

CLAY COUNTY UTILITY AUTHORITY

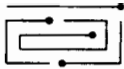
**Annual Financial Report
September 30, 2007 and 2006**

**Conner, Hubbard & Company, P.A.
Certified Public Accountants
Orange Park, Florida**

CLAY COUNTY UTILITY AUTHORITY

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CONNER, HUBBARD & COMPANY, P.A.
Certified Public Accountants

Taxation, Accounting, Pension Planning, and Business Counseling

INDEPENDENT AUDITORS' REPORT

The Board of Supervisors
Clay County Utility Authority
Middleburg, Florida

We have audited the financial statements of the Clay County Utility Authority as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clay County Utility Authority, as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on page 2 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Conner, Hubbard & Company, CPA's
Conner, Hubbard & Company, P.A.
Certified Public Accountants

January 9, 2008

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**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

CLAY COUNTY UTILITY AUTHORITY

Management's Discussion and Analysis

September 30, 2007 and 2006

The Clay County Utility Authority (the "Authority") was created for the basic purpose of providing water, wastewater, and reclaimed water utility service to the unincorporated areas of Clay County. One of the founding principles of the Clay County Utility Authority is the desire 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 founding principle is the desire to lead the way in improving the quality of our environment. We recognize our responsibility to be good stewards of our environment. We have voluntarily invested in the technology and infrastructure needed to improve our environment.

To date, we are one of the few utilities in Northeast Florida using advanced wastewater treatment techniques. In addition, we continue to expand our reclaimed water initiative. Our residential reuse distribution system includes five storage and pumping plants which in total conserved drinking water at an average rate of 5.5 million gallons per day during 2007.

Our accomplishments have been acknowledged by our receipt of twenty-five awards over the past few years, varying from "Excellence of Operations" for both our water and wastewater systems to our recent receipt of the "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.

Clay County Utility Authority is an Independent Special District in the State of Florida. The Florida Legislature created the Authority on October 1, 1994 by special act to manage the water and sewer systems in Clay County Florida and adjacent areas. The Authority has customers in Clay, Duval, and Bradford Counties and uses proprietary fund accounting to maintain the books of the Utility.

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 were increased approximately 2.8% during the year to mainly offset inflation.

The State Board of Administration locked down all transactions to the Local Government Investment Pool on November 30, 2007, after sub prime mortgage backed assets surfaced and there was a run on the Pool. The State hired a third party, BlackRock Financial Management, Inc., to assess the investment exposures in the portfolio. The Pool reopened on December 6, 2007 with a split pool: Fund A, containing 86% of the Fund with appropriate assets and Fund B, containing the remaining 14% with the assets in default, impaired or significant credit risk.

The Authority's after evaluation of the current investment policies elected to withdraw all available funds and paid the required penalty of 2%. Our capital objective is safety, liquidity and lastly returns on investment. We have moved the Funds to a Public Funds Now account that is collateralized with the State of Florida.

CLAY COUNTY UTILITY AUTHORITY

Management's Discussion and Analysis

September 30, 2007 and 2006

FINANCIAL OVERVIEW (Continued)

The Authority has \$3,383,639 in Fund B with maturities ranging from February to June 2008. These Funds are not available for redemption until the collection of the underlying securities.

The Authority's cash reserves and borrowing capacity are adequate to support currently planned maintenance and expansion projects. Contributions in aid of construction continue to be a major source of capital.

Condensed Statement of Net Assets

	<u>9/30/07</u>	<u>9/30/06</u>
	(in thousands)	
Assets		
Capital assets – net	\$197,313	\$174,823
Current assets	32,790	23,015
Other non-current assets	3,180	3,212
	<u>\$233,283</u>	<u>\$201,050</u>
Liabilities and fund equity		
Net assets	\$153,349	\$128,307
Long-term debt – net	71,127	63,585
Current liabilities, including restricted	8,807	9,158
	<u>\$233,283</u>	<u>\$201,050</u>

CAPITAL ASSETS - NET

Capital assets, net of depreciation, increased \$22,490,000 during 2007. Developers contributed \$18,214,000 of these assets and the balance was made up of various utility plant expansions. For the year 2006, capital assets, net of depreciation, increased \$23,007,000. Developers contributed \$7,044,000 of these assets, and the balance was made up of various utility plant expansions.

