

**CLAY COUNTY UTILITY AUTHORITY**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019 AND 2018**

**CLAY COUNTY UTILITY AUTHORITY  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**TABLE OF CONTENTS**

	<u>Page Number(s)</u>
<b>Independent Auditors' Report</b>	1 – 2
<b>Management's Discussion and Analysis</b>	3 – 7
<b>Basic Financial Statements</b>	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 – 18
<b>Schedule of Expenditures of State Financial Assistance</b>	20
<b>Schedule of Findings and Questioned Costs</b>	21 – 21
<b>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</b>	22 – 23
<b>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></b>	24 – 25
<b>Independent Auditors' Management Letter Required by Chapter 10.550, Rules of the State of Florida Office of the Auditor General</b>	26 – 27
<b>Independent Accountants' Examination Report</b>	28
<b>Management's Response to Findings</b>	29

## 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, 2019 and 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 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, 2019 and 2018, 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***

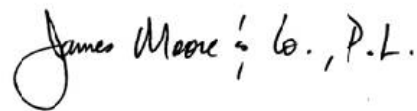
Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as listed in the table contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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 16, 2019, 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.

James Moore & Co., P.L.

Daytona Beach, Florida  
December 16, 2019

## **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, 2019.

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 4.59 million gallons per day during the fiscal year ending September 30, 2019, this equates to conserving approximately 1.67 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 2012 to 2014 however, in 2015, service rates were increased 5.4% to address the cost of renewal and replacement of existing infrastructure. In fiscal year 2019 service rates were increased by 3%, resulting in an average annual price increase of 1.14% from 2012 through 2019.

Management estimated a 15.0% reduction in water demand from our base year 2009 to our current fiscal year, 2018/2019. Customers have aggregately decreased water use 13.93%, even though our customer base has grown by 6,624 accounts during this time.

The Authority's cash reserves, borrowing capacity and scheduled fiscal year 2018/2019 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, 2019				
	2019	2018	% Change	2017	% Change
Capital assets – net	279,010	265,873	4.9	246,675	7.8
Current assets	39,184	36,945	6.1	45,405	(18.6)
Investments, current	11,411	5,980	90.8	5,906	1.3
Other non-current assets	7,210	5,823	23.8	1,674	247.8
Investments, non-current	0	5,378	(100.0)	5,316	1.2
Deferred Outflow of Resources	2,401	2,636	(8.9)	2,871	(8.2)
Totals	<u>339,216</u>	<u>322,636</u>	5.1	<u>307,847</u>	4.8
Liabilities and fund equity					
Net position	253,898	238,675	6.4	229,123	4.2
Long-term liabilities, net	70,251	71,511	(1.8)	66,620	7.3
Current liabilities, including restricted	15,067	12,450	21.0	12,104	2.9
Totals	<u>339,216</u>	<u>322,636</u>	5.1	<u>307,847</u>	4.8

## Capital Assets - Net

Net Capital assets increased \$13,137,000 during the fiscal year 2018/2019. The increase is mainly attributed to \$24,206,168 of various utility expansions and dispositions, offset by \$11,069,168 of depreciation expense. Developers contributed \$8,744,903 of those assets.

For the year 2018, capital assets increased \$19,199,000. 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.

## Current Assets

The change in current assets is due to the increase in cash. Capital projects did not exceed cash from operations.

## Net Position

The net position can serve as a useful indicator of our financial position, with an increase of \$15,223,000 the net investment in capital assets, the largest portion of the Authority's net position, 82%, 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, 1%, is capacity charges that are subject to capital improvements, developer and other contributions of \$11,250,401 were received in fiscal year 2019, approximately \$2,505,000 of which was cash. The unrestricted portion, 17%, decreased 3%. Net income is an unrestricted reserve used for future capital funding.

## Long-Term Debt - Net

In fiscal year 2019, the net long-term debt decreased \$1,260,000. The debt increased due to additional monies borrowed on the Mid-Clay Wastewater Treatment Facility expansion project of \$3,380,000 but was offset by a larger decrease from scheduled debt payments throughout the year.

