

**Housing Finance Authority of Clay County  
(A Component Unit of Clay County, Florida)  
Independent Auditor's Reports, Basic Financial Statements,  
and Additional Information  
For the Year Ended September 30, 2019**



**THE NICHOLS GROUP, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Independent Auditor's Reports, Basic Financial Statements,**  
**and Additional Information**  
**For the Year Ended September 30, 2019**

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## **FINANCIAL SECTION**



## **INDEPENDENT AUDITOR'S REPORT**

To the Board Members of the Housing Finance Authority of Clay County, Florida  
Orange Park, Florida

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

We have audited the accompanying financial statements of the business-type activities of the Housing Finance Authority of Clay County, Florida (Authority), a component unit of Clay County, Florida, 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 as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity'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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of September 30, 2019, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

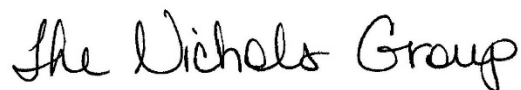
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 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 effectiveness of the Authority's 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.



The Nichols Group, PA  
Certified Public Accountants  
Fleming Island, Florida

November 14, 2019

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

(Unaudited)

This section of the Housing Finance Authority of Clay County, Florida's (Authority), a component unit of Clay County, Florida, financial statements presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2019. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

The Authority's mission is to alleviate the shortage of affordable residential housing facilities for low, moderate, and middle-income families in Clay County, Florida. In pursuit of its mission, the Authority borrows money through the issuance of bonds to finance single family residential housing and multi-family housing developments. In addition to providing loans and grants for the acquisition, construction, renovation, and operation of residential housing facilities, the Authority also provides financial assistance to low, moderate, and middle-income families in Clay County, Florida. The financial statements and notes present the activities of the Authority's housing and lending programs.

At times, the Authority finds it advantageous to retire an existing bond issue (i.e., through redemption and/or defeasance). Retirements of single-family bond issues often generate sizeable cash residuals for the Authority. The residuals may substantially impact the Authority's revenues in a single fiscal year and cause significant variation from year to year.

At times, the Authority finds it desirable to forgive loans or make grants to accomplish its public purpose. Loan forgiveness and grants may substantially impact the Authority's expenses in a single fiscal year and cause significant variation from year to year.

The Authority did not issue any bonds to finance single-family residential housing or multi-family housing developments during the current fiscal year.

The Authority's net position increased by \$210k or 2.62% in Fiscal Year 2019.

The Authority's revenues increased from \$425k to \$479k, an increase of \$54k or 12.71%. During the same period, expenses decreased from \$321k to \$269k, a decrease of \$52k or 16.20%.

## **The Authority**

The Authority was created as a public body corporate and politic in accordance with the Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes, as amended, and Ordinance No. 80-19 enacted by the Board of County Commissioners of Clay County, Florida on March 25, 1980, as amended, (the "Act"). The Authority is a component unit of Clay County, Florida ("County"). The Authority has no component units.

The Authority is authorized, in furtherance of the public purposes described in the Act, to alleviate the shortage of affordable residential housing facilities and to provide capital for investment in such facilities for low, moderate, and middle-income families by issuing its revenue bonds. The Authority issues bonds for single family programs that provide funds to eligible borrowers to finance the purchase of qualifying single-family residences. The Authority also issues bonds for the development of qualifying multi-family housing projects.

Bonds and other related debt obligations issued by the Authority do not and shall never constitute an indebtedness, liability, general or moral obligation, or a pledge of the faith or loan of credit of the Authority or of the County. Accordingly, such obligations are not included within the Authority's basic financial statements.

## **Overview of the Financial Statements**

The financial statements consist of two parts: Management's Discussion and Analysis (MD&A) and the Basic Financial Statements. The Basic Financial Statements also include notes that explain in more detail some of the information in the Basic Financial Statements.