CURRENT ASSETS

Fiscal year 2007 showed an increase of \$9,775,000 made up of an increase in cash and investments of \$9,287,000 and an increase in receivables, inventory, and prepaid expenses of \$489,000. This increase in cash and investments was done so that we have ready access to pay for our current plant expansions. The current assets decrease for fiscal year 2006 of \$562,000 was made up of a decrease in cash and investments of \$1,568,000, and an increase in receivables, inventory, and prepaid expenses of \$1,006,000.

CLAY COUNTY UTILITY AUTHORITY

Management's Discussion and Analysis

September 30, 2007 and 2006

NET ASSETS

For fiscal year 2007, the Authority had a net income of \$3,364,000 and developer and other contributions of \$21,678,000 resulting in a total increase in net assets of \$25,042,000. Net assets increased during 2006 due to net income of \$1,677,000 and developer contributions of \$13,953,000 for a total increase of \$15,630,000.

LONG-TERM DEBT - NET

During fiscal 2007, the Authority borrowed \$42,905,000 at a fixed interest rate of 4.68%. The proceeds were used to retire variable rate debt of approximately \$37 million with the balance available to fund future construction.

During fiscal 2006, the Authority borrowed \$10,000,000 under the Florida Local Government commercial paper short-term loan program. This borrowing combined with normal scheduled debt payments resulted in an increase in net long-term debt of \$6,989,000.

CURRENT LIABILITIES

The 2007 increase in current liabilities of \$351,000 is attributed primarily to a decrease in accounts payable of \$445,000.

During 2006, the decrease in accounts payable of \$1,401,000 was partially offset by an increase in the current portion of long-term debt of \$505,000. The net decrease of current liabilities was \$375,000 during 2006.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended 9/30/07	Year Ended 9/30/06
	(in thousands)	
Operating revenues	\$29,276	\$25,577
Operating expenses	(24,047)	(22,362)
Operating income	5,229	3,215
Non-operating (expenses), net	(1,865)	(1,538)
Contributions and grants	21,678	13,953
Increase in net assets	<u>\$25,042</u>	<u>\$15,630</u>

CLAY COUNTY UTILITY AUTHORITY

Management's Discussion and Analysis

September 30, 2007 and 2006

OPERATING REVENUES

Total revenues increased 14% from 2006 to 2007 as a result of an average rate increase of 11% and an increase in water ERCs (Equivalent Residential Connections) of 2.5% and sewer ERCs of 4.1%. The increase in revenues is required to support future growth and expansion plans.

Total revenues increased 18% from 2005 to 2006. This increase was due to an average rate increase of 5% in fiscal year 2005 and growth of water ERCs (Equivalent Residential Connections) of 6.76% and sewer ERCs of 6.79%. During 2006, water revenues were \$10,056,000 including reuse charges of \$1,430,000. Reuse charges are expected to substantially increase in the future. Sewer revenues were \$13,928,000.

FY Ending	Water		Sewer		Reuse	
	ERCs	Use/ERC	ERCs	Use/ERC	ERCs	Use/ERC
9/30/1996	23,098	125.7	21,080	94.8	-	-
9/30/1997	24,335	117.1	22,356	91.6	-	-
9/30/1998	25,691	139.6	23,430	96.9	-	-
9/30/1999	26,828	133.6	24,691	91.9	-	-
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

OPERATING EXPENSES

Operating costs, excluding depreciation expense, increased \$758,000 or 5% from 2006 to 2007. During the same period, these costs decreased from 65% to 59% of total revenues.

Construction was completed on the BioChem sludge disposal prototype plant at the Spencer Wastewater Treatment Facility during 2007. After extensive analytical testing, the Florida Department of Environmental Protection confirmed that the BioChem facility is producing residual solids treated to a grade AA standard, which was the expected outcome.

Preliminary analyses indicate the BioChem facility will significantly reduce energy costs as well as the cost of removing conventionally treated solids. We expect a full year of operating the facility will confirm our initial assumptions regarding energy and sludge disposal cost savings.

CLAY COUNTY UTILITY AUTHORITY

Management's Discussion and Analysis

September 30, 2007 and 2006

OPERATING EXPENSES (Continued)

During 2006, operating expense increased \$3.2 million or 17.0%. The Authority experienced substantial increases in the cost of electricity and sludge removal. Electricity and fuel costs increased \$584,000 and sludge removal costs increased \$343,000.

