

CLAY COUNTY UTILITY AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2014 AND 2013

**CLAY COUNTY UTILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors,
Clay County Utility Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Clay County Utility Authority (the Authority), as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 auditors consider 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.

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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, 2014 and 2013, 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.

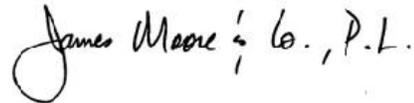
Other Matters

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 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 December 4, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Daytona Beach, Florida
December 4, 2014

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, 2014.

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 which in total conserved drinking water at an average rate of 3.7 million gallons per day during the fiscal year ending September 30, 2014. 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-five 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. Average utility rates remained unchanged from fiscal year 2010 to 2014. Management estimated a 18% reduction in water demand from our base year 2009 to our current fiscal year 2013/2014. Customers have aggregately decreased water use approximately 22.3%, however, our customer base has grown by 2,646 accounts during this time.

The Authority's cash reserves, borrowing capacity and scheduled fiscal year 2014/2015 service rate increase are adequate to support currently planned maintenance and expansion projects. Contributions in aid of construction continue to be a major source of capital.

Fitch rating agency upgraded our rating to AA+, outlook revised to stable in October 2014, due to debt service coverage, liquidity, a low and declining debt burden, a manageable and cash-funded capital program and a stable customer base with affordable rates.

Condensed Statement of Net Position (\$000)

	For the Year Ended September 30,				
	2014	2013	% Change	2012	% Change
Capital assets – net	238,259	240,110	(0.7)	234,723	2.3
Current assets	29,418	26,630	10.5	28,398	(6.2)
Investments, current	5,769	6,913	(16.5)	6,609	4.6
Other non-current assets	5,699	9,205	(38.1)	9,206	0.0
Investments, non-current	6,948	6,798	2.2	6,648	2.3
Deferred Outflow of Resources	454	522	(13.0)	-	100.0
Totals	<u>286,547</u>	<u>290,178</u>	(1.3)	<u>285,584</u>	1.6
Liabilities and fund equity					
Net position	203,977	200,899	1.5	194,899	3.1
Long-term liabilities, net	73,734	78,999	(6.7)	81,353	(2.9)
Current liabilities, including restricted	8,836	10,280	14.0	9,332	10.2
Totals	<u>286,547</u>	<u>290,178</u>	(1.3)	<u>285,584</u>	1.6

Capital Assets - Net

Net Capital assets decreased \$1,851,000 during the fiscal year 2013/2014. The decrease is mainly attributed to \$3,016,000 of various utility expansions and dispositions, offset by \$4,866,000 of depreciation expense. Developers contributed \$1,865,000 of those assets.

For the year 2013, capital assets, net of depreciation, increased \$5,387,000. The increase is mainly attributed to \$13,883,000 of various utility expansions and dispositions, offset by \$8,496,000 of depreciation expense. Developers contributed \$1,260,000 of those assets.

Current Assets

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

Net Position

The increase in net position of \$3,078,000 is largely attributable to developer and other contributions of \$2,897,000 and governmental grants of \$197,000.

In the previous year, the increase in net position of \$6,000,000 was comprised of net income of \$2,276,000 developer contributions of \$1,846,000 and grants of \$1,879,000.

Net income is reserved for future capital projects.

Long-Term Debt - Net

In fiscal year 2014, the Net long-term debt decreased \$5,265,000. This decrease is largely due to defeasing the 2003C bonds.

In fiscal year 2013, the Net long-term debt decreased \$2,354,000. This decrease consisted of debt payments of \$2,638,000 offset by the increase of \$406,000 with the debt refunding of the 2003B bonds.

Current Liabilities, including restricted

Current liabilities decreased \$1,444,000 due to the pay down of debt.

The 2013, increase in current liabilities of \$948,000 is largely attributed to an increase in accounts payables of \$793,000, an increase of \$193,000 in current portion of long-term debt and an increase of \$151,000 in customer deposits offset by the decrease in accrued interest of \$263,000.

