

CLAYTON FINANCING AUTHORITY
ANNUAL FINANCIAL STATEMENT REPORT
YEAR ENDED JUNE 30, 2018

Prepared by

Finance Department

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Finance Manager

Clayton Financing Authority
Basic Financial Statements – For the year ended June 30, 2018
Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors’ Report.....	1
Management’s Discussion and Analysis.....	5
Basic Financial Statements	
<i>Financial Statements:</i>	
Statement of Net Position.....	13
Statement of Revenues, Expenses, and Changes in Net Position.....	14
Statement of Cash Flows.....	15
<i>Notes to the Basic Financial Statements</i>	<i>17</i>
ADDITIONAL REPORT	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

**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, 2018, 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, 2018, 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 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018 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 Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California

November 1, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2018**

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, 2018.

FINANCIAL HIGHLIGHTS

- The Authority's total assets are \$3,158,154. The primary asset of the Authority is the investment in the Clayton Community Facilities District (CFD) No. 1990-1 local obligations in the amount of \$2,058,000.
- The Authority's liabilities consisted mainly of the 2007 special tax revenue refunding bonds totaling \$1,900,000 as of June 30, 2018, 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, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS, Continued

Statement of Cash Flows, Continued

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 27 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, 2018 was \$1,232,644. 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, 2018, the CFD paid principal of \$342,000 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 \$192,423 during the fiscal year ended June 30, 2018. This decrease in net position is primarily attributable to a capital contribution to City of Clayton, a participating agency of the Authority. This capital contribution was approved by the Authority's Board of Directors August 1, 2017 to partially finance the urgent replacement of the aging City Hall commercial HVAC and Boiler unit (City of Clayton Capital Improvement Project No. 10444). The decrease in total assets of \$536,953 was primarily attributable to the portion of the CFD 1990-1 local obligation investments scheduled to mature during the fiscal year ended June 30, 2018.

**Clayton Financing Authority
Management's Discussion and Analysis
For the year ended June 30, 2018**

FINANCIAL ANALYSIS, Continued

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2018 and 2017:

Condensed Statements of Net Position

	June 30, 2018	June 30, 2017
Assets		
Current assets	\$ 1,462,154	\$ 1,637,107
Noncurrent assets	1,696,000	2,058,000
Total Assets	<u>3,158,154</u>	<u>3,695,107</u>
Liabilities		
Current liabilities:	375,510	385,040
Noncurrent liabilities:	1,550,000	1,885,000
Total Liabilities	<u>1,925,510</u>	<u>2,270,040</u>
Net Position		
Restricted	683,804	708,118
Unrestricted	548,840	716,949
Total Net Position	<u>\$ 1,232,644</u>	<u>\$ 1,425,067</u>

Of the Authority's total net position, \$683,804, or approximately 55.5% of total net position, was restricted for debt service. This is a slight decrease from the prior year, where \$708,118 of net position, or 49.7%, was restricted for debt service. This modest decrease 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, 2018 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, 2018 to gradually apply excess reserves against debt service of the 2007 Special Tax Refunding Bonds. 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, 2018**

FINANCIAL ANALYSIS, Continued

The following table summarizes changes in net position for the fiscal years ended June 30, 2018 and 2017:

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Operating revenues		
Interest income from participating government	\$ 53,538	\$ 73,471
Total operating revenues	<u>53,538</u>	<u>73,471</u>
Operating expenses		
Professional services, including paying agent fees	8,680	8,956
Total operating expenses	<u>8,680</u>	<u>8,956</u>
Operating income (loss)	44,858	64,515
Nonoperating revenues (expenses)		
Interest expense on long-term liabilities	(78,795)	(92,159)
Interest and investment income	2,960	3,350
Other income	8,680	8,956
Total nonoperating revenues (expenses)	<u>(67,155)</u>	<u>(79,853)</u>
Capital Contributions to Participating Agencies	(170,126)	-
Change in Net Position	(192,423)	(15,338)
Net Position		
Beginning of Fiscal Year	<u>1,425,067</u>	<u>1,440,405</u>
End of Fiscal Year	<u><u>\$ 1,232,644</u></u>	<u><u>\$ 1,425,067</u></u>

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 the fair market value of the Authority's cash held in the City investment pool compared to the prior year. The decline was a result of the City investment pool being largely concentrated in fixed income securities in a period of rising market interest rates following Fed announcements that interest rates will continue to climb as scheduled. 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, 2018**

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, 2009.