NON-OPERATING REVENUE AND EXPENSES

For fiscal 2007, interest revenue increased \$495,000 due primarily to higher average balances. This trend continued from 2006 when interest revenue increased \$302,000 due to more funds invested and higher rates of return.

Interest expense and bond amortization increased approximately \$879,000 due mainly to additional borrowings to fund future expansion.

During fiscal 2006, interest expense and bond amortization increased \$412,000 due to higher interest rates and additional borrowings of \$10 million.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Developers and others are required to contribute property (water, reclaimed, and sewage lines) in their developments and cash for their proportional share of existing water, reclaimed water, and sewage plants in order to connect to our systems. Contributed property was \$18,214,000 in 2007 compared to \$7,044,000 in 2006. Cash contributions were \$3,465,000 in 2007 compared to \$6,909,000 in 2006.

AUDITED FINANCIAL STATEMENTS

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2007 and 2006

	ASSETS	
	<u>2007</u>	<u>2006</u>
UTILITY PLANT		
Utility plant in service	\$229,894,389	\$187,282,566
Construction in progress	12,795,461	26,527,134
	<hr/>	<hr/>
Total utility plant	242,689,850	213,809,700
Accumulated depreciation	(45,377,014)	(38,986,911)
	<hr/>	<hr/>
Utility plant, net	197,312,836	174,822,789
	<hr/>	<hr/>
CURRENT ASSETS		
Cash	1,624,652	3,531,027
Accounts receivable, net	5,207,183	4,667,367
Prepaid items	542,615	593,931
	<hr/>	<hr/>
Total current assets	7,374,450	8,792,325
	<hr/>	<hr/>
INVESTMENTS		
Restricted	10,079,896	7,468,846
Unrestricted	15,336,121	6,753,939
	<hr/>	<hr/>
Total investments	25,416,017	14,222,785
	<hr/>	<hr/>
OTHER ASSETS		
Bond issuance costs, net	1,535,069	1,074,591
Deferred compensation	1,193,474	986,334
Deposit-debt service reserve	-	644,536
Notes receivable – connection fees	451,188	506,233
	<hr/>	<hr/>
Total other assets	3,179,731	3,211,694
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$233,283,034</u>	<u>\$201,049,593</u>

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
(Continued)
September 30, 2007 and 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
LONG-TERM LIABILITIES		
Long-term debt	\$68,345,338	\$63,143,883
Unamortized discount and costs	<u>1,516,977</u>	<u>(545,619)</u>
Long-term debt, net	69,862,315	62,598,264
Deferred compensation	<u>1,193,474</u>	<u>986,334</u>
Total long-term liabilities	<u>71,055,789</u>	<u>63,584,598</u>
CURRENT LIABILITIES		
Accounts payable	762,422	1,207,782
Accrued general expenses	1,122,347	1,066,825
Deferred revenues	<u>1,784,892</u>	<u>1,628,191</u>
Total current liabilities	<u>3,669,661</u>	<u>3,902,798</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	2,365,422	2,185,512
Current portion, long-term debt	1,517,903	2,680,834
Accrued interest	<u>1,324,864</u>	<u>389,021</u>
Total liabilities payable from restricted assets	<u>5,208,189</u>	<u>5,255,367</u>
TOTAL LIABILITIES	<u><u>\$79,933,639</u></u>	<u><u>\$72,742,763</u></u>
NET ASSETS		
Invested in capital assets, net of related debt	\$131,557,742	\$108,998,073
Restricted	4,664,977	7,564,257
Unrestricted	<u>17,126,676</u>	<u>11,744,500</u>
Total net assets	<u><u>\$153,349,395</u></u>	<u><u>\$128,306,830</u></u>