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

	For the Year Ended September 30,				
	2014	2013	% Change	2012	% Change
Operating revenues	36,208	36,073	.4	37,249	(3.2)
Operating expenses	(31,751)	(30,556)	3.9	(30,861)	(1.0)
Operating income	4,457	5,517	(19.2)	6,388	(13.6)
Non-operating (expenses), net	(4,473)	(3,241)	38.0	(3,246)	(0.2)
Contributions and grants	3,094	3,725	(16.9)	2,918	27.6
Increase in Net Position	<u>3,078</u>	<u>6,001</u>	(48.7)	<u>6,060</u>	(1.0)

Operating Revenues

Operating revenue was within 1.5% of management projections. Operating revenue is a direct result of the effectiveness of the water conservation rate structure implemented in December 2010. A large majority (91.9%) of residential customers used no more water than the second tier allowance in fiscal 2014.

In the prior year, total revenues decreased \$1,176,000 with a decrease of 19.3% in potable water demand and 91.6% of residential customers using no more than the second tier allowance.

Operating Expenses

The increase of \$1,195,000 in operating expenses in 2014, is largely due to a colder winter causing increases in chemicals, power and residual (sludge) removal costs. Administrative costs increased approximately 3% primarily attributed to rise in health insurance costs.

The decrease of \$305,000 in operating expenses for fiscal 2013 was largely due to \$191,000 decrease in electric and fuel because our major wastewater treatment facilities were operating on the Neutralizer ® bio-solid residual treatment process, a much more energy efficient process, for the full fiscal year. In addition, changes in employee benefit eligibility policies significantly reduced medical insurance premiums.

Non-Operating Revenue and Expenses

For fiscal 2014, interest income decreased \$55,000 due to market yields. Interest expense and bond amortization decreased \$484,000 due to the debt improvements. The loss on sale of assets increased \$1,753,000 due to a one-time write down of meter reading assets held for sale due to the installation of a new automatic meter reading system. This system remotely collects approximately 55,000 meter reading every hour, and we expect the system to help us control increases in operating costs as the system grows.

During fiscal 2013, debt issue expense increased \$168,000 due to the refunding of the 2003B bonds and the interest rate reduction from the loan modification of our 2009 bank loan from 4.24% to 2.97% both provide significant interest savings over the remaining life of the debt, offset by decreases in interest expense of \$277,000, gain on investment decrease of \$59,000 as a result of an increase in the fair value adjustment of SBA Fund B and a decrease in interest income of \$44,000.

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 \$1,865,000 in 2014 compared to \$1,260,000 in 2013. Cash contributions totaled \$1,229,000 in 2014, of which \$197,000 was grant money compared to cash contributions of \$2,465,000, of which \$1,879,000 was grant money in 2013.

Utility Service Demand Trend

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

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

Fiscal Yr Ending	<u>Water</u>		<u>Sewer</u>		<u>Reuse</u>	
	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>
9/30/2000	28,767	138.3	26,341	94.4	42	177.9
9/30/2001	30,504	120.8	27,935	89.4	412	174.0
9/30/2002	32,664	116.1	29,974	86.8	1,244	174.2
9/30/2003	36,438	102.4	32,068	81.7	2,231	121.8
9/30/2004	38,810	114.1	34,138	83.5	3,165	171.7
9/30/2005	41,290	94.9	36,180	78.7	4,933	139.4
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

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, but the Authority's rates are designed to absorb a 20% decrease in water demand and still generate sufficient revenue to operate the business. After three years of no rate adjustments, we implemented a 5.4% rate increase due to the increased cost of renewing and replacing of existing infrastructure.

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 Patricia Barthlow, Comptroller, 3176 Old Jennings Road, Middleburg, Florida, 32068.

**CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013**

	2014	2013
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 22,576,850	\$ 17,703,989
Restricted cash and cash equivalents	3,737,843	5,420,465
Investments	5,768,584	6,912,991
Accounts receivable, net	2,264,017	2,396,343
Due from other governments	-	245,720
Prepaid items and inventory	839,026	864,271
Total current assets	35,186,320	33,543,779
Non-current assets		
Restricted cash and cash equivalents	5,287,028	6,758,671
Investments	6,948,475	6,797,769
Restricted investments	-	2,068,146
Notes receivable	411,881	378,374
Utility plants	325,604,246	324,309,783
Construction in process	11,604,602	9,883,325
Accumulated depreciation	(98,949,687)	(94,083,249)
Total non-current assets	250,906,545	256,112,819
Total Assets	\$ 286,092,865	\$ 289,656,598
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred loss on bond refunding	\$ 454,261	\$ 521,874
<u>LIABILITIES</u>		
Current liabilities		
Accounts and retainage payable	\$ 1,008,218	\$ 915,542
Accrued expenses	859,766	859,562
Unearned revenues	160,542	162,451
Customer deposits	3,069,794	2,922,228
Liabilities payable from current restricted assets:		
Accounts and retainage payable	1,075,190	1,276,361
Interest payable	1,220,220	1,278,949
Current portion of long-term debt	1,442,433	2,865,155
Total current liabilities	8,836,163	10,280,248
Non-current liabilities		
Non-current portion of long-term debt	73,733,552	78,998,621
Total non-current liabilities	73,733,552	78,998,621
Total Liabilities	\$ 82,569,715	\$ 89,278,869
<u>NET POSITION</u>		
Net investment in capital assets	\$ 163,537,437	\$ 158,767,957
Restricted for:		
Capital projects	1,647,777	3,603,104
Debt service	5,081,684	8,088,868
Unrestricted	33,710,513	30,439,674
Total Net Position	\$ 203,977,411	\$ 200,899,603

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, 2014 AND 2013

	2014	2013
Operating revenues		
Charges for services	\$ 35,192,552	\$ 35,017,805
Miscellaneous revenues	1,015,625	1,054,919
Total operating revenues	36,208,177	36,072,724
 Operating expenses		
Wages and related benefits	10,507,077	10,229,380
Operating expenses	7,334,051	6,987,572
Subcontractors	3,153,524	2,643,461
In lieu of taxes	1,583,665	1,575,801
Depreciation expense	9,172,863	9,119,890
Total operating expenses	31,751,180	30,556,104
Operating income	4,456,997	5,516,620
 Nonoperating revenues (expenses)		
Interest income	227,348	282,357
Interest expense	(2,930,514)	(3,414,163)
Gain (loss) on sale of assets	(1,743,271)	9,813
Investment income (loss)	(26,852)	49,422
Debt issuance costs	-	(168,022)
Total nonoperating revenues (expenses)	(4,473,289)	(3,240,593)
Income (loss) before capital contributions	(16,292)	2,276,027
 Capital contributions		
Developer and other contributions	2,896,882	1,845,935
Grants	197,218	1,878,944
Total capital contributions	3,094,100	3,724,879
 Increase in net position	3,077,808	6,000,906
 Net position, beginning of year	200,899,603	194,898,697
 Net position, end of year	\$ 203,977,411	\$ 200,899,603