The Authority's Basic Financial Statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. The Authority accounts for its financial activities through the use of an enterprise fund. See the notes to the Basic Financial Statements for a summary of the Authority's significant accounting policies.

## **Basic Financial Statements**

The Basic Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing various financial ratios, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit worthiness and whether the Authority has successfully recovered all of its expenses through fees and other income.

The final basic financial statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's revenues and expenses and the resulting change in net position. Over time, increases or decreases in the Authority's net position are an indicator of the Authority's financial health. When evaluating changes in the Authority's financial health, other non-financial factors should also be considered. These include factors such as changes in economic conditions, new or changed government legislation and regulations, and the fulfillment of the Authority's public purpose.

### Net Position

A summary of the Authority's Statements of Net Position is presented in Table A. The Authority has no capital assets and its long-term debt obligations (i.e., revenue bonds) are not general obligations of the Authority. Accordingly, such obligations are not included within the Authority's Basic Financial Statements.

**Table A**  
**Condensed Statements of Net Position**  
(In thousands of dollars)

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Percentage Change
Current assets	\$ 2,997	\$ 3,072	\$ (75)	-2.44%
Noncurrent assets	5,239	4,952	287	5.80%
Total assets	8,236	8,024	212	2.64%
Current liabilities	4	2	2	100.00%
<b>Net assets</b>				
Restricted	640	224	416	185.71%
Unrestricted	7,592	7,798	(206)	-2.64%
Total net position	\$ 8,232	\$ 8,022	\$ 210	2.62%

During the fiscal year ended September 30, 2019, current assets decreased by \$75k or 2.44%. The decrease consists of (a) \$303k reclassification of loan balances to noncurrent assets, (b) \$68k reduction in receivable from County for DPA loans, offset by (c) \$296k increase in cash and cash equivalents from current year operations.

Non-current assets increased by \$287k or 5.80%, consisting primarily of (a) \$201k net advances on loans, and (b) \$303k reclassification of loan balances from current assets, offset by (c) \$224k reduction in investments attributable to MBS (mortgage backed securities) redemptions.

Restricted net assets increased by \$416k or 185.71%, representing an increase in loan commitments not yet funded.

Unrestricted net assets decreased by \$206k or 2.64%, consisting of a \$416k reclassification to restricted net assets (see above), offset by \$210k net operating and non-operating income recognized in the current year.



## Revenues, Expense and Changes in Net Position

A summary of the Authority's Statements of Revenues, Expense and Changes in Net Position is presented in Table B.

**Table B**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**(In thousands of dollars)**

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Percentage Change
Operating revenues	\$ 375	\$ 383	\$ (8)	-2.09%
Nonoperating revenues	104	42	62	147.62%
Total revenues	479	425	54	12.71%
Operating Expenses	269	321	(52)	-16.20%
Change in net position	210	104	106	101.92%
Beginning net position	8,022	7,918	104	1.31%
Ending net position	\$ 8,232	\$ 8,022	\$ 210	2.62%

Nonoperating revenues increased by \$62k or 147.62% from prior year. The change is primarily attributable to a \$56k adjustment in prior year to reduce investments to fair market value.

Operating expenses decreased by \$52k or 16.20% from prior year. The reduction is primarily attributable to a \$77k adjustment to increase allowance for uncollectible loans during the prior year.

## Cash Flows

A summary of the Authority's Statements of Cash Flows for the current fiscal year is presented in Table C. It presents the major sources and uses of cash and cash equivalents. For purposes of the Statements of Cash Flows, the Authority considers all currency and demand deposits with banks or other financial institutions to be cash and cash equivalents.

