990-1, the property tax delinquency rate was only 1.84% for the fiscal year ending June 30, 2016. Property values within the City of Clayton continue to rebound since the Great Recession in 2008, and this coupled with low delinquency rates of the CFD 1990-1 fare positively

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2016**

FACTORS AFFECTING ECONOMIC CONDITIONS, Continued

for the fiscal position of the Authority in order to meet the ongoing debt service of the 2007 bonds.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Clayton's finances for all those with an interest in the City's finances. 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.

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BASIC FINANCIAL STATEMENTS

Clayton Financing Authority
Statement of Net Position
June 30, 2016

ASSETS

Current assets:

Restricted investments:

Cash and cash equivalents	\$ 834,766
Cash with fiscal agent	429,839
Accrued interest receivable	58,900
Investments in local obligations:	
Due within one year	316,000

Noncurrent assets:

Investments in local obligations:	
Due after one year	2,400,000

Total Assets 4,039,505

LIABILITIES

Current liabilities:

Accrued interest payable	34,100
Bonds payable:	
Due within one year	325,000

Noncurrent liabilities:

Bonds payable:	
Due after one year	2,240,000

Total Liabilities 2,599,100

NET POSITION

Restricted for debt service	726,317
Unrestricted	714,088
Total Net Position	<u>\$ 1,440,405</u>

The accompanying notes are an integral part of the financial statements

Clayton Financing Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES

Interest income from participating agency	\$ 119,146
Total Operating Revenues	<u>119,146</u>

OPERATING EXPENSES

Professional services, including paying agent fees	<u>8,266</u>
Total Operating Expenses	8,266

Operating Income (Loss) 110,880

NONOPERATING REVENUES (EXPENSES)

Interest expense on long-term liabilities	(76,940)
Interest and investment income	17,067
Other income	<u>8,266</u>
Total Nonoperating Revenues (Expenses)	<u>(51,607)</u>

Change in Net Position 59,273

NET POSITION

Beginning of Fiscal Year	<u>1,381,132</u>
End of Fiscal Year	<u><u>\$ 1,440,405</u></u>

The accompanying notes are an integral part of the financial statements

Clayton Financing Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Principal received from participating agency	\$ 296,000
Interest received from participating agency	98,246
Payments to suppliers of services	<u>(8,266)</u>
Net cash provided by operating activities	<u>385,980</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal payments on long-term liabilities	(315,000)
Interest payments on long-term liabilities	<u>(108,140)</u>
Net cash used by capital financing activities	<u>(423,140)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	17,067
Payments from participating agency	<u>8,266</u>
Net cash used by investing activities	<u>25,333</u>

Net increase in cash and equivalents	(11,827)
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Cash and cash equivalents at beginning of year	<u>1,276,432</u>
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Cash and cash equivalents at end of year	<u><u>\$ 1,264,605</u></u>
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Included in the Statement of Net Position as follows:

Cash and cash equivalents	\$ 834,766
Cash with fiscal agent	<u>429,839</u>
Total cash and equivalents at end of year	<u><u>\$ 1,264,605</u></u>

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

Operating income	\$ 110,880
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Increase in accrued interest receivable	(20,900)
Decrease in loans receivable from participating agency	<u>296,000</u>
Net cash provided by operating activities	<u><u>\$ 385,980</u></u>

The accompanying notes are an integral part of the financial statements

**NOTES TO THE BASIC
FINANCIAL STATEMENTS**

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2016, the outstanding balance of the non-city bond obligation was \$2,565,000. 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 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.

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.

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

Investments

Investments are carried at fair value. Fair value is based on quoted market price, if applicable. Otherwise the fair value hierarchy is as follows:

Level 1 - Values are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs, other than quoted market prices, included within Level 1 that are observable for the asset or liabilities at the measurement date.

Level 3 - Certain inputs are unobservable inputs (supported by little or no market activity, such as the City's best estimate of what hypothetical market participants would use or determine a transaction price for the asset or liability at the reporting date).

Net Position / Fund Balances

In the Statement of Net Position, net position is classified in the following categories:

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

Unrestricted Net Position - This amount is all net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New Accounting Pronouncements

The following Governmental Accounting Standards Board Statements have been implemented in the current financial statements:

- GASB Statement No. 72 - *“Fair Value Measurement and Application”*

This Statement, issued in February of 2015, provides guidance for determining a fair value measurement for financial reporting purposes. Fair value is described as an exit price. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurement

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. This Statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. The Authority is required to implement the provisions of this Statement for the fiscal year ended June 30, 2016 (effective for periods beginning after June 15, 2015).

- GASB Statement No. 76 - *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*

This Statement, issued in June of 2015, supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS

Classification

Cash and cash equivalents and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 834,766
Cash with fiscal agents	429,839
Bonds held in refunding	2,716,000
Total	\$ 3,980,605

Cash and investments as of June 30, 2016 consist of the following:

City of Clayton investment pool	\$ 834,766
Government agency notes	250,000
Money market mutual funds	179,839
Municipal bonds	2,716,000
Total	\$ 3,980,605

Policy

Investments Authorized by the California Government Code and the City's Investment Policy

As permitted by the California Government Code, bond indentures, and contracts and agreements, the Authority is permitted to invest in the City of Clayton investment pool, and other investments authorized by its more restricted outstanding debt agreement as summarized below. The City of Clayton issues stand-alone audited financial statements with full disclosures of the investment pool available upon request at 6000 Heritage Trail, Clayton, California 94517.