## Current Liabilities

Current liabilities increased \$2,617,000 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, 2019				
	2019	2018	% Change	2017	% Change
Operating revenues	45,233	42,353	6.8	42,379	(0.1)
Operating expenses	<u>(40,067)</u>	<u>(38,781)</u>	3.3	<u>(38,308)</u>	1.2
Operating income	5,166	3,572	44.6	4,071	(12.3)
Non-operating (expenses), net	(1,194)	(1,619)	(26.3)	(1,750)	(7.5)
Contributions and grants	<u>11,250</u>	<u>7,600</u>	48.0	<u>6,356</u>	19.6
Increase in Net Position	<u>15,222</u>	<u>9,553</u>	59.3	<u>8,677</u>	10.1

## **Operating Revenues**

Operating revenue was within 1.0% of management projections. Operating revenue is 51% fixed through base charges and 49% is variable through usage charges. Consequently, climatic conditions such as rainfall and temperature will cause revenue fluctuations. A large majority (91.5%) of residential customers continue to use no more water than the second tier allowance in fiscal 2019.

In the prior year, operating revenue was within 3.0% of management projections. A large majority (92.7%) of residential customers continue to use no more water than the second tier allowance in fiscal 2018.

## **Operating Expenses**

The increase of \$1,286,000 in operating expenses in 2019, is largely due to \$1,026,479 increase in wages and related benefits resulting from additional staffing, and a 2.9% cost of living allowance and merit.

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.

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

The decrease of \$425,000 in non-operating revenue and expenses is due to an increase of \$327,000 in interest income, a reduction of \$89,000 in interest expense and an increase of \$8,000 on sale of assets.

During fiscal 2018, 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 an increase of \$30,000 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 \$8,744,000 in 2019, compared to \$4,036,000 in 2018. Cash contributions totaled \$2,505,000 in 2019, of which \$0 was grant money compared to cash contributions of \$2,404,000, of which \$172,000 was grant money in 2018. Additionally, the Authority began deferring capacity charges for developers in 2016. At the end of Fiscal Year 2019 the pending deferred charges totaled, \$4,798,715, with expected capacity fees from these charges at \$781,890 in fiscal year 2020.

## **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 dividing the Annual Base Revenue by the Annual Residential Base Rate. The usage per ERC is a calculation of the gallons used 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
9/30/2019	54,192	81.4	49,146	51.1	11,914	140.8

### **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 \$1.06 per water bill and a one-time AWS capacity charge of \$325 per new account 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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 33,028,990	\$ 31,839,800
Restricted cash and cash equivalents	2,654,009	2,046,628
Investments	11,599,882	5,980,723
Accounts receivable, net	2,779,807	2,463,525
Prepaid items and inventory	839,396	595,013
Total current assets	50,902,084	42,925,689
<b>Non-current assets</b>		
Restricted cash and cash equivalents	6,539,009	5,461,082
Investments	-	5,377,869
Notes receivable	363,850	362,805
Utility plants	388,161,800	370,321,798
Construction in process	38,915,013	32,843,566
Accumulated depreciation	(148,066,648)	(137,292,318)
Total non-current assets	285,913,024	277,074,802
<b>Total Assets</b>	<b>\$ 336,815,108</b>	<b>\$ 320,000,491</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred loss on bond refunding	\$ 2,401,241	\$ 2,635,869
<b><u>LIABILITIES</u></b>		
<b>Current liabilities</b>		
Accounts and retainage payable	\$ 1,594,721	\$ 1,061,590
Accrued expenses	1,267,368	1,142,232
Unearned revenues	261,329	279,171
Customer deposits	3,661,475	3,393,428
Liabilities payable from current restricted assets:		
Accounts and retainage payable	1,899,332	1,273,500
Interest payable	754,677	773,128
Current portion of long-term debt	5,278,625	4,527,159
Total current liabilities	14,717,527	12,450,208
<b>Non-current liabilities</b>		
Non-current portion of long-term debt	70,601,071	71,510,853
Total non-current liabilities	70,601,071	71,510,853
<b>Total Liabilities</b>	<b>\$ 85,318,598</b>	<b>\$ 83,961,061</b>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	\$ 205,531,710	\$ 192,470,903
Restricted for:		
Capital projects	3,223,543	2,256,642
Debt service	3,315,466	3,204,440
Unrestricted	41,827,032	40,743,314
<b>Total Net Position</b>	<b>\$ 253,897,751</b>	<b>\$ 238,675,299</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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Charges for services	\$ 43,923,044	\$ 40,981,949
Miscellaneous revenues	1,309,953	1,198,676
Total operating revenues	45,232,997	42,180,625
<b>Operating expenses</b>		
Wages and related benefits	14,248,193	13,221,714
Operating expenses	9,510,710	9,415,283
Subcontractors	3,260,744	3,668,707
In lieu of taxes	1,977,716	1,845,421
Depreciation expense	11,069,168	10,630,303
Total operating expenses	40,066,531	38,781,428
<b>Operating income</b>	5,166,466	3,399,197
<b>Nonoperating revenues (expenses)</b>		
Interest income	744,381	416,888
Interest expense	(1,984,826)	(2,073,771)
Gain (loss) on sale of assets	46,030	37,918
Total nonoperating revenues (expenses)	(1,194,415)	(1,618,965)
<b>Income (loss) before capital contributions</b>	3,972,051	1,780,232
<b>Capital contributions and grants</b>		
Developer and other contributions	11,250,401	7,600,430
Capital grants	-	171,905
Total capital contributions	11,250,401	7,772,335
<b>Change in net position</b>	15,222,452	9,552,567
<b>Net position, beginning of year</b>	238,675,299	229,122,732
<b>Net position, end of year</b>	\$ 253,897,751	\$ 238,675,299

