

**CLAY COUNTY UTILITY AUTHORITY**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**CLAY COUNTY UTILITY AUTHORITY  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors,  
Clay County Utility Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Clay County Utility Authority (the Authority), as of and for the years ended September 30, 2018 and 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial position of the Authority as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

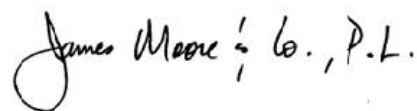
Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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 audits 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 Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Section 215.97, Florida Statutes, *Florida Single Audit Act*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 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 and the results of that testing, and not to provide an opinion on the 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.



Daytona Beach, Florida  
December 21, 2018

## **Management's Discussion and Analysis**

### **Managerial Philosophy and Strategic Objectives**

The senior management staff of the Clay County Utility Authority (Authority) is pleased to offer interested parties additional insight, a strategic perspective and further analysis of key operational factors that may help the reader gain a deeper understanding of the financial statements for the year ended September 30, 2018.

The Authority is an Independent Special District in the State of Florida. The Florida Legislature created the Authority on October 1, 1994 by special act (F.S. 94-491) to manage the water, wastewater and reclaimed water systems in the unincorporated areas of Clay County, Florida. The Authority also serves adjacent jurisdictions per specific inter-local governmental agreements. The Authority serves customers in Clay, Duval, and Bradford Counties and uses proprietary fund accounting to report the Authority's financial position.

One of the core managerial philosophies of the Authority is the commitment to operate, to the extent possible, the publicly owned utility using the sound business practices of private enterprise. We are charged with the responsibility of providing our customers with the best long-term value at the lowest possible cost.

A second core principle is the desire to lead the way in improving the quality of life for the members of our community. We recognize our responsibility to be good stewards of our limited water resources and our environment. Furthermore, we clearly understand that the continued economic vitality of our community relies on an abundant, safe and economical supply of drinking water. We have voluntarily invested in the technology and infrastructure needed to accomplish these important objectives.

To date, we are one of the few utilities in Northeast Florida voluntarily using advanced wastewater treatment techniques. In addition, we continue to expand our reclaimed water initiative. Our reclaimed water distribution system includes seven storage and pumping plants. Our reclaimed water customers irrigated their lawns with an average of 3.95 million gallons per day during the fiscal year ending September 30, 2018, this equates to conserving approximately 1.44 billion gallons of drinking water per year. We also augmented our reclaimed water supply by partnering with the Town of Orange Park and the St. Johns River Water Management District. Since 2012, the Town now discharges to our reclaimed water distribution system during high demand periods rather than the St. Johns River. This collaborative approach has significant water conservation and very positive environmental impacts.

By virtue of a very cost effective public-private partnership, we have taken a leadership role in constructing the first operational deployment of an exciting new bio-solid residual treatment and disposal technology. The new treatment technology produces an environmentally superior product while using approximately half the energy of existing treatment methods.

Our accomplishments have been acknowledged by the receipt of thirty-nine awards, varying from "Excellence of Operations" for both our water and wastewater system, "Municipal Water Use Efficiency" award for the most innovative and effective reclamation and reuse program for the Southeastern United States, Region Four, presented by the Environmental Protection Agency, "Best in Construction" presented by Florida Transportation Builders Association for utility coordination and damage prevention during construction on the most heavily traveled urban corridor in Northeast Florida and our most recent receipt of the "Biosolids Program Excellence Award for BCR Neutralizer Installations" presented by Florida Water Environmental Association.

## Financial Overview

The Authority is continuing its facility expansions to support the population growth of its service area and to expand its water reuse capacity. Service rates remained unchanged from fiscal year 2010 to 2014 however, in 2015, service rates were increased 5.4% to address the cost of renewal and replacement of existing infrastructure and in 2016, an increase of \$1.00 per water bill was implemented for alternative water supply (AWS), a sustainable water source that does not originate from the Floridan Aquifer. Service rates remained unchanged for fiscal year 2017. In fiscal year 2018 service rates were increased by .93%

Management estimated a 15.0% reduction in water demand from our base year 2009 to our current fiscal year, 2017/2018. Customers have aggregately decreased water use 7.63%, even though our customer base has grown by 5,916 accounts during this time.

The Authority's cash reserves, borrowing capacity and scheduled fiscal year 2017/2018 service rates are adequate to support currently planned maintenance and expansion projects. Contributions in aid of construction continue to be a major source of capital.

### Condensed Statement of Net Position (\$000)

	For the Year Ended September 30, 2018				
	2018	2017	% Change	2016	% Change
Capital assets – net	265,873	246,675	7.6	239,538	3.0
Current assets	36,945	45,405	(18.6)	40,508	12.1
Investments, current	5,980	5,906	1.3	5,843	1.1
Other non-current assets	5,823	1,674	247.9	5,694	(70.6)
Investments, non-current	5,378	5,316	1.2	5,253	1.2
Deferred Outflow of Resources	2,636	2,871	(8.2)	3,110	(7.7)
Totals	<u>322,636</u>	<u>307,847</u>	4.8	<u>299,946</u>	2.6
Liabilities and fund equity					
Net position	238,675	229,123	4.2	220,447	3.9
Long-term liabilities, net	71,511	66,620	7.3	70,797	(5.9)
Current liabilities, including restricted	12,450	12,104	2.9	8,702	39.1
Totals	<u>322,636</u>	<u>307,847</u>	4.8	<u>299,946</u>	2.6

### Capital Assets - Net

Net Capital assets increased \$19,199,000 during the fiscal year 2017/2018. The increase is mainly attributed to \$29,829,000 of various utility expansions and dispositions, offset by \$10,630,000 of depreciation expense. Developers contributed \$5,196,000 of those assets.