**Table C**  
**Condensed Statements of Cash Flows**  
**(In thousands of dollars)**

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Percentage Change
Net cash used in operating activities	\$ (33)	\$ (1,440)	\$ 1,407	-97.71%
Net cash provided by investment activities	329	382	(53)	-13.87%
Net increase (decrease) in cash and cash equivalents	296	(1,058)	1,354	-127.98%
Cash and cash equivalents at beginning of	1,717	2,775	(1,058)	-38.13%
Cash and cash equivalents at end of year	\$ 2,013	\$ 1,717	\$ 296	17.24%

Cash and cash equivalents increased by \$296k during the current year, primarily attributable to \$329k of investment proceeds and interest.

Comparing to prior year, net cash used in operating activities is \$1,407k lower. The change is primarily attributable to (a) \$1,281k less in net loan advances, and (b) \$210K receipts from the County under the State Housing Initiatives Partnership (SHIP) program.

**BOND PROGRAMS**

The Authority has issued bonds to finance single family residential housing and qualified multi-family housing developments. The financial assistance was provided to stimulate the acquisition and construction of residential housing for low, moderate, and middle-income individuals and families. The Authority's bonds are secured as described in each of the respective trust indentures. In no case is the Authority, Clay County, the State of Florida, or any political subdivision thereof obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the Basic Financial Statements.

Portions of the Authority's operating revenues are derived from fees and incomes generated by the single family and multi-family bond programs issued by the Authority. Historically, these fees and incomes have usually exceeded the financial contributions made by the Authority to the bond programs.

As of September 30, 2019, the Authority had the following outstanding bond pursuant to its authorization:

<b>Multi-Family Housing Revenue and Refunding Bond</b>	<b>Issue Amount</b>	<b>Amount Outstanding</b>
Series 2004 (Nassau Club)	<u>\$10,405,000</u>	<u>\$ 7,905,000</u>

In some cases, the outstanding balances may include capital appreciation and compound interest bonds at their accreted values calculated as of the most recent bond interest payment date.

**Economic Factors and Next Year's Budget**

The Authority's Board of Directors and management considered many factors when setting the fiscal year 2020 budget. These factors include the expected operating costs of the Authority, as well as projected issuance costs for single and multi-family projects, which in turn consider such factors as anticipated population growth of the participating county and the economy of the region as a whole.

**Requests for Information**

This financial report is designed to provide our citizens and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Housing Finance Authority of Clay County, Florida's Executive Director, P.O. Box 1620, Orange Park, Florida 32067-1620.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Statement of Net Position**  
**September 30, 2019**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 2,012,887
Interest and other receivables	46,632
Loans receivable	<u>937,898</u>
Total current assets	<u>2,997,417</u>

Noncurrent assets:

Investments	1,141,425
Loans receivable, net	<u>4,097,073</u>
Total noncurrent assets	<u>5,238,498</u>

Total assets	<u>8,235,915</u>
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**LIABILITIES**

Current liabilities:

Accounts payable and accrued expenses	<u>4,000</u>
Total liabilities	<u>4,000</u>

**NET POSITION**

Restricted	640,400
Unrestricted	<u>7,591,515</u>
Total net position	<u><u>\$ 8,231,915</u></u>

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

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended September 30, 2019**

<b>Operating revenues:</b>	
Authority fees and other income	\$ 45,556
TBA program income	113,860
Reimbursements from SHIP program	142,500
Loan interest income	<u>72,860</u>
Total operating revenues	<u>374,776</u>
<b>Operating expenses:</b>	
Conferences and dues	19,973
General operating and administrative	102,148
Legal and accounting	102,000
Special projects	<u>45,000</u>
Total operating expenses	<u>269,121</u>
Net operating income	<u>105,655</u>
<b>Non-operating revenue:</b>	
Investment interest income	101,725
Realized and unrealized gains on investments	<u>2,606</u>
Total non-operating income	<u>104,331</u>
Changes in net assets	209,986
Net position at beginning of year	<u>8,021,929</u>
Net position at end of year	<u><u>\$ 8,231,915</u></u>

