CROPPER ROWE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

CLAYTON FINANCING AUTHORITY

ANNUAL FINANCIAL STATEMENT REPORT

YEAR ENDED JUNE 30, 2022

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Clayton Financing Authority
Basic Financial Statements – For the year ended June 30, 2022
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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Governing Body of
Clayton Financing Authority
City of Clayton, California

Opinion

We have audited the accompanying financial statements of the Clayton Financing Authority (the "Authority"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Clayton Financing Authority and to meet our other ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 July 7, 2023 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 on the results of that testing, and do not 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 Rowe LLP

CROPPER ROWE, LLP
Walnut Creek, California
July 7, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2020.

FINANCIAL HIGHLIGHTS

- The Authority's total assets are $1,546,211. 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 $470,000.

- The Authority's liabilities consisted mainly of the 2007 special tax revenue refunding bonds totaling $420,000 as of June 30, 2022, 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

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 12 through 14 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 29 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, 2022 was $1,120,436. The primary asset of the Authority is the investment in CFD 1990-1 local obligations. 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, 2022, the CFD paid principal of $395,000 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 decreased by $28,773 during the fiscal year ended June 30, 2022. This decrease in net position is primarily attributable to interest paid on the bond. The decrease in total assets of $429,038 was primarily attributable to the portion of the CFD 1990-1 local obligation investments scheduled to mature during the fiscal year ended June 30, 2022.

FINANCIAL ANALYSIS, Continued

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2022 and 2021:

Condensed Statements of Net Position

	June 30, 2022	June 30, 2021
Assets		
Current assets	$ 1,076,211	$ 1,505,249
Noncurrent assets	470,000	470,000
Total Assets	1,546,211	1,975,249
Liabilities		
Current liabilities:	425,775	406,040
Noncurrent liabilities:	-	420,000
Total Liabilities	425,775	826,040
Net Position		
Restricted	428,663	600,369
Unrestricted	691,773	548,840
Total Net Position	$ 1,120,436	$ 1,149,209

Of the Authority's total net position, $428,663, or approximately 37.3% of total net position, was restricted for debt service. This is a decrease from the prior year, where $600,369 of net position, or 52.2%, was restricted for debt service.

FINANCIAL ANALYSIS, Continued

The following table summarizes changes in net position for the fiscal years ended June 30, 2022 and 2021:

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

	June 30, 2022	June 30, 2021
Operating revenues		
Interest income from participating government	$ -	$ -
Total operating revenues	-	-
Operating expenses		
Professional services, including paying agent fees	17,352	5,769
Total operating expenses	17,352	5,769
Operating income (loss)	(17,352)	(5,769)
Nonoperating revenues (expenses)		
Interest expense on long-term liabilities	(19,960)	(35,625)
Interest and investment income	8,539	2,759
Other income	-	-
Total nonoperating revenues (expenses)	(11,421)	(32,866)
Capital Contributions to Participating Agencies	-	-
Change in Net Position	(28,773)	(38,635)
Net Position		
Beginning of Fiscal Year	1,149,209	1,187,844
End of Fiscal Year	$ 1,120,436	$ 1,149,209

Overall revenues and expenses remained relatively consistent with the prior year. The decrease in interest and investment income was primarily attributable to a decline in interest earnings on the Authority's cash held in the City investment pool compared to the prior year. The decrease in interest expense is a direct result of scheduled debt services on the 2007 Special Tax Refunding Bonds.

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 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 within 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, 2010.

Principal payments on the 2007 Special Tax Revenue Refunding Bonds are payable on September 2nd of each year. Interest payments are payable semi-annually on March 2 and September 2nd. 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, 2022, the outstanding balance of the non-city bond obligation was $420,000. Total principal and interest remaining on the bonds is $428,663, payable through September 2022. For the current year, principal and interest paid were $395,000 and $25,225, 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 Authority Board of Directors in their review and approval of the annual CFD 1990-1 parcel tax levy. These levy credits result in the gradual use of net position restricted for debt service through the maturity of the 2007 bonds.

FACTORS AFFECTING ECONOMIC CONDITIONS

On June 11, 2018, Standard & Poor's Rating Services upgraded its rating Authority's 2007 Special Tax Revenue Refunding bonds to AA- reflecting a stable outlook. The 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. Property values within the City of Clayton continue to rebound from Great Recession (2008) levels; this coupled with low CFD 1990-1 delinquency rates fare positively 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 Authority's finances for all those with an interest in the Authority'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 Director, 6000 Heritage Trail, Clayton, California 94517.