For the year 2017, capital assets increased \$7,137,000. The increase is mainly attributed to \$16,539,000 of various utility expansions and dispositions, offset by \$9,402,000 of depreciation expense. Developers contributed \$4,037,000 of those assets.

## Current Assets

The change in current assets is due to the decrease in cash. Cash in excess of operations was used to fund capital projects.

## Net Position

The net position can serve as a useful indicator of our financial position, with an increase of \$9,553,000 the net investment in capital assets, the largest portion of the Authority's net position, 80%, reflects the net investment in capital assets (e.g., land, buildings, equipment, infrastructure and intangible assets), these assets are used to provide services to customers; consequently, these assets are not available for future spending. The restricted portion of the net position, 2%, is capacity charges that are subject to capital improvements which decreased significantly from prior year due capital outlay exceeding the capacity fee revenue and debt service for future payments. Developer and other contributions of \$7,468,000 were received in fiscal year 2018, approximately \$2,272,000 of which was cash. The unrestricted portion, 20%, remained unchanged. Net income is an unrestricted reserve used for future capital funding.

## Long-Term Debt - Net

In fiscal year 2018, the Net long-term debt increased \$4,891,000. This increase is due to additional monies borrowed on the Mid-Clay Waste Water Treatment Facility expansion project of \$9,400,000 and scheduled debt payments throughout the year.

## Current Liabilities

Current liabilities increased \$346,000 due largely to accounts and retainage payable, as well as the current portion of the long-term debt.

## Condensed Statement of Revenues, Expenses, and Changes in Net Position (\$000)

	For the Year Ended September 30, 2018				
	2018	2017	% Change	2016	% Change
Operating revenues	42,317	42,379	(0.1)	41,499	2.1
Operating expenses	<u>(38,786)</u>	<u>(38,308)</u>	1.2	<u>(35,302)</u>	8.5
Operating income	3,532	4,071	(13.2)	6,197	(34.3)
Non-operating (expenses), net	(1,619)	(1,750)	(7.5)	(1,942)	(9.9)
Contributions and grants	<u>7,640</u>	<u>6,356</u>	20.2	<u>6,084</u>	4.5
Increase in Net Position	<u>9,553</u>	<u>8,677</u>	10.1	<u>10,338</u>	(16.1)

## **Operating Revenues**

Operating revenue was within 3% of management projections. Operating revenue is 53% fixed through base charges and 47% is variable through usage charges. Consequently, climatic conditions such as rainfall and temperature will cause revenue fluctuations. A large majority (92.7%) of residential customers continue to use no more water than the second tier allowance in fiscal 2018.

In the prior year, operating revenue was within 1.0% of management projections. A large majority (90.6%) of residential customers continue to use no more water than the second tier allowance in fiscal 2017.

## **Operating Expenses**

The increase of \$477,000 in operating expenses in 2018, is largely due to \$344,000 increase in wages and related benefits resulting from additional staffing, and a 2.0% cost of living allowance and merit, and \$461,000 increase in supplies largely due to improvements and repairs to the plant and \$426,000 decrease in depreciation.

The increase of \$3,006,000 in operating expenses in 2017, is largely due to \$974,000 increase in wages and related benefits resulting from additional staffing, hurricane pay and a 2.0% cost of living allowance and merit, and \$1,311,000 increase in subcontractors largely due to the reclaim supervisory control and data acquisition system and \$1,073,000 increase in depreciation.

## **Non-Operating Revenue and Expenses**

The decrease of \$131,000 in non-operating revenue and expenses is due to an increase of \$35,000 in interest income, a reduction of \$125,000 in interest expense and a decrease of \$30,000 on sale of assets.

During fiscal 2017, the decrease of \$192,000 in non-operating revenue and expenses is due to an increase of \$79,000 in interest income, a reduction of \$57,000 in interest expense and an increase of \$56,000 on sale of assets.

## **Contributions in Aid of Construction**

Developers and others are required to contribute property (water, wastewater and reclaimed water lines) in their developments and cash for their proportional share of existing water, wastewater, and reclaimed water plant capacity in order to connect to the Authority's systems. Contributed property was \$5,196,000 in 2018, compared to \$4,036,000 in 2017. Cash contributions totaled \$2,444,000 in 2018, of which \$172,000 was grant money compared to cash contributions of \$2,319,000, of which \$11,000 was grant money in 2017.

## **Utility Service Demand Trend**

An Equivalent Residential Connection (ERC) is the equivalent flow that can be anticipated from one residential connection.



The following table provides historical information on average annual usage per ERC, **expressed in thousands of gallons**. The calculation of ERCs is derived by Annual Base Revenue divided by the Annual Residential Base Rate and the Usage per ERC is a calculation of the gallons divided by the ERCs.