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

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipt of authority fees and other income	\$ 45,556
Collection of TBA program income	113,860
Net advances of loan principal	(206,165)
Reimbursement from County for DPA	210,000
Collection of loan interest income	72,988
Payment of conferences and dues	(19,973)
Payment of general and administrative expenses	(102,148)
Payment of legal and accounting expenses	(102,000)
Payment of special project expenses	<u>(45,000)</u>
Net cash used in operating activities	<u>(32,882)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net proceeds from investment activities	226,846
Receipt of investment interest	<u>102,388</u>
Total cash provided by investing activities	<u>329,234</u>

Net increase in cash and cash equivalents	296,352
Cash and cash equivalents, beginning of year	<u>1,716,535</u>
Cash and cash equivalents, end of year	<u>\$ 2,012,887</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES**

Operating income	\$ 105,655
Adjustments to reconcile operating income to net cash used in operating activities:	
Change in assets and liabilities:	
Loans Receivable	(208,165)
Loans Interest receivable	128
Receivable from County for DPA	67,500
Accounts payable and accrued expenses	<u>2,000</u>
Total adjustments	<u>(138,537)</u>
Net cash used in operating activities	<u>\$ (32,882)</u>

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

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**1. Authorizing Legislation and Reporting Entity**

The Housing Finance Authority of Clay County, Florida ("Authority") was created as a public body corporate and politic in accordance with the Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes, as amended, and Ordinance No. 80-19 (the "Ordinance") enacted by the Board of County Commissioners of Clay County, Florida on March 25, 1980, as amended, (the "Act"). The Authority is authorized, in furtherance of the public purposes described in the Act, to alleviate the shortage of affordable residential housing facilities and to provide capital for investment in such facilities for low, moderate, and middle-income families by issuing its revenue bonds. The Authority issues bonds for single family programs that provide funds to eligible borrowers to finance the purchase of qualifying single-family residences. The Authority also issues bonds for the development of qualifying multi-family housing projects.

Financial oversight and accountability to the citizens of Clay County is provided by the Board of County Commissioners ("Board"). The Board appoints the Housing Finance Authority members, who serve four-year terms. Members may be reappointed. Prior to issuance by the Authority, the Board approves bond financings, when required by either the Ordinance or federal tax law. Pursuant to Florida Statutes, the Board may alter or change the structure, organization, programs, or activities of the Authority; terminate the Authority; remove members of the Authority; and, review the budget of the Authority.

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the operating fund, which includes all of the funds controlled by the Authority. For financial reporting purposes, the Authority is considered a component unit of Clay County, Florida due to the oversight responsibility exercised by the Board and because the public service provided by the Authority is primarily for the benefit of Clay County residents. The Authority has no component units.

Bonds issued by the Authority are payable, both as to principal and interest, solely from the assets of the various programs that are pledged under the resolutions authorizing the particular issues. These issues do not constitute an obligation, either general or moral, of the Authority, Clay County, the State of Florida, or of any local government therein. Neither the full-faith, credit, revenues, nor the taxing power of the Authority, Clay County, the State of Florida, or any local government therein is pledged to the payment of the principal or interest on the obligations. Accordingly, such obligations are not included within the accompanying financial statements. The Authority has no taxing power.

The Authority and other local housing finance authorities and counties have entered into interlocal agreements with the objective of alleviating the shortage of housing in their respective jurisdictions. The agreements provide for the Authority to either (1) issue single family bonds to provide funds to make loans to qualified persons or families of low, moderate, or middle income to finance the purchase of qualified owner-occupied single family residences, (2) participate with other local housing finance authorities in their single family bond programs, or (3) issue multi-family bonds to provide funds to make loans to qualified entities to finance the acquisition, construction, and/or rehabilitation of qualified multi-family housing projects.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**1. Authorizing Legislation and Reporting Entity (Continued)**

Listed below is a summary of the Authority's major housing and lending programs:

**Single-Family Mortgage Revenue Bond Program**

The Authority has issued bonds to finance the purchase of loans made to single family first-time homebuyers. The loans were originated by participating lenders, at competitive lending rates, to encourage the construction of new or acquisition of existing homes, and to finance the purchase of single-family loans in targeted areas.

