

**CROPPER ROWE, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**CLAYTON FINANCING AUTHORITY**  
**ANNUAL FINANCIAL STATEMENT REPORT**  
**YEAR ENDED JUNE 30, 2021**

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**Clayton Financing Authority**  
**Basic Financial Statements - For the year ended June 30, 2021**  
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# **INDEPENDENT AUDITORS' REPORT**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Clayton Financing Authority (the "Authority"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2021, 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 6-11 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 April 28, 2022 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  
Walnut Creek, California  
April 28, 2022

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# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Clayton Financing Authority**  
**Management's Discussion and Analysis**  
**For the year ended June 30, 2021**

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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, 2021.

## **FINANCIAL HIGHLIGHTS**

- The Authority's total assets are \$1,975,249. 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 \$904,000.
- The Authority's liabilities consisted mainly of the 2007 special tax revenue refunding bonds totaling \$815,000 as of June 30, 2021, 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, 2021**

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**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 14 through 16 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 18 through 30 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, 2021 was \$1,149,209. 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, 2021, the CFD paid principal of \$375,000 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 \$38,635 during the fiscal year ended June 30, 2021. This decrease in net position is primarily attributable to interest paid on the bond. The decrease in total assets of \$418,635 was primarily attributable to the portion of the CFD 1990-1 local obligation investments scheduled to mature during the fiscal year ended June 30, 2021.

**Clayton Financing Authority  
Management's Discussion and Analysis  
For the year ended June 30, 2021**

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**FINANCIAL ANALYSIS, Continued**

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2021 and 2020:

*Condensed Statements of Net Position*

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
<b>Assets</b>		
Current assets	\$ 1,505,249	\$ 1,489,884
Noncurrent assets	<u>470,000</u>	<u>904,000</u>
Total Assets	<u>1,975,249</u>	<u>2,393,884</u>
<b>Liabilities</b>		
Current liabilities:	406,040	391,040
Noncurrent liabilities:	<u>420,000</u>	<u>815,000</u>
Total Liabilities	<u>826,040</u>	<u>1,206,040</u>
<b>Net Position</b>		
Restricted	600,369	597,556
Unrestricted	<u>548,840</u>	<u>590,288</u>
Total Net Position	<u>\$ 1,149,209</u>	<u>\$ 1,187,844</u>

Of the Authority's total net position, \$600,369, or approximately 52.2% of total net position, was restricted for debt service. This is a slight increase from the prior year, where \$597,556 of net position, or 50.3%, 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 30, 2021 following the application of debt service credits approved by the Authority's Board of Directors. Debt service credits were authorized in the adopted budget as well as the annual levy report for the fiscal year ending June 30, 2021 to gradually apply excess reserves against debt service of the 2007 Special Tax Refunding Bonds and to bring the debt service of the 2007 Special Tax Refunding Bonds into alignment with the CFD 1990-1R debt service. 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, 2021**

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**FINANCIAL ANALYSIS, Continued**

The following table summarizes changes in net position for the fiscal years ended June 30, 2021 and 2020:

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

	June 30, 2021	June 30, 2020
<b>Operating revenues</b>		
Interest income from participating government	\$ -	\$ 7,538
Total operating revenues	-	7,538
<b>Operating expenses</b>		
Professional services, including paying agent fees	5,769	8,747
Total operating expenses	5,769	8,747
Operating income (loss)	(5,769)	(1,209)
<b>Nonoperating revenues (expenses)</b>		
Interest expense on long-term liabilities	(35,625)	(50,525)
Interest and investment income	2,759	23,387
Total nonoperating revenues (expenses)	(32,866)	(27,138)
Capital Contributions to Participating Agencies	-	-
Change in Net Position	(38,635)	(28,347)
<b>Net Position</b>		
Beginning of Fiscal Year	1,187,844	1,216,191
End of Fiscal Year	\$ 1,149,209	\$ 1,187,844

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.

**Clayton Financing Authority  
Management's Discussion and Analysis  
For the year ended June 30, 2021**

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**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 2<sup>nd</sup> of each year. Interest payments are payable semi-annually on March 2 and September 2<sup>nd</sup>. 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, 2021, the outstanding balance of the non-city bond obligation was \$815,000. Total principal and interest remaining on the bonds is \$848,888, payable through September 2022. For the current year, principal and interest paid were \$375,000 and \$40,625, 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. As of the most recent annual parcel tax levy report published by CFD 1990-1, the property tax delinquency rate was only 1.33% for the fiscal year ending June 30, 2020. 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.