Fiscal Yr Ending	<u>Water</u>		<u>Sewer</u>		<u>Reuse</u>	
	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>
9/30/2006	44,083	107.9	38,636	79.5	6,437	254.4
9/30/2007	45,188	110.8	40,230	79.9	6,923	266.7
9/30/2008	46,453	99.8	41,717	76.6	7,230	252.3
9/30/2009	46,267	90.7	41,643	71.0	7,392	203.7
9/30/2010	47,069	88.4	42,490	69.6	7,736	202.3
9/30/2011	46,423	94.6	41,750	75.2	6,769	215.5
9/30/2012	47,982	79.5	43,463	68.1	8,325	121.9
9/30/2013	48,364	74.2	43,729	65.7	8,706	107.4
9/30/2014	49,382	71.3	44,614	64.0	9,279	94.7
9/30/2015	49,810	73.5	45,017	64.8	9,640	103.2
9/30/2016	51,735	75.6	46,845	66.0	10,342	120.3
9/30/2017	52,419	76.0	47,613	66.2	10,860	131.6
9/30/2018	53,392	77.1	48,401	50.9	11,379	118.8

### **Economic Factors and Next Year's Rate**

The Authority's financial condition is generally affected less by the local economy than by climatic conditions and water use restrictions. Water, wastewater and reclaimed water service is a public necessity; thus revenue typically remains stable as long as the number of customers, and customer usage does not decline. Conservation will moderate future water revenue, however Authority's rates are designed to absorb a 20% decrease in water demand and still generate sufficient revenue to operate the business.

The Authority has adopted an Alternative Water Supply (AWS) surcharge of \$1.03 per water bill and an AWS capacity charge of \$325 to support the development of AWS. An AWS is simply any sustainable water source with its supporting infrastructure for processing and delivery that does not originate from the upper Florida Aquifer. The AWS surcharge and capacity charge are necessary to address AWS requirements from the St. Johns River Water Management District (SJRWMD), the Suwannee River Water Management District (SRWMD), and the Florida Department of Environmental Protection (FDEP) associated with Minimum Flows and Levels (MFL) and North Florida Regional Water Supply Planning. The AWS surcharge and capacity charge are also necessary in order to put the Authority in the best position possible to develop the infrastructure to provide all of the rate payers of the Authority with a sustainable water supply. The first project that will be funded by the AWS surcharge and capacity charge will be the Florida Department of Transportation (FDOT) Storm Water Harvesting Pilot Project. For additional information, please visit: <https://www.clayutility.org/aws/default.aspx> .

### **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffrey Wesselman, Chief Financial Officer, 3176 Old Jennings Road, Middleburg, Florida, 32068.

**CLAY COUNTY UTILITY AUTHORITY  
STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 31,839,800	\$ 38,306,325
Restricted cash and cash equivalents	2,046,628	3,555,871
Investments	5,980,723	5,906,360
Accounts receivable, net	2,463,525	2,947,320
Prepaid items and inventory	595,013	595,616
Total current assets	42,925,689	51,311,492
<b>Non-current assets</b>		
Restricted cash and cash equivalents	5,461,082	1,311,369
Investments	5,377,869	5,315,633
Notes receivable	362,805	362,272
Utility plants	370,321,798	357,343,194
Construction in process	32,843,566	16,113,351
Accumulated depreciation	(137,292,318)	(126,782,037)
Total non-current assets	277,074,802	253,663,782
<b>Total Assets</b>	<b>\$ 320,000,491</b>	<b>\$ 304,975,274</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred loss on bond refunding	\$ 2,635,869	\$ 2,871,275
<b><u>LIABILITIES</u></b>		
<b>Current liabilities</b>		
Accounts and retainage payable	\$ 1,061,590	\$ 1,457,099
Accrued expenses	1,142,232	1,090,229
Unearned revenues	279,171	313,457
Customer deposits	3,393,428	3,354,534
Liabilities payable from current restricted assets:		
Accounts and retainage payable	1,273,500	2,760,343
Interest payable	773,128	795,528
Current portion of long-term debt	4,527,159	2,332,857
Total current liabilities	12,450,208	12,104,047
<b>Non-current liabilities</b>		
Non-current portion of long-term debt	71,510,853	66,619,770
Total non-current liabilities	71,510,853	66,619,770
<b>Total Liabilities</b>	<b>\$ 83,961,061</b>	<b>\$ 78,723,817</b>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	\$ 192,470,903	\$ 180,593,156
Restricted for:		
Capital projects	2,256,642	1,746,384
Debt service	3,204,440	1,490,932
Unrestricted	40,743,314	45,292,260
<b>Total Net Position</b>	<b>\$ 238,675,299</b>	<b>\$ 229,122,732</b>

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

**CLAY COUNTY UTILITY AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating revenues</b>		
Charges for services	\$ 41,118,511	\$ 41,307,273
Miscellaneous revenues	1,198,676	1,071,613
Total operating revenues	42,317,187	42,378,886
<b>Operating expenses</b>		
Wages and related benefits	13,221,714	12,878,008
Operating expenses	9,419,398	8,367,505
Subcontractors	3,668,707	4,147,857
In lieu of taxes	1,845,421	1,858,994
Depreciation expense	10,630,303	11,056,001
Total operating expenses	38,785,543	38,308,365
<b>Operating income</b>	3,531,644	4,070,521
<b>Nonoperating revenues (expenses)</b>		
Interest income	416,888	381,619
Interest expense	(2,073,771)	(2,199,430)
Gain (loss) on sale of assets	37,918	67,444
Total nonoperating revenues (expenses)	(1,618,965)	(1,750,367)
<b>Income (loss) before capital contributions</b>	1,912,679	2,320,154
<b>Capital contributions</b>		
Developer and other contributions	7,467,983	6,344,562
Grants	171,905	11,332
Total capital contributions	7,639,888	6,355,894
<b>Change in net position</b>	9,552,567	8,676,048
<b>Net position, beginning of year</b>	229,122,732	220,446,684
<b>Net position, end of year</b>	\$ 238,675,299	\$ 229,122,732