**Multi-Family Housing Revenue Bond Program**

The Authority has issued bonds to finance the acquisition, construction, and rehabilitation of multi-family residential developments intended for occupancy in part by persons of low, moderate, and middle income.

**Single-Family Second Mortgage Loan Program**

In connection with certain Single-Family Mortgage Revenue Bond Programs, the Authority has made funds available to originate second lien mortgage loans, not to exceed certain specified amounts, for buyers satisfying certain family income criteria. The loans were intended to assist qualifying applicants with down payment and closing cost assistance associated with loans originated to purchase homes in Clay County.

**Foreclosed Homes Program**

The Authority has assisted in financing the purchase of foreclosed homes by builders for resale to eligible families. After rehabilitation, these foreclosed homes have been sold at prices such that they are available to low and moderate-income families.

**Workforce Rental Housing Program**

The Authority has assisted non-profit organizations to provide workforce rental housing at under market value rental rates. The Authority's assistance has been through financing for the purchase and rehabilitation of distressed homes and properties, which are used in the program.

**Construction Loan Program**

The Authority has assisted builders in providing for the construction of new or the purchase and rehabilitation of existing housing for low to middle-income families. The Authority's assistance has been through providing short-term financing for the builders.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**2. Summary of Significant Accounting Policies**

The accounting principles and policies of the Authority conform to accounting principles generally accepted in the United States of America ("GAAP"), as applicable to governmental entities. The following is a summary of the significant accounting principles and policies used in the preparation of the accompanying financial statements.

**Basis of Presentation**

The Authority accounts for its operating fund activities through the use of an enterprise fund. An enterprise fund is used to account for activities similar to those found in the private sector, where the determination of a change in financial position is necessary or useful for sound financial administration.

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Authority considers all currency, demand deposits, and money market funds with banks or other financial institutions to be cash and cash equivalents.

**Investments**

Investments in mortgage-backed securities are carried at fair value. Changes in the value of investments recorded at fair value are included in investment income.

**Loans Receivable**

Loans receivable are carried at original cost, net of principal collections and an allowance for loan losses. Loans receivable that are deemed by management to be uncollectable are written-off in the period in which the determination is made.

**Allowance for Loan Losses**

Additions to the allowance for loan losses are made by provisions charged to current operations. The determination of the allowance is based on an evaluation of the loan portfolio, current economic conditions, and other factors relevant to a determination of the collectability of the loans and reflects an amount that, in management's judgment, is adequate to provide for potential losses.



**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**2. Summary of Significant Accounting Policies (continued)**

**Revenues and Expenses**

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of bond program authority fees, TBA program income, reimbursements from SHIP program, and loan interest income. Non-operating revenue consists of revenue that is related to investing activity.

**Developer Deposits**

The Authority usually requires a deposit from developers seeking new bond financing or bond refunding for multi-family developments. To the extent necessary, the deposited moneys are subsequently utilized to pay professional fees incurred to structure and close the bond financing. Unused moneys are returned to the developer.

**Net Position**

Net position is comprised of the accumulated net earnings from revenues and expenses.

The restricted net position includes (a) external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, (b) constraints imposed by law through constitutional provisions or enabling legislation, and (c) unused portion of mortgage and construction loan agreements. Unrestricted net position related to that portion of net position not restricted for the purposes described above.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**3. Cash and cash equivalents**

At September 30, 2019, the Authority's cash and cash equivalents consists of the following accounts:

Bank demand deposit account	\$ 276,028
Bank money market account	1,208,527
Bank custodial account (Single-Family MBS)	<u>528,332</u>
	<u>\$ 2,012,887</u>

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**3. Cash and cash equivalents (continued)**

The Authority manages custodial credit risk by depositing moneys in demand deposit accounts and money market accounts held only by qualified public depositories or in money market funds held within trust custodial accounts, all of which its board members have approved for use. Authorized investments, as provided by the Authority's investment policy, are summarized in Note 4.