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended September 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Charges for services	\$ 28,135,411	\$ 23,983,973
Miscellaneous revenues	1,140,174	1,593,290
	29,275,585	25,577,263
OPERATING EXPENSES		
Wages and related benefits	8,134,947	7,515,485
Operating expenses	5,951,330	6,041,711
Subcontractors	1,950,268	1,908,078
In lieu of taxes	1,266,094	1,079,279
Depreciation expense	6,744,294	5,817,607
	24,046,933	22,362,160
INCOME FROM OPERATIONS	5,228,652	3,215,103
NON-OPERATING REVENUE (EXPENSE)		
Interest income	1,124,356	629,005
Interest expense	(2,815,175)	(1,909,248)
Gain on sale of assets	57,553	-
Amortization of bond discount and costs	(231,173)	(258,071)
	(1,864,439)	(1,538,314)
NON-OPERATING (EXPENSE)	(1,864,439)	(1,538,314)
NET INCOME BEFORE CONTRIBUTIONS	3,364,213	1,676,789
CONTRIBUTIONS FROM DEVELOPERS AND OTHERS	21,678,352	13,953,123
TOTAL CONTRIBUTIONS	21,678,352	13,953,123
CHANGE IN NET ASSETS	25,042,565	15,629,912
NET ASSETS, Beginning of Year	128,306,830	112,676,918
NET ASSETS, End of Year	\$153,349,395	\$128,306,830

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$27,924,562	\$23,440,887
Other receipts	1,140,174	1,593,290
Payments to suppliers	(8,264,269)	(9,427,739)
Payment in lieu of taxes	(1,226,260)	(1,025,596)
Payments to employees	(8,150,632)	(7,398,027)
	11,423,575	7,182,815
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(11,036,303)	(21,195,098)
Proceeds from issuance of debt, net of costs	45,675,613	9,974,053
Capital loans to customers, net	62,689	84,973
Repayment of debt principal	(39,588,434)	(2,602,960)
Interest paid on debt	(1,879,332)	(2,550,156)
Developer and other contributions	3,464,593	6,909,463
Proceeds from sale of assets	40,100	-
	(3,261,074)	(9,379,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,124,356	629,005
Net cash provided by investing activities	1,124,356	629,005
Net increase (decrease) in cash and cash equivalents	9,286,857	(1,567,905)
Cash and cash equivalents at beginning of year	17,753,812	19,321,717
Cash and cash equivalents at end of year	\$27,040,669	\$17,753,812

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended September 30, 2007 and 2006

	2007	2006
SHOWN IN THE FINANCIAL STATEMENTS AS		
Cash	\$ 1,624,652	\$ 3,531,027
Investments	25,416,017	14,222,785
	\$27,040,669	\$17,753, 812
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,228,652	\$3,215,103
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,744,294	5,817,607
Change in non-cash assets and non-cash liabilities:		
Accounts receivable	(547,460)	(929,848)
Other assets	51,316	(76,378)
Accounts and accrued expenses payable	(389,838)	(1,230,431)
Deferred credits and other liabilities	336,611	386,762
Net cash provided by operating Activities	\$11,423,575	\$7,182,815
NON-CASH ACTIVITIES		
Contribution of capital assets from developers	\$18,213,759	\$7,043,660

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

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1) 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 water reuse facilities. The governing body of the Authority consists of seven members acting as the Board of Supervisors.

The Authority uses the criteria established in GASB Statement No. 14 issued by the Governmental Accounting Standards Board to define the reporting entity and identify component units. Component units are entities for which the Authority is considered to be financially accountable. There are no other entities to consider for inclusion as a component unit within the Authority's reporting entity.

2) Fund Accounting:

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, fund equity, 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.

3) Proprietary Activity Accounting and Financial Reporting:

The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs).

4) Basis of Accounting:

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

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the accrual basis of accounting. Revenues are recognized when earned and measurable and expenses are recognized when incurred.

5) Cash and Cash Equivalents:

Cash and cash equivalents consist of legally authorized demand deposits and money market funds. The institutions in which such deposits are kept are certified as a Qualified Public Depository under the Florida Public Deposits Act. Therefore, the total bank balances on deposit are insured through the State of Florida Bureau of Collateral Securities, Division of Treasury, State Department of Insurance.

6) Restricted Investments:

Investments are classified as restricted as a result of various bond indenture requirements and other agreements and consist of deposits in the Florida Local Government Surplus Trust Fund Investment Pool (the "Pool"). Such assets cannot be categorized pursuant to the provisions of Statement No. 3 of the Government Accounting Standards Board because the Authority's equity in the Pool is not evidenced by the securities that exist in physical or book entry form. The Pool is a "2a-7" like pool in accordance with GASB No. 31; therefore, it is not presented at fair market value but at its actual pooled shared price which approximates fair value. Investments in the deferred compensation benefit plan are reported at market value. An independent plan administrator holds these assets in an investment pool.