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, 2018, the outstanding balance of the non-city bond obligation was \$1,900,000. Total principal and interest remaining on the bonds is \$2,099,363, payable through September 2022. For the current year, principal and interest paid were \$340,000 and \$83,325, 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 1.27% for the fiscal year ending June 30, 2018. 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, 2018**

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, 2018

ASSETS

Current assets:

Restricted investments:

Cash and cash equivalents \$ 670,348

Cash with fiscal agent 385,196

Accrued interest receivable 44,610

Investments in local obligations:

Due within one year 362,000

Noncurrent assets:

Investments in local obligations:

Due after one year 1,696,000

Total Assets 3,158,154

LIABILITIES

Current liabilities:

Accrued interest payable 25,510

Bonds payable:

Due within one year 350,000

Noncurrent liabilities:

Bonds payable:

Due after one year 1,550,000

Total Liabilities 1,925,510

NET POSITION

Restricted 683,804

Unrestricted 548,840

Total Net Position \$ 1,232,644

The accompanying notes are an integral part of the financial statements

Clayton Financing Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

OPERATING REVENUES

Interest income from participating agency	\$ 53,538
Total Operating Revenues	53,538

OPERATING EXPENSES

Professional services, including paying agent fees	8,680
Total Operating Expenses	8,680
Operating Income (Loss)	44,858

NONOPERATING REVENUES (EXPENSES)

Interest expense on long-term liabilities	(78,795)
Interest and investment income	2,960
Other income	8,680
Total Nonoperating Revenues (Expenses)	(67,155)
Income before Contributions and Transfers	(22,297)
Capital Contributions to Participating Agencies	(170,126)
Change in Net Position	(192,423)

NET POSITION

Beginning of Fiscal Year	1,425,067
End of Fiscal Year	\$ 1,232,644

The accompanying notes are an integral part of the financial statements

Clayton Financing Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Principal received from participating agency	\$ 342,000
Interest received from participating agency	60,952
Payments to suppliers of services	<u>(8,680)</u>
Net cash provided (used) by operating activities	<u>394,272</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal payments on long-term liabilities	(340,000)
Interest payments on long-term liabilities	(83,325)
Capital contribution to participating agency	<u>(170,126)</u>
Net cash provided (used) by capital financing activities	<u>(593,451)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	2,960
Payments from participating agency	<u>8,680</u>
Net cash provided (used) by investing activities	<u>11,640</u>

Net increase (decrease) in cash and equivalents	(187,539)
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Cash and cash equivalents at beginning of year	<u>1,243,083</u>
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Cash and cash equivalents at end of year	<u><u>\$ 1,055,544</u></u>
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Included in the Statement of Net Position as follows:

Cash and cash equivalents	\$ 670,348
Cash with fiscal agent	<u>385,196</u>
Total cash and equivalents at end of year	<u><u>\$ 1,055,544</u></u>

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

Operating income	\$ 44,858
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in accrued interest receivable	7,414
Decrease in loans receivable from participating agency	<u>342,000</u>
Net cash provided by operating activities	<u><u>\$ 394,272</u></u>

The accompanying notes are an integral part of the financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

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, 2018, the outstanding balance of the non-city bond obligation was \$1,900,000. 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, 2018

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, 2018

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. 85 – “*Omnibus 2017*”

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

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. 83 – “*Certain Asset Retirement Obligations*”

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

The objective of this Statement is to improve comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This statement will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2019 (effective for periods beginning after June 15, 2018). The Authority has not yet determined the impact of this Statement of the 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

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

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 requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2020 (effective for periods beginning after December 15, 2018). This Statement may result in a change in current practice, and have a material effect on the financial statements of the Authority.

- **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 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

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 Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2021 (effective for periods beginning after December 15, 2019). The Authority has not yet determined the impact of this Statement of the financial statements.

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

- GASB Statement No. 88 - "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"

The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

The Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2019 (effective for periods beginning after June 15, 2018). The Authority has not yet determined the impact of this Statement of the financial statements.