Along with federal depository insurance, bank deposits are secured as provided by Chapter 280, *Florida Statutes*. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred.

**4. Investments and fair value measurements**

Florida Statutes authorize the Authority to invest in certain types of investments. It is the Authority's practice to comply with statutory requirements. Furthermore, the Authority's policy is to invest in (a) local government pooled fund administered by the Florida State Board of Administration or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.1, Florida Statutes; provided that such fund has been rated as a money market fund in the highest rating category by Standard and Poor, (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, (c) banking accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes, (d) certificate of deposits in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes, (e) direct obligations of the U.S. Treasury (U.S. Treasury bills, notes, and bonds), (f) U.S. agencies securities (U.S. Agency discount notes, bonds, debentures, and certificates shall include those of the Federal Farm Credit System (FFCB), Federal Home Loan Banks (FHLB), Federal National Mortgage Association (Fannie Mae, FNMA), Student Loan Marketing Association (SLMA), Federal Home Loan Mortgage Corporation (Freddie Mac, FHLMC), Tennessee Valley Authority (TVA), Small Business Administration (SBA), and other U.S. Agency issuers), (g) interest bearing time deposits or savings accounts that are fully insured by the Federal Deposit Insurance Corporation, regardless of whether the bank or financial institution in which the deposit or investment is made is a qualified public depository as defined in Section 280.02, Florida Statutes, and (h) mortgage-backed securities, which the Authority may receive as a result of the refunding of one of their bond programs.

The securities listed in (c), (d), (e), (f), (g), and (h) are to be invested to match investment maturities with known cash needs and anticipated cash-flow requirements. Investments made pursuant to the Authority's investment policy are to be diversified to the extent practical to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer or financial institution through which financial instruments are bought and sold.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**4. Investments and fair value measurements (continued)**

At September 30, 2019, the Authority's investments consisted of the following mortgage-backed securities with maturity dates ranging from years 2025 to 2032, and bearing interest rates ranging from 5.45% to 6.75%:

Government National Mortgage Association ("Ginnie Mae")	\$ 989,731
Federal National Mortgage Association ("Fannie Mae")	151,694
	<u>\$ 1,141,425</u>

Investments measured and reported at fair value are classified according to the following hierarchy:

**Level 1** – Unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access at the measurement date.

**Level 2** – Inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

**Level 3** – Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

The categorization within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. The mortgage-backed securities are classified as Level 2 of the fair value hierarchy as they are valued using prices quoted in active markets for similar securities.

The Authority's investments are subject to credit risk and interest rate risk considerations. Credit risk quality, identified with nationally recognized statistical rating organization ratings, and interest rate risk, as identified by weighted average maturities, are provided in the following table.

Investment	Credit Quality Rating	Weighted Average Maturity (years)	Fair Value
Mortgage-backed securities	AAA	9 years	<u>\$ 1,141,425</u>

**Housing Finance Authority of Clay County**  
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**5. Loans Receivable**

At September 30, 2019, the Authority owned loans receivable from the following:

Homeowners (Habitat Development Second Mortgage Program loans)	\$ 12,500
Homeowners (Clay HFA's Single Family Series 2007 A-1 and A-2 Second Mortgage Program loans)	7,592
Homeowners (Brevard HFA's Single Family Series 2009 A and B Second Mortgage Program loans)	76,993
Homeowners (Hillsborough HFA's Single Family Series 2012 MBS Origination Program Second Mortgage Program loans)	1,527,500
BASCA, Inc. (first mortgage loans, interest rate at 3%, maturity dates range from February 2021 to October 2022)	821,939
Community Healthy Homes (first and second mortgage loans, interest rate at 3%, maturity dates range from January 2020 to September 2022)	953,811
Challenge Enterprises (first mortgage loans, interest rate at 3%, maturity dates range from May 2020 to May 2024)	375,355
Mercy Support Services (first mortgage interest-free loans, maturity dates range from April to May 2021)	315,800
Vestcor (first mortgage loan, interest rate at 3%, matures in September 2032)	80,000
Wiggins Construction Co. (first mortgage loan, interest at 3%, matures in February 2021)	194,600
One-year construction loans	<u>1,024,600</u>
Subtotal	5,390,690
Less: Current portion	(937,898)
Less: Allowance for loan losses	<u>(355,719)</u>
Total Long-term portion, net	<u><u>\$ 4,097,073</u></u>