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

**CLAY COUNTY UTILITY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 42,805,057	\$ 42,192,384
Payments to suppliers	(13,483,011)	(11,748,459)
Payment in lieu of taxes	(1,845,421)	(1,858,994)
Payments to employees	(13,169,711)	(12,876,176)
Net cash provided by operating activities	14,306,914	15,708,755
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of bonds and loans	9,407,325	-
Principal paid on long-term debt	(2,321,940)	(3,519,275)
Interest paid on long-term debt	(1,860,765)	(2,030,523)
Payments to acquire and construct plant property	(26,081,420)	(11,683,625)
Capital contributions	2,271,637	2,307,826
Grants	171,905	11,332
Net cash used in capital and related financing activities	(18,413,258)	(14,914,265)
<b>Cash flows from investing activities</b>		
Purchases of investments	(5,950,655)	(5,860,423)
Sales of investments	5,814,056	5,734,332
Interest income	416,888	381,619
Net cash provided by investing activities	280,289	255,528
<b>Net increase (decrease) in cash and cash equivalents</b>	(3,826,055)	1,050,018
<b>Cash and cash equivalents, beginning of year</b>	43,173,565	42,123,547
<b>Cash and cash equivalents, end of year</b>	\$ 39,347,510	\$ 43,173,565
<b>Cash and cash equivalents classified as:</b>		
Unrestricted	\$ 31,839,800	\$ 38,306,325
Restricted	2,046,628	3,555,871
Restricted - noncurrent	5,461,082	1,311,369
Total cash and cash equivalents	\$ 39,347,510	\$ 43,173,565
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Cash flows from operating activities		
Operating income	\$ 3,531,644	\$ 4,070,521
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	10,630,303	11,056,001
Changes in assets and liabilities		
Decrease (Increase) in accounts and notes receivable	483,262	(355,986)
Decrease (Increase) in prepaid items and inventory	603	529,374
Increase (Decrease) in accounts and retainage payable	(395,509)	237,529
Increase (Decrease) in accrued expenses	52,003	1,832
Increase (Decrease) in unearned revenue	(34,286)	(5,399)
Increase (Decrease) in customer deposits	38,894	174,883
Total adjustments	10,775,270	11,638,234
<b>Net cash provided by operating activities</b>	\$ 14,306,914	\$ 15,708,755
<b>Supplemental schedule of noncash investing, capital, and financing activities</b>		
Deferred loss on refunding amortization	\$ 235,406	\$ 238,778
Utility plant property contributed by developers	5,196,346	4,036,736

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

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(1) **Summary of Significant Accounting Policies:**

The accounting policies of the Clay County Utility Authority (the Authority) conform to generally accepted accounting principles applicable to governmental units. The following is a summary of significant policies.

(a) **Reporting entity**—The Authority is an independent special district established on October 1, 1994, pursuant to Chapter 94-491, Laws of Florida (1994), to provide Clay County, Florida and other territorial limits near the County with certain publicly owned water, wastewater and reclaimed water facilities. The governing body of the Authority consists of seven members acting as the Board of Supervisors. The Authority has adopted Governmental Accounting Standards Board (GASB) Codification and has determined that there are no component units that meet the criteria for inclusion in the Authority's financial statements.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The accounts of the Authority are organized and reported as a proprietary fund type Enterprise Fund. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

The principal operating revenues of the Authority are charges for water, wastewater, and reclaimed water services, and operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The Authority uses the accrual basis of accounting in accordance with the GASB Codification. Revenues are recognized when earned and measurable, and expenses are recognized when incurred.

(c) **Cash and cash equivalents**—Cash and cash equivalents consists of cash on hand and on deposit in banks and money market accounts.

(d) **Investments**—Investments solely consist of certificates of deposit and are valued at cost plus accrued interest, which approximates fair value.

(e) **Accounts receivable**—The Authority's accounts receivable consists of amounts due from consumers. The Authority performs account evaluations on their consumers and requires collateral deposits.

(f) **Inventories and prepaid items**—The cost of inventory is accounted for on the consumption basis wherein inventories are charged as expenditures when used, rather than when purchased. All inventories are valued at cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(g) **Restricted assets and net position**—Certain assets are required to be segregated from other assets due to various bond indenture agreements and restricted revenue streams. These assets are legally restricted for specific purposes such as debt service, construction, and renewals and replacements. The remaining excess of restricted assets over liabilities is reflected as restricted net position.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(1) **Summary of Significant Accounting Policies:** (Continued)

(h) **Due from other governments**—Due from other governments consists of amounts due from grantor agencies for capital grants and/or proceeds on state revolving fund loans.

(i) **Property and plant**—Property and plant are recorded at cost less accumulated depreciation, except contributed assets which are recorded at acquisition value on the date of contribution. Expenditures of \$1,000 or more are capitalized. Construction period interest cost, net of interest earned on the unexpended proceeds of tax-exempt borrowings, is capitalized as part of the asset cost. Depreciation, on a straight-line basis, is charged over estimated useful lives as follows:

Buildings and Building Improvements	25 years
Water, Wastewater, and Reclaimed Water Lines	40 years
Equipment	7, 15, 25 years

(j) **Bond discounts, premiums, and deferred amounts**—Bond discounts, premiums, and deferred amounts, consisting of deferred outflows from loss on refunding of long-term debt, are deferred and amortized over the term of the bonds using the effective interest method.

(k) **Deferred outflows/inflows of resources**—In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has only one item, deferred loss on bond refunding, which qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority had no deferred inflows at September 30, 2018 and 2017.

(l) **Net position flow assumption**—Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to determine amounts reported as restricted and unrestricted net position, it is the Authority’s policy to consider restricted net position to have been used before unrestricted net position is applied.