BASIC FINANCIAL STATEMENTS

Clayton Financing Authority
Statement of Net Position
June 30, 2022

ASSETS		
Current assets:		
Restricted investments:		
Cash and cash equivalents	$	702,726
Cash with fiscal agent		363,297
Accrued interest receivable		10,188
Investments in local obligations:		
Due within one year		470,000
Total Assets		1,546,211
LIABILITIES		
Current liabilities:		
Accrued interest payable		5,775
Bonds payable:		
Due within one year		420,000
Noncurrent liabilities:		
Bonds payable:		
Due after one year		-
Total Liabilities		425,775
NET POSITION		
Restricted		600,369
Unrestricted		520,067
Total Net Position	$	1,120,436

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, 2022

OPERATING REVENUES	
Interest income from participating agency	$ -
Total Operating Revenues	-
OPERATING EXPENSES	
Professional services, including paying agent fees	17,352
Total Operating Expenses	17,352
Operating Income (Loss)	(17,352)
NONOPERATING REVENUES (EXPENSES)	
Interest expense on long-term liabilities	(19,960)
Interest and investment income	8,539
Total Nonoperating Revenues (Expenses)	(11,421)
Income before Contributions and Transfers	(28,773)
Capital Contributions to Participating Agencies	-
Change in Net Position	(28,773)
NET POSITION	
Beginning of Fiscal Year	1,149,209
End of Fiscal Year	$ 1,120,436

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Principal received from participating agency	$	434,000
Interest received from participating agency		9,412
Payments to suppliers of services		(17,352)
Net cash provided by operating activities		426,060
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments on long-term liabilities		(395,000)
Interest payments on long-term liabilities		(25,225)
Net cash used in capital financing activities		(420,225)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments		8,539
Net cash provided by capital investing activities		8,539
Net increase in cash and cash equivalents		14,374
Cash and cash equivalents at beginning of year		1,051,649
Cash and cash equivalents at end of year	$	1,066,023
Included in the Statement of Net Position as follows:		
Cash and cash equivalents	$	702,726
Cash with fiscal agent		363,297
Total cash and equivalents at end of year	$	1,066,023
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	$	(17,352)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Decrease in accrued interest receivable		9,412
Decrease in loans receivable from participating agency		434,000
Net cash provided by operating activities	$	426,060

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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, 2022, the outstanding balance of the non-city bond obligation was $420,000. 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 Director, 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.

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 Authority'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 does not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

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. 87, *"Leases"*

  The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

  This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model.

  This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal 2023). The implementation of this pronouncement did not have a material impact of the financial statements of the Authority.

- GASB Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period"*

  The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

  The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The implementation of this pronouncement did not have a material impact of the financial statements of the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New Accounting Pronouncements, Continued

- GASB Statement No. 92 *"Omnibus 2020"*

  The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. The topics include but are not limited to leases, intra-entity transfers between a primary government and a post-employment benefit plan component unit, accounting for pensions and OPEB related assets, measurement of liabilities related to asset retirement obligations, and nonrecurring fair value measurements of assets or liabilities. The implementation of this pronouncement did not have a material impact of the financial statements of the Authority.

- GASB Statement No. 93 *"Replacement of Interbank Offered Rates"*

  The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offer Rate (IBOR). This Statement achieves that objective by:
  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
  - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged transaction is probable
  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended.

  The removal of London IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (fiscal 2022). The implementation of this pronouncement did not have a material impact of the financial statements of the Authority.

  All other requirements of this Statement are effective for the current fiscal year, and did not have a material impact on the financial statements.

- GASB Statement No. 97 *"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New Accounting Pronouncements, Continued

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this pronouncement did not have a material impact of the financial statements of the Authority.

Future Accounting Pronouncements

The following Governmental Accounting Standards Board Statements are effective in future years subsequent to the current financial reporting period:

- GASB Statement No. 91 *"Conduit Debt Obligations"*

  The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

  The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers.

  Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

  The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (fiscal 2023). Earlier application is encouraged. The Authority is currently evaluating the potential impact on the Authority's financials.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

- GASB Statement No. 94 *"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"*

  The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

  The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPP.

  PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or if applicable to earlier periods, the beginning of the earliest period restated).

  The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal 2023), and all reporting periods thereafter. The Authority is currently evaluating the potential impact on the Authority's financials.

- GASB Statement No. 96 *"Subscription-Based Information Technology Arrangements"*

  This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal 2023), and all reporting periods thereafter. The Authority is currently evaluating the potential impact on the Authority's financials.

- GASB Statement No. 99, "*Omnibus 2022*" - The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
    - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
    - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
    - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public- public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
    - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology
    - Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
    - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
    - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
    - Disclosures related to nonmonetary transactions
    - Pledges of future revenues when resources are not received by the pledging government

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

- Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 were effective for the current fiscal year and did not have a material impact on the Authority's financial statements.

The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022 (fiscal 2022-23), and all reporting periods thereafter.

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023 (fiscal 2023-24), and all reporting periods thereafter.

- GASB Statement No. 100, "*Accounting Changes and Error Corrections–An Amendment of GASB Statement No. 62*"

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 (fiscal 2023-24), and all reporting periods thereafter. Implementation of this Statement may have a material effect on the financial statements of the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

- GASB Statement No. 101, "*Compensated Absences*"

  This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

  The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

  The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (fiscal 2024-25), and all reporting periods thereafter. Earlier application is encouraged. The Authority does not anticipate that the Statement will have a material effect on the financial statements.