Single family programs

The single family programs originate noninterest bearing, 30 year term loans payable upon the maturity date of the first mortgage or until the first to occur of the following events: (a) borrower sells, transfers or disposes of the property or home either voluntarily or involuntarily; (b) borrower fails or ceases to occupy the home as a principal residence; (c) borrower or surviving spouse of borrower, dies; or (d) borrower refinances the first mortgage loan at which time the remaining principal balance is due. The loans are secured by a second mortgage lien on the related property.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**5. Loans Receivable (continued)**

Concentration of credit risk

Since the real properties, which collateralize certain of the Authority's loans receivable, are concentrated with one geographic location (Clay County, Florida), there is a significant concentration of credit risk. In an effort to minimize this risk, it is the Authority's policy to have application review performed and to record mortgage liens on the real property during the period the loans are outstanding.

**6. Net Position**

**Restricted by Contractual Agreements**

At September 30, 2019, restricted net position consisted of the following:

Unused portion of mortgage and construction loan agreements	<u>\$ 640,400</u>
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In accordance with the Authority's accounting policy, unused (i.e., undrawn) portions of signed mortgage and construction loan agreements are classified as "restricted net position" in the accompanying financial statements.

**7. Bond Programs**

The Authority has issued revenue bonds to provide financial assistance to individuals, families, and private-sector entities. The financial assistance was provided to encourage the investment of private capital and stimulate the acquisition and construction of residential housing for low, moderate, and middle-income individuals and families. The bonds are secured by the assets, revenues, receipts, and other resources of the bond programs and are payable solely from receipts received pursuant to the respective bond documents. Neither the Authority, Clay County, the State of Florida, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the Basic Financial Statements.

As of September 30, 2019, the principal balance of outstanding revenue bond was \$7,905,000.

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**8. Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of assets, errors and omissions, personal injury, and natural disasters. As a dependent special district, the Authority is insured under Clay County's insurance plan. The coverage is provided at no cost to the Authority. In the past three years, there have been no claims settled exceeding the insurance coverage. As of September 30, 2019, there were no outstanding claims.

**9. Hillsborough 2012 MBS Origination Program**

In September 2012, the Authority entered an interlocal agreement with the Housing Finance Authority of Hillsborough County, Florida ("Hillsborough HFA"). Pursuant to the interlocal agreement, the Hillsborough HFA is authorized to operate its 2012 MBS Origination Program (aka, the TBA Program or Continuous Funding Program) within Clay County, Florida.

The Authority's intent is to provide financing for homes to persons whose family annual income does not exceed certain limits and who might not be able to purchase a home otherwise. The Authority is prepared to fund a revolving pool of moneys to purchase mortgage certificates backed by first mortgage loans made to homebuyers in Clay County. With existing private activity bond allocation, the Authority is prepared to secure mortgage credit certificate authority and to take such steps and enter into such agreements necessary to enable loans made under the 2012 MBS Origination Program in Clay County to receive such credit in lieu of tax-exempt bond financing ("Mortgage Credit Certificate Program").

The Authority has provided moneys for a down payment and closing cost assistance program to be used by buyers of homes in Clay County, which is linked to the above mentioned 2012 MBS Origination Program. The down payment and closing cost assistance has been structured to provide non-amortizing second mortgage loans in amounts determined by the Authority. The Authority monitors the amounts paid for funding the second mortgage loans.