(m) **Revenue recognition**—Operating revenue consists primarily of charges for services, which are billed to customers for water, wastewater, and reclaimed water service. Billings are included in revenue as meters are read each month. Unbilled revenues are accrued based on estimated consumption of the most recent billing.

(n) **Capital contributions**—Capital contributions represent contributions of certain water distribution and wastewater collection systems. Such contributions are recognized as increases in net position in the period they are received.

(o) **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 reported amount of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(2) **Deposits and Investments:**

(a) **Deposits and Investments**—In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Authority's deposits at year end are considered insured for custodial credit risk purposes.

At September 30, 2018, the Authority's cash and investments consisted of the following:

<u>Types of Cash and Investments</u>	<u>Average Maturity</u>	<u>Credit Quality</u>	<u>Amount</u>
Investments and restricted investments			
Certificates of deposit	0.36 years	N/A	\$ 11,358,592
Cash on deposit			<u>39,347,510</u>
Total cash and investments (unrestricted and restricted)			<u>\$ 50,706,102</u>

At September 30, 2017, the Authority's cash and investments consisted of the following:

<u>Types of Cash and Investments</u>	<u>Average Maturity</u>	<u>Credit Quality</u>	<u>Amount</u>
Investments and restricted investments			
Certificates of deposit	0.97 years	N/A	\$ 11,221,993
Cash on deposit			<u>43,173,565</u>
Total cash and investments (unrestricted and restricted)			<u>\$ 54,395,558</u>

(b) **Custodial credit risk**—For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to manage the custodial credit risk, the Authority's investment policy specifies certain requirements to pre-qualify financial institutions and brokers/dealers and an annual review of the institutions used.

(c) **Credit risk**—Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Authority does have a formal investment policy that limits its investments to high quality investments to control credit risk, which requires diversification of investments, limited investments in securities with higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools or money market funds.

(d) **Interest rate risk**—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority has no formal policy relating to a specific investment-related risk. In accordance with the provisions of the state statutes governing allowable investments, the Authority manages its exposure to declines in fair values by limiting the maturity of specific investments to provide sufficient liquidity to pay obligations as they come due.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(3) **Accounts and Notes Receivable:**

Unbilled receivables represent amounts earned which have not yet been billed, along with other amounts which can be invoiced upon completion or attainment of contract objectives. Allowance for doubtful accounts is estimated by analysis of accounts receivable balance over 60 days, and historical collection trends. Accounts receivable at September 30, 2018 and 2017, consist of the following:

	<b>2018</b>	<b>2017</b>
Billed customer receivables	\$ 1,085,063	\$ 1,552,963
Unbilled customer receivables	1,400,733	1,360,294
Notes receivable – current portion	37,029	48,597
Other receivables	299,798	314,012
Gross accounts receivable	2,822,623	3,275,866
Less: Allowance for uncollectables	(359,098)	(328,546)
Net total receivables	\$ 2,463,525	\$ 2,947,320

As part of the notes receivable included above, many such agreements have a long-term portion based on extended payment schedules. The long-term balance of the notes receivables totaled \$362,805 and \$362,272 at September 30, 2018 and 2017, respectively. Based on an assessment of interest rates and repayment schedules, management does not believe any calculated discount to the gross receivable amount would be material, and no such provision has been made.

(4) **Capital Assets:**

Changes in the Authority's capital assets for the years ended September 30, 2018 and 2017, were as follows:

	<b>Balance October 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2018</b>
Capital assets not being depreciated:				
Land	\$ 5,209,184	\$ 59,540	\$ -	\$ 5,268,724
Construction in progress	16,113,351	23,912,587	(7,182,372)	32,843,566
Total capital assets not being depreciated	21,322,535	23,972,127	(7,182,372)	38,112,290
Capital assets being depreciated:				
Machinery and equipment	347,556,433	12,926,431	(224,407)	360,258,457
Buildings	4,577,577	217,040	-	4,794,617
Accumulated depreciation	(126,782,037)	(10,734,688)	224,407	(137,292,318)
Total capital assets being depreciated, net	225,351,973	2,408,783	-	227,760,756
<b>Capital Assets, net</b>	<b>\$246,674,508</b>	<b>\$ 26,380,910</b>	<b>\$ (7,182,372)</b>	<b>\$265,873,046</b>



**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(4) **Capital Assets:** (Continued)

	<b>Balance October 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2017</b>
Capital assets not being depreciated:				
Land	\$ 5,064,827	\$ 650,149	\$ (505,792)	\$ 5,209,184
Construction in progress	6,650,356	12,957,526	(3,494,531)	16,113,351
Total capital assets not being depreciated	<u>11,715,183</u>	<u>13,607,675</u>	<u>(4,000,323)</u>	<u>21,322,535</u>
Capital assets being depreciated:				
Machinery and equipment	335,896,703	13,424,601	(1,764,871)	347,556,433
Buildings	9,305,417	45,376	(4,773,216)	4,577,577
Accumulated depreciation	<u>(117,379,592)</u>	<u>(11,160,036)</u>	<u>1,757,591</u>	<u>(126,782,037)</u>
Total capital assets being depreciated, net	<u>227,822,528</u>	<u>2,309,941</u>	<u>(4,780,496)</u>	<u>225,351,973</u>
<b>Capital Assets, net</b>	<u><u>\$239,537,711</u></u>	<u><u>\$ 15,917,616</u></u>	<u><u>\$ (8,780,819)</u></u>	<u><u>\$246,674,508</u></u>

Depreciation expense for 2018 and 2017 was \$10,630,303 and \$11,056,001, respectively. Additional depreciation amounts of \$104,385 and \$104,035 in 2018 and 2017, respectively, related to equipment used for construction in progress and was capitalized as part of the cost of construction in progress.