**Clayton Financing Authority  
Management's Discussion and Analysis  
For the year ended June 30, 2021**

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**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 Manager, 6000 Heritage Trail, Clayton, California 94517.

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# **BASIC FINANCIAL STATEMENTS**

**Clayton Financing Authority**  
**Statement of Net Position**  
**June 30, 2021**

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**ASSETS**

Current assets:

Restricted investments:

Cash and cash equivalents \$ 731,573

Cash with fiscal agent 320,076

Accrued interest receivable 19,600

Investments in local obligations:

Due within one year 434,000

Noncurrent assets:

Investments in local obligations:

Due after one year 470,000

**Total Assets** 1,975,249

**LIABILITIES**

Current liabilities:

Accrued interest payable 11,040

Bonds payable:

Due within one year 395,000

Noncurrent liabilities:

Bonds payable:

Due after one year 420,000

**Total Liabilities** 826,040

**NET POSITION**

Restricted 600,369

Unrestricted 548,840

**Total Net Position** \$ 1,149,209

*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, 2021**

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**OPERATING REVENUES**

Interest income from participating agency	\$ -
<b>Total Operating Revenues</b>	<b>-</b>

**OPERATING EXPENSES**

Professional services, including paying agent fees	5,769
<b>Total Operating Expenses</b>	<b>5,769</b>
<b>Operating Income (Loss)</b>	<b>(5,769)</b>

**NONOPERATING REVENUES (EXPENSES)**

Interest expense on long-term liabilities	(35,625)
Interest and investment income	2,759
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(32,866)</b>
Income before Contributions and Transfers	(38,635)
Capital Contributions to Participating Agencies	-
<b>Change in Net Position</b>	<b>(38,635)</b>

**NET POSITION**

<b>Beginning of Fiscal Year</b>	<b>1,187,844</b>
<b>End of Fiscal Year</b>	<b>\$ 1,149,209</b>

*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, 2021**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Principal received from participating agency	\$ 409,000
Interest received from participating agency	8,860
Payments to suppliers of services	<u>(5,769)</u>
<b>Net cash provided by operating activities</b>	<u>412,091</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Principal payments on long-term liabilities	(375,000)
Interest payments on long-term liabilities	<u>(40,625)</u>
<b>Net cash used in capital financing activities</b>	<u>(415,625)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received on investments	<u>2,759</u>
<b>Net cash provided by capital investing activities</b>	<u>2,759</u>

**Net decrease in cash and cash equivalents** (775)

**Cash and cash equivalents at beginning of year** 1,052,424

**Cash and cash equivalents at end of year** \$ 1,051,649

**Included in the Statement of Net Position as follows:**

Cash and cash equivalents	\$ 731,573
Cash with fiscal agent	<u>320,076</u>
<b>Total cash and equivalents at end of year</b>	<u><u>\$ 1,051,649</u></u>

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

Operating loss	\$ (5,769)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in accrued interest receivable	8,860
Decrease in loans receivable from participating agency	<u>409,000</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 412,091</u></u>

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

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**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, 2021, the outstanding balance of the non-city bond obligation was \$815,000. 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, 2021**

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**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."

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**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. 84, *"Fiduciary Activities"*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The implementation of this pronouncement did not have a material impact on the Authority's financials.

- GASB Statement No. 90 *"Majority Equity Interests – an amendment of GASB Statements No. 14 and 61"*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

The implementation of this pronouncement did not have a material impact on the Authority's financials.

*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. 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.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### *Future Accounting Pronouncements*

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). Earlier application is encouraged. The Authority is currently evaluating the potential impact on the Authority's financials.

- 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (fiscal 2022). Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The Authority is currently evaluating the potential impact on the Authority's financials.

- 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.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Future Accounting Pronouncements, Continued*

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.

- 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal 2022). The Authority is currently evaluating the potential impact on the Authority's financials.

- 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.



**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Future Accounting Pronouncements, Continued*

The removal of London IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (fiscal 2023). The Authority is currently evaluating the potential impact on the Authority's financials.

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. 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.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Future Accounting Pronouncements, Continued*

- 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.

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. 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*”

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.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Future Accounting Pronouncements, Continued*

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021 (fiscal 2022). For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (fiscal 2022). The Authority is currently evaluating the potential impact on the Authority's financials.