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, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 45,165,875	\$ 42,672,610
Payments to suppliers	(12,482,706)	(13,483,011)
Payment in lieu of taxes	(1,977,716)	(1,845,421)
Payments to employees	(14,123,057)	(13,169,711)
Net cash provided by operating activities	16,582,396	14,174,467
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of bonds and loans	4,749,233	9,407,325
Principal paid on long-term debt	(4,969,299)	(2,321,940)
Interest paid on long-term debt	(1,706,899)	(1,860,765)
Payments to acquire and construct plant property	(14,789,522)	(26,081,420)
Capital contributions	2,505,498	2,404,084
Capital grants	-	171,905
Net cash used in capital and related financing activities	(14,210,989)	(18,280,811)
<b>Cash flows from investing activities</b>		
Purchases of investments	(11,410,915)	(5,950,655)
Sales of investments	11,169,625	5,814,056
Interest income	744,381	416,888
Net cash provided by investing activities	503,091	280,289
<b>Net increase (decrease) in cash and cash equivalents</b>	2,874,498	(3,826,055)
<b>Cash and cash equivalents, beginning of year</b>	39,347,510	43,173,565
<b>Cash and cash equivalents, end of year</b>	\$ 42,222,008	\$ 39,347,510
<b>Cash and cash equivalents classified as:</b>		
Unrestricted	\$ 33,028,990	\$ 31,839,800
Restricted	2,654,009	2,046,628
Restricted - noncurrent	6,539,009	5,461,082
Total cash and cash equivalents	\$ 42,222,008	\$ 39,347,510
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Cash flows from operating activities		
Operating income	\$ 5,166,466	\$ 3,399,197
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	11,069,168	10,630,303
Changes in assets and liabilities		
Decrease (Increase) in accounts and notes receivable	(317,327)	483,262
Decrease (Increase) in prepaid items and inventory	(244,383)	603
Increase (Decrease) in accounts and retainage payable	533,131	(395,509)
Increase (Decrease) in accrued expenses	125,136	52,003
Increase (Decrease) in unearned revenue	(17,842)	(34,286)
Increase (Decrease) in customer deposits	268,047	38,894
Total adjustments	11,415,930	10,775,270
<b>Net cash provided by operating activities</b>	\$ 16,582,396	\$ 14,174,467
<b>Supplemental schedule of noncash investing, capital, and financing activities</b>		
Deferred loss on refunding amortization	\$ 234,628	\$ 238,778
Utility plant property contributed by developers	8,744,903	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, 2019 AND 2018**

(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, 2019 AND 2018**

(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, 2019 and 2018.

(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, 2019 AND 2018**

(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, 2019, the Authority's cash and investments consisted of the following:

<b>Types of Cash and Investments</b>	<b>Average Maturity</b>	<b>Credit Quality</b>	<b>Amount</b>
Investments and restricted investments			
Certificates of deposit	0.37 years	N/A	\$ 11,599,882
Cash on deposit			<u>42,222,008</u>
Total cash and investments (unrestricted and restricted)			<u>\$ 53,821,890</u>

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

<b>Types of Cash and Investments</b>	<b>Average Maturity</b>	<b>Credit Quality</b>	<b>Amount</b>
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>

(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, 2019 AND 2018**

**(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, 2019 and 2018, consist of the following:

	<b>2019</b>	<b>2018</b>
Billed customer receivables	\$ 912,560	\$ 1,085,063
Unbilled customer receivables	1,748,301	1,400,733
Notes receivable – current portion	51,664	37,029
Other receivables	449,422	299,798
Gross accounts receivable	3,161,947	2,822,623
Less: Allowance for uncollectables	(382,140)	(359,098)
Total accounts receivable, net	<u>\$ 2,779,807</u>	<u>\$ 2,463,525</u>