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, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Receipts from customers	\$ 36,452,653	\$ 38,591,744
Payments to suppliers	(10,369,654)	(10,332,239)
Payment in lieu of taxes	(1,583,665)	(1,575,801)
Payments to employees	(10,506,873)	(10,184,779)
Net cash provided by operating activities	13,992,461	16,498,925
Cash flows from capital and related financing activities		
Proceeds from issuance of bonds and loans	198,032	10,236,041
Debt issuance costs	-	(168,022)
Principal paid on long-term debt	(6,805,155)	(12,502,479)
Interest paid on long-term debt	(3,002,298)	(4,094,622)
Payments to acquire and construct plant property	(7,401,267)	(11,959,962)
Capital contributions	1,031,542	586,210
Grants	442,938	1,633,224
Net cash used in capital and related financing activities	(15,536,208)	(16,269,610)
Cash flows from investing activities		
Purchases of investments	-	(413,445)
Sales of investments	3,034,995	-
Interest income	227,348	282,357
Net cash provided by (used in) investing activities	3,262,343	(131,088)
Net increase in cash and cash equivalents	1,718,596	98,227
Cash and cash equivalents, beginning of year	29,883,125	29,784,898
Cash and cash equivalents, end of year	\$ 31,601,721	\$ 29,883,125
Reconciliation of operating income to net cash provided by operating activities		
Cash flows from operating activities		
Operating income	\$ 4,456,997	\$ 5,516,620
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	9,172,863	9,119,890
Changes in assets and liabilities		
Decrease (Increase) in accounts receivable	132,326	2,077,853
Decrease (Increase) in prepaid items and inventory	25,245	(217,593)
Decrease (Increase) in notes receivable	(33,507)	260,299
Increase (Decrease) in accounts and retainage payable	92,676	(483,613)
Increase (Decrease) in accrued expenses	204	44,601
Increase (Decrease) in unearned revenue	(1,909)	29,213
Increase (Decrease) in customer deposits	147,566	151,655
Total adjustments	9,535,464	10,982,305
Net cash provided by operating activities	\$ 13,992,461	\$ 16,498,925
Supplemental schedule of noncash investing, capital, and financing activities		
Bond discount (premium) amortization	\$ (80,668)	\$ (80,668)
Utility plant property contributed by developers	1,865,340	1,259,725

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

**CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

(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) Statement No. 61, *The Financial Reporting Entity: Omnibus*, for the purpose of evaluating its financial statements. Based on the criteria in Statement No. 61, the Authority has determined that there are no other 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. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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 are carried at 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) **Restricted assets and net position**—Certain assets are required to be segregated from other assets due to various bond indenture agreements. 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, 2014 AND 2013

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

(g) **Property and plant**—Property and plant are recorded at cost less accumulated depreciation, except contributed assets which are recorded at fair 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

(h) **Bond discounts, premiums, and deferred amounts**—Bond discounts, premiums, and deferred amounts, consisting of a bond premium and 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.

(i) **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 year-end.

(j) **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.

(k) **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 on a cycle basis throughout each month. Unbilled revenues are accrued based on estimated consumption of the most recent billing.

(l) **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.

(m) **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, 2014 AND 2013**

(2) **Deposits and Investments:**

(a) **Deposits**—At September 30, 2014, the carrying amount of the Authority's cash on deposit in its bank accounts was \$31,601,721 and the related bank balance was \$31,748,196. 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.

(b) **Investments**—At September 30, 2014, the Authority's investments consisted of the following:

<u>Types of Investments</u>	<u>Maturities</u>	<u>Credit Quality (Moody's)</u>	<u>Fair Value</u>
Investments and restricted investments			
Certificates of deposit	1.29	N/A	\$ 12,717,059
Cash on deposit			<u>31,601,721</u>
Total cash and investments (unrestricted and restricted)			<u>\$ 44,318,780</u>

(c) **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.

(d) **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.

(e) **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, 2014 AND 2013**

(3) **Accounts 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, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Billed customer receivables	\$ 1,028,536	\$ 1,160,616
Unbilled customer receivables	1,310,255	1,308,283
Notes receivable – current portion	62,360	64,845
Other receivables	302,438	294,121
Gross accounts receivable	2,703,589	2,827,865
Less: Allowance for uncollectables	(439,572)	(431,522)
Net total receivables	<u>\$ 2,264,017</u>	<u>\$ 2,396,343</u>

(4) **Capital Assets:**

Changes in the Authority's capital assets for the years ended September 30, 2014 and 2013 were as follows:

	<u>Balance October 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 2,949,612	\$ -	\$ -	\$ 2,949,612
Construction in progress	9,883,325	6,818,243	(5,096,966)	11,604,602
Total capital assets not being depreciated	<u>12,832,937</u>	<u>6,818,243</u>	<u>(5,096,966)</u>	<u>14,554,214</u>
Capital assets being depreciated:				
Machinery and equipment	316,247,512	6,562,323	(6,488,882)	316,320,953
Buildings	5,112,659	1,221,022	-	6,333,681
Accumulated depreciation	(94,083,249)	(9,267,568)	4,401,130	(98,949,687)
Total capital assets being depreciated, net	<u>227,276,922</u>	<u>(1,484,223)</u>	<u>(2,087,752)</u>	<u>223,704,947</u>
Capital Assets, net	<u>\$240,109,859</u>	<u>\$ 5,334,020</u>	<u>\$ (7,184,718)</u>	<u>\$238,259,161</u>

**CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Capital assets not being depreciated:				
Land	\$ 2,949,612	\$ -	\$ -	\$ 2,949,612
Construction in progress	6,989,678	13,067,493	(10,173,846)	9,883,325
Total capital assets not being depreciated	<u>9,939,290</u>	<u>13,067,493</u>	<u>(10,173,846)</u>	<u>12,832,937</u>
Capital assets being depreciated:				
Machinery and equipment	305,258,551	11,734,799	(745,838)	316,247,512
Buildings	5,112,659	-	-	5,112,659
Accumulated depreciation	<u>(85,586,613)</u>	<u>(9,199,457)</u>	<u>702,821</u>	<u>(94,083,249)</u>
Total capital assets being depreciated, net	<u>224,784,597</u>	<u>2,535,342</u>	<u>(43,017)</u>	<u>227,276,922</u>
Capital Assets, net	<u><u>\$234,723,887</u></u>	<u><u>\$ 15,602,835</u></u>	<u><u>\$ (10,216,863)</u></u>	<u><u>\$240,109,859</u></u>

Depreciation expense for 2014 and 2013 was \$9,172,863 and \$9,119,890, respectively.

Total interest expense incurred by the Authority during the years ended September 30, 2014 and 2013 was \$2,976,728 and \$3,414,163, respectively. Of these amounts, \$46,214 was capitalized in 2014 and included as part of the cost of construction in progress. There was no capitalized interest in 2013.

Commitments on outstanding construction contracts for improvements and maintenance of the utility systems totaled \$2,555,326 at September 30, 2014.

(5) **Compensated Absences:**

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

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

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

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

Outstanding compensated absences, included in accrued expenses on the statements of net position, totaled \$535,551 and \$552,326 at September 30, 2014 and 2013, respectively.

**CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

(6) Bonds and Notes Payable:

Long-term debt at September 30, 2014 and 2013 is comprised of the following:

	<u>2014</u>	<u>2013</u>
\$14,950,000 Utility System Revenue and Refunding Bonds, Series 2003B; outstanding bonds consisting of \$6,545,000 Term Bonds due in annual installments beginning November 1, 2019, varying from \$905,000 to \$935,000 plus interest payable semi- annually at 5%. Final balloon payment of \$3,140,000 due November 1, 2023.	\$ -	\$ 575,000
\$13,265,000 Utility System Revenue Refunding Bonds, Series 2003C; due in annual installments varying from \$510,000 to \$1,195,000 plus interest payable semi-annually at 2.0% to 5.0%.	-	4,995,000
\$42,905,000 Utility System Revenue and Refunding Bonds, Series 2007; with a payment of \$445,000 due in 2010. No principal payments are due for the years 2011 through 2018. Interest is fixed at 4.68%.	42,070,000	42,070,000
\$10,000,000 Clay County Utility Authority Utilities System Revenue Note, Series 2009; due in semi-annual installments commencing on May 1, 2009 with interest at 4.24%. Interest rate amended to 2.97% in August 2013.	7,965,253	8,465,143
\$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%.	10,236,041	10,236,041
\$2,332,115 Clean Water State Revolving Fund; due in semi-annual installments of \$156,866 including interest at 3.05%.	1,166,766	1,285,327
\$4,066,297 Clean Water State Revolving Funds; due in semi-annual installments commencing on November 15, 2010 with interest at 2.92%.	3,418,677	3,584,583
\$10,300,628 Clean Water State Revolving Fund; due in semi-annual installments commencing on May 15, 2010 with interest ranging from 2.85% to 3.24%.	8,459,820	8,875,290
\$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.	276,327	311,655
\$528,695 Clean Water State Revolving Fund; due in semi-annual installments of \$17,834 including interest at 3.10% until the principal amount is amended, beginning on December 15, 2015.	198,032	-
Bonds and notes payable	<u>73,790,916</u>	<u>80,398,039</u>
Add: Unamortized bond premium	1,385,069	1,465,737
Less: current portion of bonds and notes payable	(1,442,433)	(2,865,155)
Long-term bonds and notes payable, net	<u>\$ 73,733,552</u>	<u>\$ 78,998,621</u>

**CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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

Activity in bonds and notes payable for the years ended September 30, 2014 and 2013, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2014	\$ 80,398,039	\$ 198,032	\$ (6,805,155)	\$ 73,790,916	\$ 1,442,433
2013	\$ 82,664,477	\$ 10,236,041	\$ (12,502,479)	\$ 80,398,039	\$ 2,865,155

Debt service requirements to maturity are as follows at September 30, 2014:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2015	\$ 1,442,433	\$ 2,932,638	\$ 4,375,071
2016	1,519,327	2,889,572	4,408,899
2017	1,569,485	2,846,492	4,415,977
2018	2,358,505	2,795,147	5,153,652
2019	2,953,396	2,727,335	5,680,731
2020 – 2024	15,609,773	12,419,861	28,029,634
2025 – 2029	16,172,207	9,746,697	25,918,904
2030 – 2034	18,380,790	5,887,099	24,267,889
2035 – 2037	13,785,000	1,056,125	14,841,125
Totals	<u>\$ 73,790,916</u>	<u>\$ 43,300,966</u>	<u>\$ 117,091,882</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.

The bond agreements contain various reserve requirements. One of the reserve requirements indicates that in the event the rating of the claims-paying ability of the issuer of the Reserve Subaccount Insurance Policy falls below “A”, the issuer shall deposit sufficient amount in a Reserve subaccount. The 2007 Bonds were insured by XL Capital and the 2003 B&C Bonds were insured by Financial Security Assurance, Inc., (FSA).

On February 7, 2008, Moody’s Investor Services downgraded the insurance financial strength ratings of XL Capital Assurance, Inc. (XLCA) from Aaa to A3. Moody's downgraded XLCA to B2 on June 20, 2008. Effective August 4, 2008, XLCA became known as Syncora Guarantee, Inc. Syncora Guarantee, Inc. was downgraded on March 9, 2009 to Ca.

On November 21, 2008 Moody's Investor Services also downgraded the insurance financial strength ratings of FSA from Aaa to Aa3. As a result of the downgraded ratings, the Authority is required to fund a reserve account the lesser of (1) Maximum Annual Debt Service, (2) 125% of the average annual debt service for all outstanding bonds which are secured by the sub account, or (3) 10% of the original proceeds of the issue.

The Authority has funded the required surety in the amount of \$4,280,856 at September 30, 2014.

Notes payable issuance—During the year ended September 30, 2014, the Authority executed an agreement with the Florida Department of Environmental Protection to borrow up to \$528,695 at an interest rate of 3.10% through the State Revolving Fund loan program, for the purpose of planning and designing a treatment and reclaimed water reuse facilities project (WW858050). As of and during the year ended September 30, 2014, the amount of funding received on this loan was \$198,032.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

(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 BB&T, included as part of the Authority's reporting entity. 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 payroll for employees covered by this plan for the years ended September 30, 2014 and 2013, was \$7,632,578 and \$7,612,570, respectively, and the total payroll was \$7,729,095 and \$7,741,996 for the same years, respectively. Participants are fully vested after 4 years and one day 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 \$763,258 and \$761,257 for the years ended September 30, 2014 and 2013, respectively.