Total interest expense incurred by the Authority during the years ended September 30, 2018 and 2017 was \$2,130,027 and \$2,223,640, respectively. Of these amounts, \$56,256 and \$24,210 was capitalized in 2018 and 2017, respectively, and included as part of the cost of construction in progress.

Commitments on outstanding construction contracts for improvements and maintenance of the utility systems totaled \$2,939,327 at September 30, 2018.

(5) **Compensated Absences:**

Vacation leave is earned on a bi-weekly basis (regular 80 hours worked) at established rates based upon years of service. Employees with one full year of service or more are required to take no less than forty consecutive hours of vacation each calendar year.

In December of each year, employees are paid for any hours in excess of forty hours (eighty at employee's request) in their vacation accrual account. Employees with less than six (6) months of service are not eligible for payment of unused vacation.

Sick leave is earned for each regularly scheduled compensated hour with sick pay not to exceed 10 days per year. In December of each year, employees are paid for any hours in excess of forty hours (eighty at employee's request) in their sick pay accrual account. Employees with less than six (6) months of service are not eligible for payment of unused sick hours.

Because annual leave time accrued exceeds limitations on compensated absence balances at calendar year-end, all balances are considered to be current, and no long-term portion has been calculated. As such, these amounts have not been included in the long-term debt rollforward in Note 6.

Outstanding compensated absences, included in accrued expenses on the statements of net position, totaled \$595,183 and \$574,348 at September 30, 2018 and 2017, respectively.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**(6) Bonds and Notes Payable:**

Long-term debt at September 30, 2018 and 2017, is comprised of the following:

	<u>2018</u>	<u>2017</u>
\$42,210,677 Utility System Revenue and Refunding Note, Series 2015; with variable payment amounts due semi-annually and principal payments due from 2016 through 2031. Interest is fixed at 2.82%.	\$ 41,910,667	\$ 42,010,667
\$10,000,000 Clay County Utility Authority Utilities System Revenue Note, Series 2009; due in semi-annual installments commencing on May 1, 2009 through 2029, with interest at 4.24%. Interest rate amended to 2.97% in August 2013.	6,103,341	6,584,324
\$10,236,041 Utility System Revenue and Refunding Bonds, Series 2012; due in annual installments varying from \$237,103 to \$1,901,056 plus interest payable semi-annually at 1.86% through 2024.	8,502,981	9,505,178
\$9,407,325 Clean Water State Revolving Fund loan with maximum \$14,179,180 available balance; due in semi-annual installments of \$399,298 including interest at 0.94% until the payment amount is adjusted by amendment. Repayment to begin after completion of project; expected to begin August 15, 2019.	9,407,325	-
\$4,066,297 Clean Water State Revolving Funds; due in semi-annual installments commencing on November 15, 2010, through 2030 with interest at 2.92%.	2,707,258	2,891,375
\$10,300,628 Clean Water State Revolving Fund; due in semi-annual installments commencing on May 15, 2010, through 2030 with interest ranging from 2.85% to 3.24%.	6,158,422	6,558,388
\$461,195 The School Board of Clay County, Florida, present value annual services of capital lease in which ownership will be transferred at the end of the term in 2021.	121,991	162,551
\$1,735,142 Clean Water State Revolving Fund; due in semi-annual installments of \$54,020 including interest ranging from 1.29% to 3.10%, beginning on January 15, 2017, through 2032.	1,126,027	1,240,144
Bonds and notes payable	<u>76,038,012</u>	<u>68,952,627</u>
Less: Current portion of bonds and notes payable	(4,527,159)	(2,332,857)
Long-term bonds and notes payable, net	<u><u>\$ 71,510,853</u></u>	<u><u>\$ 66,619,770</u></u>

Activity in bonds and notes payable for the years ended September 30, 2018 and 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2018	\$ 68,952,627	\$ 9,407,325	\$ (2,321,940)	\$ 76,038,012	\$ 4,527,159
2017	\$ 72,471,902	\$ -	\$ (3,519,275)	\$ 68,952,627	\$ 2,332,857

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

(6) **Bonds and Notes Payable:** (Continued)

Debt service requirements to maturity are as follows at September 30, 2018:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 4,527,159	\$ 1,950,442	\$ 6,477,601
2020	4,969,986	1,837,516	6,807,502
2021	5,077,803	1,718,385	6,796,188
2022	5,162,698	1,588,863	6,751,561
2023	5,286,370	1,464,066	6,750,436
2024 – 2028	27,973,388	5,258,945	33,232,333
2029 – 2033	23,040,608	1,487,112	24,527,720
Totals	<u>\$ 76,038,012</u>	<u>\$ 15,305,329</u>	<u>\$ 91,343,341</u>

Net revenues of the water, wastewater, and reclaimed water utility system are pledged as collateral for the revenue bonds and the Clean Water State Revolving Funds.

(7) **Retirement Benefits:**

The Authority provides retirement benefits for all of its full-time employees through the Clay County Utility Authority Employees Plan (the Plan), which is a defined contribution plan administered by a financial institution. The Authority has the right to amend the Plan at any time, provided that no amendment or modification shall reduce the account balances of any participant. The Plan's benefits depend solely on amounts contributed plus investment income. The covered payroll for employees covered by this plan for the years ended September 30, 2018 and 2017, was \$9,360,846 and \$9,131,267, respectively, and the total payroll was \$9,507,076 and \$9,313,709 for the same years, respectively. Participants are fully vested after 5 years of service; rollovers from other qualified plans are 100% vested. No employee contributions are allowed by the Plan. The Authority contributes an amount equal to 10% of the participant's compensation for the year to the Plan. The Authority contributed \$936,085 and \$913,127 for the years ended September 30, 2018 and 2017, respectively.