During Fiscal 2019, the number of mortgage loans originated in Clay County, securitized as TBA Program mortgage backed securities ("MBS"), and sold by the Hillsborough HFA totaled 16. The Authority and the Hillsborough HFA have agreed to share the profits and losses associated with the sale by the Hillsborough HFA of the mortgage backed securities, which include Clay County loans. During Fiscal 2019, the income (i.e., MBS sales profits, net of any losses) recognized by the Authority in connection with the TBA Program was \$113,860. The income has been classified as "TBA program income" in the accompanying basic financial statements. Pursuant to the interlocal agreement, the Authority may terminate its participation in the Continuous Funding Program anytime (with possible temporary restrictions).

**Housing Finance Authority of Clay County**  
**(A Component Unit of Clay County, Florida)**  
**Notes to Basic Financial Statements**  
**September 30, 2019**

**10. DPA program – State Housing Initiatives Partnership (SHIP) Agreements**

In June 2018, the Authority executed an agreement with Clay County (County) to use SHIP funds to provide finance incentives for low and moderate-income households in obtaining affordable housing. Revenue recognized during the current fiscal year amounted to \$142,500. At September 30, 2019, SHIP funding receivable from the County was \$22,500.

**11. Related Party Transactions**

During the current fiscal year, the Authority paid \$2,500 to a licensed inspector who is a family member of a director. The payments were approved by the Board of Directors and funded by loan borrowers.

**12. Subsequent events**

The Authority evaluated subsequent events through November 14, 2019. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

## **ADDITIONAL INFORMATION**





**INDEPENDENT AUDITOR'S 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 Members of the Housing Finance Authority of Clay County, Florida  
Orange Park, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Housing Finance Authority of Clay County, Florida (Authority), a component unit of Clay County, Florida 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 November 14, 2019.

**Internal Control over Financial Reporting**

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

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

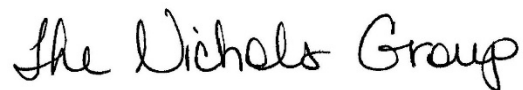
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

The Nichols Group

THE NICHOLS GROUP, P.A.  
Certified Public Accountants  
Fleming Island, FL

November 14, 2019



**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH  
SECTION 218.415, FLORIDA STATUTES**

To the Board Members of the Housing Finance Authority of Clay County, Florida  
Orange Park, Florida

We have examined the Housing Finance Authority of Clay County, Florida (Authority), a component unit of Clay County, Florida's compliance with Section 218.415, Florida Statutes, as of and for the year ended September 30, 2019, as required by Section 10.556(10)(a), *Rules of the Auditor General*. 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 and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide legal determination of the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

This report is intended solely for the information and use of the Florida Auditor General, Clay County, Board Members and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*The Nichols Group*

THE NICHOLS GROUP, P.A.  
Certified Public Accountants  
Fleming Island, FL

November 14, 2019



## Independent Auditor's Management Letter

To the Board Members of the Housing Finance Authority of Clay County, Florida.

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

We have audited the financial statements of the Housing Finance Authority of Clay County, Florida (Authority), a component unit of Clay County, Florida (County), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated November 14, 2019.

### **Auditor's 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 Auditor's 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* and Independent Accountant's 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, which are dated November 14, 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. There were no findings in the preceding annual 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. This information is disclosed in Note 1 of the basic financial statements.

## **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 communicate 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 audit, 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 review of financial information provided by same.

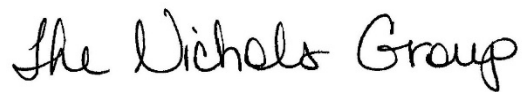
Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations

## **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 warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

## **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, Clay County, Board Members and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



The Nichols Group, PA  
Certified Public Accountants  
Fleming Island, FL

November 14, 2019