The Authority once offered benefits through the Florida State Retirement System (FRS), which provides vesting of benefits after six (6) years of creditable service. When the defined benefit plan discussed in the preceding paragraph was established, two employees elected to remain covered by the FRS plan, which is a cost-sharing, multiple-employer public employment system administered by the State of Florida. Members were eligible for normal retirement after ten (10) years of service and attaining age 62, or 30 years of service regardless of age. Benefits are established by Florida Statutes. The payroll for employees covered by this plan for the years ended September 30, 2014 and 2013, were \$67,197 and \$121,413, respectively. For the year ended September 30, 2014, the Authority's contribution rate to the Florida State Retirement System was 6.95% until July 1, 2014, with a mandatory employee contribution rate of 3.0%. Beginning July 1, 2014, the Authority's contribution rate was 7.37%, with a mandatory employee contribution rate of 3.0%. The Authority contributed \$4,705 and \$6,793 in 2014 and 2013, respectively.

(8) Deferred Compensation Plan:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by BB&T Bank. 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 BB&T Bank, and as such, no provision for plan assets or liabilities has been recorded on the Authority's financial statements.

**CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

(9) Other Post-Employment Benefits (OPEB):

In accordance with GASB Statement No. 45, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*, the Authority engaged an actuary to calculate the outstanding liability for certain post-employment healthcare benefits provided by the Authority.

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."

Based on the Authority's policies, the OPEB liability at September 30, 2013 was actuarially determined to be zero. At September 30, 2014, since there were no changes in the Authority's circumstances, no new study was considered necessary. As such, no disclosures regarding funding progress and progress or OPEB cost and obligation have been prepared.

The following is a summary of the significant actuarial methods and assumptions:

Actuarial Valuation:	
Frequency	Tri-Annual
Latest Date	9/30/2013
Cost Method	Projected Unit Cost
UAAL Amortization:	
Method	Level \$ of Payroll
Open/Closed	Open
Remaining Amortization Period	15 Years
Asset Valuation	N/A
Actuarial Assumptions:	
Investment Earnings	4.00%
Salary Increases	3.00%
Inflation Rate	2.75%
Mortality Table	1994 Group Annuity Mortality Table
Healthcare Inflation Rate	9.00% in 2013, decreasing 0.5% per year until 5.00%

(10) 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, 2014, the Authority did not reduce insurance coverage levels in place as of September 30, 2013. The Authority has no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**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 years ended September 30, 2014 and 2013, 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 4, 2014.

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 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

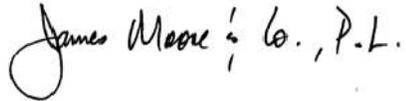
Compliance and Other Matters

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 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.

Daytona Beach, Florida
December 4, 2014

A handwritten signature in cursive script that reads "James Moore & Co., P.L." The signature is written in black ink and is positioned to the right of the date.

**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 years ended September 30, 2014 and 2013, and have issued our report thereon dated December 4, 2014.

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 Florida Auditor General.

Other Reports and Schedule

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*. Disclosures in that report, which is dated December 4, 2014, 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. The following findings that were identified in the preceding annual financial audit report were corrected during the year:

2013-001 Recording of Retainage Payable

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 Clay County Utility Authority.

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Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we 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 identification of 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. 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.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Authority for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

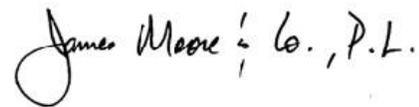
Other Matters

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address 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 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, 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.

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

Daytona Beach, Florida
December 4, 2014

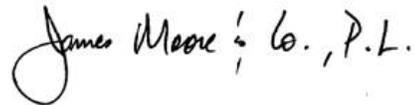
INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

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, 2014. 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 a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Clay County Utility Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.



Daytona Beach, Florida
December 4, 2014