7) Property, Plant and Equipment:

Property, plant and equipment are valued at historical cost or estimated cost if historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense using the straight-line method over estimated useful lives as follows:

Buildings and Building Improvements	25 years
Water and Sewer Lines	40 years
Equipment	7 - 25 years

Interest costs related to the construction of fixed assets are capitalized under the provisions of SFAS No. 34 and No. 62. Capitalized interest was \$141,228 in 2007 and \$483,748 in 2006.

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8) Amortization:

Bond issue costs, discounts and deferred amounts on refunding are amortized over the life of the bonds using the straight-line method.

9) 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 hour worked or on approved leave with 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 employees' 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.

10) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. RESTRICTED INVESTMENTS

Restricted investments consist of the following as of September 30:

	<u>2007</u>	<u>2006</u>
Future construction	\$ 7,325,101	\$5,694,466
Bond payments	<u>2,754,795</u>	<u>1,774,380</u>
TOTAL	<u>\$10,079,896</u>	<u>\$7,468,846</u>

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

C. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of September 30:

	<u>2007</u>	<u>2006</u>
Water and sewer services billed	\$3,588,740	\$3,224,809
Unbilled water & sewer revenues	1,844,309	1,632,487
Notes receivable– current portion	86,401	94,045
Other receivables	157,402	113,544
	<u>5,676,852</u>	<u>5,064,885</u>
Allowance for uncollectible accounts	<u>(469,669)</u>	<u>(397,518)</u>
TOTAL	<u>\$5,207,183</u>	<u>\$4,667,367</u>

D. CONSTRUCTION IN PROGRESS

Construction work in progress consists of costs incurred and various improvements to the water and wastewater treatment systems. Construction work in progress is not depreciated until completed and placed into service. At September 30, 2007, construction commitments were approximately \$8.6 million. Changes in construction in progress are as follows:

<u>Year ending September 30,</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$26,527,134	\$14,654,401
Costs incurred during the year	10,852,080	21,946,421
Completed jobs transferred to plant and equipment	<u>(24,583,753)</u>	<u>(10,073,688)</u>
Balance at end of year	<u>\$12,795,461</u>	<u>\$26,527,134</u>

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

E. LONG-TERM DEBT

Long-term debt is comprised of the following as of September 30:

	<u>2007</u>	<u>2006</u>
\$9,655,000 - Utility System Revenue Bonds, Series 2003A; due in annual installments varying from \$45,000 to \$1,810,000 plus variable interest, adjusted weekly, payable monthly. (4.29% at September 30, 2006).	\$ -	\$9,565,000
\$14,950,000 – Utility System Revenue and Refunding Bonds, Series 2003B; consisting of:		
\$8,405,000 - Serial Bonds due in annual installments varying from \$470,000 to \$755,000, plus interest payable semi-annually at 2.0% to 5.0% through November 1, 2011.	6,985,000	7,460,000
\$6,545,000 Term Bonds due November 1, 2024. Interest payable semi-annually at 5.0%.	6,545,000	6,545,000
\$13,265,000 - Utility System Revenue Refunding Bonds, Series 2003C; due in annual installments varying from \$465,000 to \$1,195,000, plus interest payable semi-annually at 2.0% to 5.0%.	10,710,000	11,580,000
\$42,905,000 – Utility System Revenue and Refunding Bonds, Series 2007; with payments of \$390,000 due in 2009 and \$445,000 due in 2010. No payments are due for the years 2010 through 2018. Interest is fixed at 4.68%.	42,905,000	-

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

E. LONG-TERM DEBT (Continued)

	<u>2007</u>	<u>2006</u>
\$6,710,000 – Capital Projects Finance Authority 1997 Series. Principal and interest due monthly. Interest is computed on a variable rate that was 4.54% and 3.51%, respectively.	-	4,540,706
\$273,564 – Subordinate Utilities Revenue Bond, Series 1998; due in equal annual installments through November 1, 2008, with interest at 7%.	70,246	102,052
\$4,117,266 – Clean Water State Revolving Fund; due in semi annual installments of \$140,130 including interest at 3.05%.	1,926,037	2,021,959
\$721,958 – Clean Water State Revolving Fund; due in semi-annual installments of \$29,638 commencing on August 15, 2010 including interest at 2.85%.	721,958	-
\$30,000,000 – Florida Local Government Finance Commission Pooled Commercial Notes, Series 2005-A; due in annual installments of \$825,000 on the first Monday in September with a balloon payment of \$22,360,000 due on September 1, 2009. Interest is computed on a variable rate that was 4.40% at September 30, 2006.	-	24,010,000
Total long-term debt	69,863,241	65,824,717
Less current maturities	<u>(1,517,903)</u>	<u>(2,680,834)</u>
LONG-TERM DEBT	<u>\$68,345,338</u>	<u>\$63,143,883</u>

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

E. LONG-TERM DEBT (Continued)

Net revenues of the water and sewer utility system are pledged as collateral for the revenue bonds. The bond agreements contain various reserve requirements. The Authority was in compliance with all bond covenants as of and for the year ended September 30, 2007.