(8) **Deferred Compensation Plan:**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by a financial institution. Participation is on a voluntary basis and contributions are made via payroll deduction. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency. All plan assets are held in trust by the financial institution, and as such, no provision for plan assets or liabilities has been recorded on the Authority's financial statements.

(9) **Risk Management:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance. During the year ended September 30, 2018, the Authority did not reduce insurance coverage levels in place as of September 30, 2017. The Authority has no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**(10) Other Post-Employment Benefits (OPEB):**

Retirees and their dependents are permitted to remain covered under the Authority's respective health care plans as long as they pay a full premium applicable to the coverage elected. This conforms to the minimum required of Florida governmental employers per Chapter 112.08 of Florida Statutes. According to the Authority's employee handbook, retirees are defined as "Any full time employee age sixty-five (65) or older with at least five (5) years of continuous eligible service at the time of his/her retirement."

In 2015, the Authority engaged an actuary to calculate the outstanding liability for certain post-employment healthcare benefits provided by the Authority. Based on the Authority's policies, the OPEB liability was actuarially determined to be zero. There have been no changes to the Authority's policies or state statutes since that time which management believes would impact this determination as of September 30, 2018. As such, no OPEB liability has been recorded.

**(11) Commitments and Contingencies:**

In accordance with the Master Utility Services Agreement between the Authority and a developer, the Authority has granted connection fee credits which can be used by the developer or its assignee toward future connections in the specified development.

As part of this agreement, the developer contributed land valued at \$2,091,708 during the year ended September 30, 2016. In return, the developer received connection fee credits for future connections within the development equal to the agreed-upon value of the contributed land; however, should the developer cease plans to develop the land, no amounts will be due to the developer from the Authority, nor will the contributed property revert back to the developer.

At September 30, 2018, no connections have been made in this development and total future connection fee credits available to the developer totaled \$2,091,708.

**(12) New Accounting Pronouncements:**

The Governmental Accounting Standards Board ("GASB") has issued several pronouncements that have effective dates that may impact future financial statements. Listed below are pronouncements with required implementation dates effective for subsequent fiscal years that have not yet been implemented. Management has not currently determined what, if any, impact implementation of the following will have on the City's financial statements:

- (a) GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 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. The provisions in GASB 87 are effective for periods beginning after December 15, 2019.
- (b) GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in June 2018. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions in GASB 89 are effective for periods beginning after December 15, 2019.

**CLAY COUNTY UTILITY AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<u>State Grantor/Pass- Through Grantor/Program Title</u>	<u>CSFA Number</u>	<u>Contract / Grant Number</u>	<u>Expenditures</u>
<u>State of Florida Department of Environmental Protection</u>			
Direct Programs:			
Wastewater Treatment Facility Construction	37.077	WW10020	\$ 9,407,325
Total Expenditures of State Financial Assistance			<u><u>\$ 9,407,325</u></u>

**Notes:**

**1) Basis of Presentation:**

The accompanying Schedule of State Financial Assistance includes state financial assistance activity of Clay County Utility Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.550, Rules of the Florida Auditor General.

**2) Subrecipients:**

The Authority provided no state awards to subrecipients during the year ended September 30, 2018.

**CLAY COUNTY UTILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2018**

**A. Summary of Auditors' Results:**

***Financial Statements:***

Type of audit report issued on the financial statements: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified?   X   yes        no

Significant deficiency(ies) identified?   X   yes        none reported

Noncompliance material to financial statements noted?        yes   X   no

***State Financial Assistance:***

Internal control over major state projects:

Material weakness(es) identified?        yes   X   no

Significant deficiency(ies) identified?        yes   X   none reported

Type of auditor's report issued on compliance for major state projects: *Unmodified*

Any audit findings disclosed that are required to be reported for state financial assistance projects in accordance with Chapter 10.550?        yes   X   none reported

Dollar threshold used to distinguish between type A and type B programs:   \$300,000  

Identification of major state projects:

<u>CSFA Number</u>	<u>Project Name</u>
37.077	Wastewater Treatment Facility Construction

**B. Financial Statement Findings:**

**2018-001 Timeliness Completion of Bank Reconciliations:**

*Criteria:* As an integral part of any organization's internal control over cash, bank reconciliations should be performed on no less than a monthly basis. Such reconciliations should be both prepared and reviewed on a timely basis.

*Condition:* The Authority's operating bank account reconciliations for fiscal year 2018 were not completed and reviewed in a timely manner. While a significant portion of the year-end reconciliation was performed after year-end when the matter was brought up during the audit, there remained a year-end difference of approximately \$8,000 left to be reconciled in fiscal year 2019.

**CLAY COUNTY UTILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2018**

*Cause:* Various cash activity monitoring procedures were in place during the year, but these did not include individual reconciliations of the operating bank account being performed on a monthly basis.

*Effect:* Significant errors in the operating bank reconciliations could have resulted in a material misstatement of the Authority's financial statements, and should any improper transactions have occurred, they would not have been identified timely.

*Recommendation:* While compensating controls are in place related to overall cash management and general ledger recording, we recommend all of the Authority's bank statements be reconciled on a monthly basis, with all reconciliations to be prepared and reviewed no less than one month following the end of the applicable month being reconciled.