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 \$363,850 and \$362,805 at September 30, 2019 and 2018, 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, 2019 and 2018, were as follows:

	<b>Balance October 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2019</b>
Capital assets not being depreciated:				
Land	\$ 5,268,724	\$ -	\$ -	\$ 5,268,724
Construction in progress	32,843,566	21,526,319	(15,454,872)	38,915,013
Total capital assets not being depreciated	38,112,290	21,526,319	(15,454,872)	44,183,737
Capital assets being depreciated:				
Machinery and equipment	360,258,457	18,204,311	(424,138)	378,038,630
Buildings	4,794,617	59,829	-	4,854,446
Accumulated depreciation	(137,292,318)	(11,169,499)	395,169	(148,066,648)
Total capital assets being depreciated, net	227,760,756	7,094,641	(28,969)	234,826,428
<b>Capital Assets, net</b>	<u>\$265,873,046</u>	<u>\$ 28,620,960</u>	<u>\$ (15,483,841)</u>	<u>\$279,010,165</u>



**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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

	<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	<u>21,322,535</u>	<u>23,972,127</u>	<u>(7,182,372)</u>	<u>38,112,290</u>
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	<u>(126,782,037)</u>	<u>(10,734,688)</u>	<u>224,407</u>	<u>(137,292,318)</u>
Total capital assets being depreciated, net	<u>225,351,973</u>	<u>2,408,783</u>	<u>-</u>	<u>227,760,756</u>
<b>Capital Assets, net</b>	<u><u>\$246,674,508</u></u>	<u><u>\$ 26,380,910</u></u>	<u><u>\$ (7,182,372)</u></u>	<u><u>\$265,873,046</u></u>

Depreciation expense for 2019 and 2018 was \$11,069,168 and \$10,630,303, respectively. Additional depreciation amounts of \$100,331 and \$104,385 in 2019 and 2018, respectively, related to equipment used for construction in progress and was capitalized as part of the cost of construction in progress.

Commitments on outstanding construction contracts for improvements and maintenance of the utility systems totaled \$7,786,514 at September 30, 2019.

(5) **Compensated Absences:**

Paid time off (PTO) 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 PTO 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 PTO accrual account. Employees with less than six (6) months of service are not eligible for payment of unused PTO.

Because PTO accruals 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 activity summary in Note 6.

Outstanding compensated absences, included in accrued expenses on the statements of net position, totaled \$637,190 and \$595,183 at September 30, 2019 and 2018, respectively.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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

Long-term debt at September 30, 2019 and 2018, is comprised of the following:

	<u>2019</u>	<u>2018</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%.	\$ 40,255,203	\$ 41,910,667
\$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.	5,593,468	6,103,341
\$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.	7,226,643	8,502,981
\$12,788,239 Clean Water State Revolving Fund loan with maximum \$14,179,180 available balance; due in semi-annual installments of \$399,298 through 2039 including interest at 0.94% until the payment amount is adjusted by amendment.	12,443,590	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%.	2,513,724	2,707,258
\$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%.	5,710,250	6,158,422
\$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.	76,595	121,991
\$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.	1,011,168	1,126,027
\$1,430,069 payable to a software vendor in conjunction with a server and enterprise software licensing agreement; due in annual installments of \$286,013 including interest ranging from 0% to 4.20%, beginning on February 1, 2019, through 2023.	1,049,055	-
Bonds and notes payable	<u>75,879,696</u>	<u>76,038,012</u>
Less: Current portion of bonds and notes payable	(5,278,625)	(4,527,159)
Long-term bonds and notes payable, net	<u><u>\$ 70,601,071</u></u>	<u><u>\$ 71,510,853</u></u>

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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

Activity in bonds and notes payable for the years ended September 30, 2019 and 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2019	\$ 76,038,012	\$ 4,810,983	\$ (4,969,299)	\$ 75,879,696	\$ 5,278,625
2018	\$ 68,952,627	\$ 9,407,325	\$ (2,321,940)	\$ 76,038,012	\$ 4,527,159

Debt service requirements to maturity are as follows at September 30, 2019:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 5,278,625	\$ 1,820,983	\$ 7,099,608
2021	5,370,068	1,709,271	7,079,339
2022	5,466,810	1,571,598	7,038,408
2023	5,599,302	1,437,653	7,036,955
2024	5,604,928	1,300,835	6,905,763
2025 – 2029	28,172,589	4,351,212	32,523,801
2030 – 2034	18,913,603	845,757	19,759,360
2035 – 2039	1,473,771	15,239	1,489,010
Totals	<u>\$ 75,879,696</u>	<u>\$ 13,052,549</u>	<u>\$ 88,932,245</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.