- 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 costs incurred before the end of a construction period. Such interest cost covered in the scope of this Statement includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

The Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2021 (effective for periods beginning after December 15, 2019). The Authority has not yet determined the impact of this Statement of the financial statements.

- GASB Statement No. 90 - "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 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. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future Accounting Pronouncements, Continued

in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

The Authority is required to implement the provisions of this Statement for the fiscal year ending June 30, 2020 (effective for periods beginning after December 15, 2018). The Authority has not yet determined the impact of this Statement of the financial statements.

2. CASH AND INVESTMENTS

Classification

Cash and cash equivalents and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 670,348
Cash with fiscal agents	385,196
Bonds held in refunding	2,058,000
Total	<u><u>\$ 3,113,544</u></u>

Cash and investments as of June 30, 2018 consist of the following:

City of Clayton investment pool	\$ 670,348
Government agency notes	249,459
Money market mutual funds	135,737
Municipal bonds	2,058,000
Total	<u><u>\$ 3,113,544</u></u>

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

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

Policy, Continued

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.

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, 2018, \$683,804 of the Authority's net position was made up of restricted cash and cash equivalents held as reserves for debt service. The Authority has the following recurring fair value measurements as of June 30, 2018:

- 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].

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

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:

Investment Type	Totals	Remaining Maturity (in Months)				
		12 Months or Less	13 - 24 Months	25 - 36 Months	37 - 48 Months	49 - 60 Months
City of Clayton investment pool	\$ 670,348	\$ 670,348	-	\$ -	\$ -	\$ -
Held by bond trustees:						
U.S. government agency notes	249,459	249,459	-	-	-	-
Money market mutual funds	135,737	135,737	-	-	-	-
Municipal bonds	2,058,000	362,000	383,000	409,000	434,000	470,000
	<u>\$ 3,113,544</u>	<u>\$ 1,417,544</u>	<u>\$ 383,000</u>	<u>\$ 409,000</u>	<u>\$ 434,000</u>	<u>\$ 470,000</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.

Issuer	Exempt from Disclosure	AAA	Not Rated	Total
City of Clayton investment pool	\$ -	\$ -	\$ 670,348	\$ 670,348
Held by bond trustees:				
U.S. government agency notes:				
Federal Farm Credit Bank	-	249,459	-	249,459
Money Market Mutual Funds:				
First American Treasury Obligations Fund	135,737	-	-	135,737
Municipal Bonds:				
Community Facilities District No. 1990-1	-	-	2,058,000	2,058,000
Total	<u>\$ 135,737</u>	<u>\$ 249,459</u>	<u>\$ 2,728,348</u>	<u>\$ 3,113,544</u>

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

2. CASH AND INVESTMENTS, Continued

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.

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, 2018, the outstanding balance of the bond obligation was \$2,058,000.

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

3. INVESTMENTS IN LOCAL OBLIGATIONS

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

Changes in investments in local obligations for the period ended June 30, 2018, were as follows:

Investment in CFD No. 1990-1 Bonds at July 1, 2017	\$ 2,400,000
Principal payments received September 2, 2017	<u>(342,000)</u>
Investment in CFD No. 1990-1 Bonds at June 30, 2018	<u>\$ 2,058,000</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 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, 2018, the outstanding balance of the non-city bond obligation was \$1,900,000. Total principal and interest remaining on the bonds is \$2,099,363, payable through September 2022. For the current year, principal and interest paid were \$340,000 and \$83,325 respectively.

Changes in long-term liabilities for the period ended June 30, 2018, were as follows:

Bonds Payable at July 1, 2017	\$ 2,240,000
Principal payments received September 2, 2017	<u>(340,000)</u>
Bonds Payable at at June 30, 2018	<u>\$ 1,900,000</u>

Clayton Financing Authority
Notes to the Basic Financial Statements
For the year ended June 30, 2018

4. LONG-TERM LIABILITIES, Continued

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, 2018 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	350,000	69,525	419,525
2020	360,000	55,325	415,325
2021	375,000	40,625	415,625
2022	395,000	25,225	420,225
2023	420,000	8,663	428,663
Total	<u>\$ 1,900,000</u>	<u>\$ 199,363</u>	<u>\$ 2,099,363</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, 2018, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated November 1, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
November 1, 2018