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2. CASH AND INVESTMENTS

Classification

Cash and cash equivalents and investments as of June 30, 2022, are classified in the accompanying financial statements as follows:

Statement of Net Position:		
Cash and investments	$	702,726
Cash with fiscal agents		363,297
Bonds held in refunding		470,000
Total	$	1,536,023

Cash and investments as of June 30, 2022 consist of the following:		
City of Clayton investment pool	$	702,726
Government agency notes		249,980
Money market mutual funds		113,317
Municipal bonds		470,000
Total	$	1,536,023

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.

2. CASH AND INVESTMENTS, Continued

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.

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, 2022, $428,663 of the Authority's net position was made up of restricted the cash and cash equivalents held as reserves for debt service. The Authority has the following recurring fair value measurements as of June 30, 2022:

- U.S. government agency note, certificate of deposit, and LAIF 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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Usually, the later the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of investments by maturity:

2. CASH AND INVESTMENTS, Continued

		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	$ 702,726	$ 702,726	$ -	$ -	$ -	$ -
Held by bond trustees:						
U.S. government agency notes	249,980	249,980	-	-	-	-
Money market mutual funds	113,317	113,317	-	-	-	-
Municipal bonds	470,000	470,000	-	-	-	-
	$ 1,536,023	$ 1,536,023	$ -	$ -	$ -	$ -

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	$ -	$ -	$ 702,726	$ 702,726
Held by bond trustees:				
U.S. government agency notes:				
Federal Farm Credit Bank	-	249,980	-	249,980
Money Market Mutual Funds:				
First American Treasury Obligations Fund	113,317	-	-	113,317
Municipal Bonds:				
Community Facilities District No. 1990-1	-	-	470,000	470,000
Total	$ 113,317	$ 249,980	$ 1,172,726	$ 1,536,023

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.

2. CASH AND INVESTMENTS, Continued

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 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, 2022, the outstanding balance of the bond obligation was $470,000.

Changes in investments in local obligations for the period ended June 30, 2022, were as follows:

Investment in CFD No. 1990-1 Bonds at July 1, 2021	$ 904,000
Principal payments received September 2, 2021	(434,000)
Investment in CFD No. 1990-1 Bonds at June 30, 2022	$ 470,000

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 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 ranging from 4.000% 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, 2022, total principal and interest remaining on the bonds is $420,000 and $8,663, respectively, payable through September 2022. For the current year, principal and interest paid were $395,000 and $25,225 respectively.

Changes in long-term liabilities for the period ended June 30, 2022, were as follows:

Bonds Payable at July 1, 2021	$	815,000
Principal payments received September 2, 2021		(395,000)
Bonds Payable at at June 30, 2022	$	420,000

The annual debt service requirements to amortize the Authority's 2007 Special Tax Revenue Refunding Bonds outstanding at June 30, 2022 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2023	420,000	8,663	428,663
Total	$ 420,000	$ 8,663	$ 428,663

ADDITIONAL REPORT

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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*

To the Governing Body of
Clayton Financing Authority
City of 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, 2022, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated July 7, 2023.

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.

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. However, material weaknesses may exist that have not been identified.

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 Authority'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.

We consider the deficiencies described below to be material weaknesses.

Continuity of Personnel

In the past few years, the Authority has had significant transition in management, particularly with the Finance Director position. Since July 1, 2020, the Authority has gone from a Finance Director of a year, to an interim Finance Director, and to a new Finance Director, then back to an interim Finance Director, and currently is running the accounting department with temporary staff.

With the change in management, some of the institutional knowledge and responsibilities that are essential for the smooth operation of the Authority have been lost. As a result, the audit noted a total of seven general ledger accounts across multiple funds that were not properly closed which resulted in four (4) material journal entries.

We recommend that management consider developing a succession plan in the event the Finance Director is unable to perform their duties for a length of time due to illness, attrition, or any other reason. The succession plan should outline procedures to be implemented and a redistribution of responsibilities in the event of a temporary or permanent change. This plan will ensure that the organization will be able to conduct its operations in the orderly and efficient manner that has been the basic ingredient for its past success.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described below. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

> The Authority has been challenged with the recruitment of a Finance Director for many months primarily due to the lack of candidates interested in this type of job opportunity. The Authority has seen a substantial increase in competition for the recruitment of this position as a number of agencies are hiring for similar positions with limited qualified applicants. The Authority did implement a good succession plan with the consultant model Finance Director and an Accountant to assist the Authority with various finance related task. As of date, the Authority is in the process of onboarding a new Finance Director who will be working with the interim Finance Director to ensure smooth transition.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cropper Rowe, LLP

CROPPER ROWE, LLP
Walnut Creek, California
July 7, 2023