**Subsequent Event – Debt Refunding**—On October 3, 2019, the Authority issued the Utilities System Revenue Refunding Note, Series 2019, in the amount of \$48,495,000 and due May 1, 2039. The purpose of the Revenue Note was to refund the 2007 Clean Water State Revolving Fund Loan, 2009 Clean Water State Revolving Fund Loan, and the Series 2009 Revenue Note, which were refunded at the date of issuance of the Series 2015 Revenue Note, as well as the financing of \$35,000,000 in project costs related to the construction of various Authority capital improvement projects. The refunding was done in order to take advantage of lower interest rates with an interest rate of 2.03% on the new debt. Net of \$664,362 of funds on hand used to pay future interest on the advance refunding of the Series 2009 bonds at the time of refunding, the refunding enabled the Authority to reduce its debt service payments over 12 years by \$1,265,999 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$600,754.

(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, 2019 and 2018, was \$10,217,550 and \$9,360,846, respectively, and the total payroll was \$10,364,185 and \$9,507,076 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 \$1,021,755 and \$936,085 for the years ended September 30, 2019 and 2018, respectively.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**(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, 2019, the Authority did not reduce insurance coverage levels in place as of September 30, 2018. The Authority has no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**(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."

The Authority has previously 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, 2019. 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, 2019, no connections have been made in this development and total future connection fee credits available to the developer totaled \$2,091,708.

**CLAY COUNTY UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

(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.

**CLAY COUNTY UTILITY AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

<u>State Grantor/Pass- Through Grantor/Program Title</u>	<u>CSFA Number</u>	<u>Contract / Grant Number</u>	<u>Program/Award Amount</u>	<u>Expenditures</u>
<u>State of Florida Department of Environmental Protection</u>				
Direct Programs:				
Wastewater Treatment Facility Construction	37.077	WW10020	14,179,180	\$ 3,319,344
Total Expenditures of State Financial Assistance				<u>\$ 3,319,344</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, 2019.

**CLAY COUNTY UTILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2019**

**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? \_\_\_\_\_ yes   X   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   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:   \$750,000  

Identification of major state projects:

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

**B. Financial Statement Findings:** None.

**C. State Financial Assistance Findings and Questioned Costs:** None.

**D. Summary Schedule of Prior Audit Findings:**

**2018-001 Timeliness Completion of Bank Reconciliations:** Corrective action taken.

**2018-002 Accounts Receivable and Capital Asset Adjustments:** Corrective action taken.

**E. Corrective Action Plan:** Not applicable as there are no current year comments related to internal control and/or compliance over financial reporting or state awards.

**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, 2019. 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, 2019.



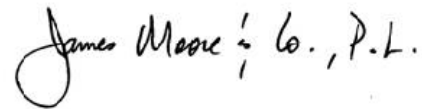
## Report on Internal Control over Compliance

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 16, 2019

**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, 2019, 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 16, 2019.

***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.

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

Our consideration of internal control 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.

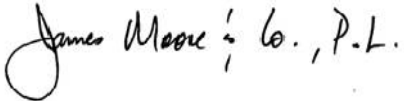
### ***Compliance and Other Matters***

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

### **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 16, 2019

James Moore & Co., P.L.

**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, 2019, and have issued our report thereon dated December 16, 2019.

**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 16, 2019, 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. Corrective actions have been taken to address all findings and recommendations made in the preceding 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:

### **2019-001 Proper Pay Rates**

In our testing of payroll, we noted one employee who was paid more than their approved rate of pay for approximately 9 months of the fiscal year, resulting in a total of approximately \$1,800 in overpayments prior to ending employment with the Authority in the summer of 2019. We recommend all pay rate adjustments be reviewed upon entry to the system and periodically during the year to ensure all employees are paid the appropriate, approved amounts.

## **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 16, 2019

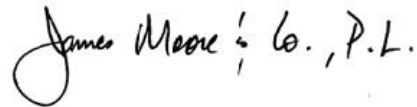
## INDEPENDENT ACCOUNTANTS' REPORT

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, 2019. 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, 2019, 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, 2019.



Daytona Beach, Florida  
December 16, 2019

## **MANAGEMENT'S RESPONSE TO FINDINGS**

### **2019-001 Proper Pay Rates**

Management concurs with this comment and recommendation that pay rate adjustments be reviewed upon entry into the payroll system. A procedure has already been implemented to ensure that all pay rate adjustments are reviewed after initial entry into the payroll system.