**2. CASH AND INVESTMENTS**

*Classification*

Cash and cash equivalents and investments as of June 30, 2021, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 731,573
Cash with fiscal agents	320,076
Bonds held in refunding	904,000
Total	<u>\$ 1,955,649</u>

Cash and investments as of June 30, 2021 consist of the following:

City of Clayton investment pool	\$ 731,573
Government agency notes	216,943
Money market mutual funds	103,133
Municipal bonds	904,000
Total	<u>\$ 1,955,649</u>

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**2. CASH AND INVESTMENTS, Continued**

*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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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, 2021, \$600,369 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, 2021:

- 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].

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

**2. CASH AND INVESTMENTS, Continued**

- 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:

		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	\$ 731,573	\$ 731,573	\$ -	\$ -	\$ -	\$ -
Held by bond trustees:						
U.S. government agency notes	216,943	216,943	-	-	-	-
Money market mutual funds	103,133	103,133	-	-	-	-
Municipal bonds	904,000	434,000	470,000	-	-	-
	<u>\$ 1,955,649</u>	<u>\$ 1,485,649</u>	<u>\$ 470,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***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.

*This space is intentionally left blank*

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

**2. CASH AND INVESTMENTS, Continued**

Issuer	Exempt from Disclosure	AAA	Not Rated	Total
City of Clayton investment pool	\$ -	\$ -	\$ 731,573	\$ 731,573
Held by bond trustees:				
U.S. government agency notes:				
Federal Farm Credit Bank	-	216,943	-	216,943
Money Market Mutual Funds:				
First American Treasury Obligations Fund	103,133	-	-	103,133
Municipal Bonds:				
Community Facilities District No. 1990-1	-	-	904,000	904,000
Total	<u>\$ 103,133</u>	<u>\$ 216,943</u>	<u>\$ 1,635,573</u>	<u>\$ 1,955,649</u>

***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 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.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**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, 2021, the outstanding balance of the bond obligation was \$904,000.

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

Changes in investments in local obligations for the period ended June 30, 2021, were as follows:

Investment in CFD No. 1990-1 Bonds at July 1, 2020	\$ 1,313,000
Principal payments received September 2, 2020	<u>(409,000)</u>
Investment in CFD No. 1990-1 Bonds at June 30, 2021	<u><u>\$ 904,000</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 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 2<sup>nd</sup> 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, 2021, the outstanding balance of the non-city bond obligation was \$815,000. Total principal and interest remaining on the bonds is \$848,888, payable through September 2022. For the current year, principal and interest paid were \$375,000 and \$40,625 respectively.

**Clayton Financing Authority**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2021**

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**4. LONG-TERM LIABILITIES, Continued**

Changes in long-term liabilities for the period ended June 30, 2021, were as follows:

Bonds Payable at July 1, 2020	\$	1,190,000
Principal payments received September 2, 2020		<u>(375,000)</u>
Bonds Payable at June 30, 2021		<u>\$ 815,000</u>

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

The annual debt service requirements to amortize the Authority's 2007 Special Tax Revenue Refunding Bonds outstanding at June 30, 2021 are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 395,000	\$ 25,225	\$ 420,225
2023	<u>420,000</u>	<u>8,663</u>	<u>428,663</u>
Total	<u>\$ 815,000</u>	<u>\$ 33,888</u>	<u>\$ 848,888</u>



# **ADDITIONAL REPORT**

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH 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, 2021, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated April 28, 2022.

### **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 the beginning of the fiscal year ended June 30, 2021, the Authority has gone from a Finance Director of a year, to an interim Finance Director, and to a new Finance Director.

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 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.

#### General Ledger Closing Procedures

The audit noted that periodic reconciliations and closings of books has not been happening which has resulted in additional hours to reconcile accounts (e.g. pooled cash) and to audit.

We recommend that reconciling and closing procedures include locking the accounting records at quarter-end so that the records remain relevant and reliable.

#### Notes Receivable and Payable

The audit noted material journal entries to the balances of notes receivable and payable. The accounting for these balances is complex because of the interfund relationships that occur with the balances.

We recommend that management document and define the reoccurring and required entries to record the movement of funds to and from outside sources and between Authority funds.

### **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 acknowledges that there has been a lot of turnover in the Finance Director role and that with such a small staff in order to properly safeguard the Cities assets and have strong internal controls a robust succession plan is needed. We acknowledge and agree with the findings that each year and quarter need to be closed on a timely basis as well as locking the accounting system for past fiscal years. We will need to assess the project size and develop a plan to complete the locking of past fiscal years so that nothing can be posted to the past. The Authority acknowledges the need to document and define reoccurring entries to record the movement of all funds. We will develop a plan throughout the next fiscal year to implement the recommendations.

### **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  
Walnut Creek, California  
April 28, 2022