**2018-002 Accounts Receivable and Capital Asset Adjustments**

*Criteria:* All significant account balances should be reconciled on no less than an annual basis, with increased frequency necessary for balances related to the Authority's key transaction cycles, such as revenue/accounts receivable.

*Condition:* Certain receivable and capital asset activity did not agree to the general ledger. This resulted in adjustments to certain receivable accounts and correcting entries to capital asset balances. Additionally, an accounts receivable clearing account remained with an approximately \$18,000 negative balance left to be reconciled in fiscal year 2019.

*Cause:* A year-end proof of the subsidiary ledger/detail activity and the recording of the applicable adjustments to the relevant general ledger accounts were not completed over customer accounts receivable account, accounts receivable clearing account, and various capital asset accounts.

*Effect:* Significant errors or discrepancies in the accounts receivable activity could have resulted in a material misstatement of the Authority's financial statements, and should any improper transactions have occurred, they may not have been identified timely. Capital asset balances could have also been misstated, resulting in the timing of the recognition of the related expense being inaccurate.

*Recommendation:* We recommend the accounts receivable ledger be reconciled to the general ledger on no less than a monthly basis. We also recommend all capital asset expenditures be reconciled to capital asset additions when preparing year-end capital asset and depreciation schedules.

- C. **State Financial Assistance Findings and Questioned Costs:** None
- D. **Summary Schedule of Prior Audit Findings:** Not applicable – no prior year findings.
- E. **Corrective Action Plan:** See management's response to findings as listed in the table of contents.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE  
PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

To the Board of Supervisors,  
Clay County Utility Authority:

**Report on Compliance for Each Major State Project**

We have audited Clay County Utility Authority's (the Authority) compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of the Authority's major state projects for the year ended September 30, 2018. The Authority's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with State statutes, regulations, and the terms and conditions applicable to its state projects.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General. Those standards and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major State Project***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2018.



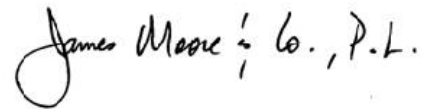
## Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Daytona Beach, Florida  
December 21, 2018

**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 Board of Supervisors,  
Clay County Utility Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the Clay County Utility Authority (the Authority) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 21, 2018.

***Internal Control over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs at item 2018-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as items 2018-002 to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 audits 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*.

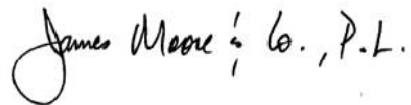
### **Clay County Utility Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the attached response to findings as listed in the table of contents. 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.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daytona Beach, Florida  
December 21, 2018

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED  
BY CHAPTER 10.550, RULES OF THE STATE OF FLORIDA  
OFFICE OF THE AUDITOR GENERAL**

To the Board of Supervisors,  
Clay County Utility Authority:

**Report on the Financial Statements**

We have audited the basic financial statements of the Clay County Utility Authority (the Authority), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated December 21, 2018.

**Auditors' Responsibility**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major State Project and Report on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General; Schedule of Findings and Questioned Costs; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated December 21, 2018, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No such findings or recommendations were identified in the preceding annual financial audit report.

**Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Clay County Utility Authority was established by special act by the Florida Legislature. There are no component units related to the Authority.

## **Financial Condition and Management**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and report the results of our determination as to whether or not the Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audits, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the Authority. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we had the following recommendation:

### **2018-003 Recording of Retainage Payable**

During our audit, we noted the Authority did not record retainage payable on construction contracts until the retainage amounts become due. For proper balance sheet presentation in the Authority's financial statements in accordance with generally accepted accounting principles, we recommend the Authority record all retainage payable and the related construction in progress on future contracts as such amounts are incurred, regardless of when payments are expected to become due.

## **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

## **Clay County Utility Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the attached response to findings as listed in the table of contents. 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.

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida  
December 21, 2018


## INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Supervisors,  
Clay County Utility Authority:

We have examined the Clay County Utility Authority's (the Authority) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2018. The Authority's management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2018, in all material respects. An examination involves performing procedures to obtain evidence about the Authority's compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of risks of material noncompliance with those requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Clay County Utility Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.



Daytona Beach, Florida  
December 21, 2018



## Clay County Utility Authority

3176 Old Jennings Road  
Middleburg, Florida 32068-3907  
Telephone (904) 213-2428  
Facsimile (904) 213-2429

*Working together to  
protect public health,  
conserve our natural  
resources, and create  
long-term value for  
our ratepayers.*

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MEMO TO:  
The Board of Supervisors,  
Clay County Utility Authority  
The State Auditor General

THROUGH: Tom Morris, Executive Director

FROM: Jeffrey S. Wesselman, Chief Financial Officer

DATE: December 21, 2018

SUBJECT: Reply to the Independent Auditors' Report on Internal Control and Management Letter  
Comments for Fiscal Year Ended September 30, 2018

### FINANCIAL STATEMENT FINDINGS

#### **2018-001 Cash: Reconciling Statements Regularly**

Management concurs with this comment and recommendation that the operating bank account be reconciled monthly to the general ledger in a similar manner to the other bank accounts and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

#### **2018-002 Recording of Retainage Payable**

Management concurs with this comment and recommendation to record all retainage payable on future contracts as such amounts are incurred, regardless of when expected to become due.

#### **2018-003 Accounts Receivable and Revenue**

Management concurs with this comment and recommendation that the accounts receivable subsidiary system be improved to ensure that accounts receivable balances are reconciled between the general ledger and the subsidiary on a consistent and timely basis and differences investigated and resolved as soon as possible.