Investments Authorized by Debt Agreements

Investments 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 of Clayton investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

Policy, Continued

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Money market mutual funds	N/A	N/A	N/A
U.S. government agency issues	5 years	20%	None
Federal Housing Administration debentures	N/A	N/A	N/A
Commercial paper	92 Days	N/A	N/A
Demand or time deposits	366 Days	N/A	N/A

Investment Fair Value

The Authority reports its investments at fair value. At June 30, 2016, \$726,317 of the cash and cash equivalents were held as reserves for debt service. The Authority has the following recurring fair value measurements as of June 30, 2016:

- U.S. government agency note values are based on unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date [Level 1 inputs].
- Municipal bonds are valued based on unobservable inputs (supported by little or no market activity, such as the Authority's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date) [Level 3 inputs].

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 of Clayton investment policy.

Investment Type	Totals	Remaining Maturity (in Months)				
		12 Months or Less	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months
City of Clayton investment pool	\$ 834,766	\$ 834,766	\$ -	\$ -	\$ -	\$ -
Held by bond trustees:						
U.S. government agency notes	250,000	250,000	-	-	-	-
Money market mutual funds	179,839	179,839	-	-	-	-
Municipal bonds	2,716,000	316,000	342,000	362,000	383,000	1,313,000
	<u>\$ 3,980,605</u>	<u>\$ 1,580,605</u>	<u>\$ 342,000</u>	<u>\$ 362,000</u>	<u>\$ 383,000</u>	<u>\$ 1,313,000</u>

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

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.

Issuer	Exempt from Disclosure	AAA	Not Rated	Total
City of Clayton investment pool	\$ -	\$ -	\$ 834,766	\$ 834,766
Held by bond trustees:				
U.S. government agency notes:				
Federal Farm Credit Bank	-	250,000	-	250,000
Money Market Mutual Funds				
First American Treasury Obligations Fund	179,839	-	-	179,839
Municipal Bonds				
Community Facilities District No. 1990-1	-	-	2,716,000	2,716,000
Total	\$ 179,839	\$ 250,000	\$ 3,550,766	\$ 3,980,605

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Accordingly, the notes to the financial statements should disclose if the government has five percent or more of its total investments in a single issuer. More than five percent of the Authority's investments are with City investment pool, Federal Farm Credit Bank, and Community Facilities District No. 1990-1.

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

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS, Continued

Custodial Credit Risk, Continued

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 with the bonds maturing on September 2, 2022. Interest payments are payable semi-annually on March 2 and September 2. The bonds bear interest at 6.503% and mature September 2, 2022. The debt is secured solely by special parcel taxes from CFD No. 1990-1. As of June 30, 2016, the outstanding balance of the bond obligation was \$2,716,000.

Changes in investments in local obligations for the period ended June 30, 2016, were as follows:

Investment in CFD No. 1990-1 Bonds at July 1, 2015	\$ 3,012,000
Principal payments received September 2, 2015	<u>(296,000)</u>
Investment in CFD No. 1990-1 Bonds at June 30, 2016	<u><u>\$ 2,716,000</u></u>

4. LONG-TERM LIABILITIES

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

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2016

4. LONG-TERM LIABILITIES, Continued

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 on the bonds are due September 2nd each year and mature on September 2, 2022. The bonds bear interest at 3.750% to 4.125% with interest payments due March 2 and September 2 annually. 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, 2016, the outstanding balance of the non-city bond obligation was \$2,565,000. Total principal and interest remaining on the bonds is \$2,941,906, payable through September 2022. For the current year, principal and interest paid were \$296,000 and \$108,140, respectively.

Changes in long-term liabilities for the period ended June 30, 2016, were as follows:

Bonds Payable at July 1, 2015	\$ 2,880,000
Principal payments received September 2, 2015	(315,000)
Bonds Payable at at June 30, 2016	\$ 2,565,000

The annual debt service requirements to amortize the Authority's 2007 Special Tax Revenue Refunding Bonds outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 325,000	\$ 96,219	\$ 421,219
2018	355,000	83,025	438,025
2019	370,000	68,525	438,525
2020	325,000	54,625	379,625
2021	375,000	40,625	415,625
2022-2023	815,000	33,887	848,887
Total	\$ 2,565,000	\$ 376,906	\$ 2,941,906

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date on which the financial statements were available to be issued. Any subsequent events having a direct or material impact to financial statement balances as of June 30, 2016 have been incorporated into this report.

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ADDITIONAL REPORT

**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***

To the Governing Body
Clayton Financing Authority
Clayton, California

We have audited, 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, the financial statements of the Clayton Finance Authority ('the Authority') as of and for the year ended June 30, 2016, 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 25, 2016.

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 opinions 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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

October 25, 2016