Aggregate future debt service requirements for the revenue bonds are as follows:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,517,903	\$ 3,123,850	\$ 4,641,753
2009	1,933,122	2,909,343	4,842,465
2010	2,019,391	3,058,883	5,078,274
2011	1,632,521	2,944,576	4,577,097
2012	1,146,966	2,914,277	4,061,243
Thereafter	61,613,338	47,634,771	109,248,109
TOTAL	<u>\$69,863,241</u>	<u>\$62,585,700</u>	<u>\$132,448,941</u>

F. UNRESTRICTED NET ASSETS

The following summarizes unrestricted net assets:

	<u>2007</u>	<u>2006</u>
Designated:		
Customer deposits	\$ 2,218,173	\$ 2,061,907
Future construction	13,358,373	8,966,459
Bond payments	1,050,130	216,134
Self-insurance	<u>500,000</u>	<u>500,000</u>
Total Unrestricted Net Assets	<u>\$17,126,676</u>	<u>\$11,744,500</u>

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

G. RETIREMENT BENEFITS

The Authority provides retirement benefits for all of its full-time employees through the Clay County Utility Authority Employees Plan which is a defined contribution plan. Two employees elected to remain covered by the Florida Retirement System which is a cost sharing, multiple-employer public employment system administered by the State of Florida. The payroll for employees covered by these two plans for the year ended September 30, 2007 was \$95,478 for the Florida State Retirement System and \$6,143,668 for the Clay County Utility Authority Employees Plan. The Authority's total payroll was \$6,239,146.

The Florida State Retirement System provides vesting of benefits after six (6) years of creditable service. Members are eligible for normal retirement after ten years of service and attaining age 62, or 30 years of service regardless of age. Benefits are established by Florida Statutes.

The Authority's contribution rate to the Florida State Retirement System was 9.85% as of July 1, 2007 and 8.20% as of July 1, 2006. The Authority contributed \$9,404 for 2007 and \$7,420 for 2006.

The Clay County Utility Authority Employees Plan is a defined contribution plan. The benefits depend solely on amounts contributed to the plan plus investment income.

Participants are fully vested after 5 years of service; rollovers from other qualified plans are 100% vested.

The Authority contributes an amount equal to 10% of the participant's compensation for the plan year to the Authority's plan. The Authority contributed \$614,367 for 2007 and \$576,432 for 2006. No employee contributions are allowed by the Plans.

H. DEFERRED COMPENSATION PLAN

The Clay County Utility Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or unforeseeable emergency. All deferred amounts are the property of the Authority and participant's interest in the plan is that of a general creditor of the Authority. It is the opinion of the Authority's management that the Authority and Board of Supervisors have no liability for losses under the plan, but do have the duty of due care that would be required of an ordinary prudent investor. Amounts on deposit with Nationwide Retirement Solutions and Hartford Life Insurance Company were \$1,193,474 as of September 30, 2007 and \$986,334 as of September 30, 2006.

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

I. INTERLOCAL AGREEMENT

In September 2003, the Clay County Utility Authority entered into an agreement with the City of Keystone Heights (the "City") to jointly own, for a specified period of time, and to manage and operate a central potable water system within the boundary of the City of Keystone Heights, which was previously owned by Florida Water Services Corporation. The agreement also calls for the construction of an entirely new central wastewater system to serve customers previously served by septic tanks. This construction is to be financed by loans and grants obtained by the City of Keystone Heights from the Florida Department of Environmental Protection and by interim financing provided by the Clay County Utility Authority. Recovery of cost of the wastewater system will come from annual grant payments over the next few years until the grant funds applicable to this project are collected in full. The City contributed \$1,044,296 in 2007 and \$750,000 in 2006 to the Clay County Utility Authority, which was expended in the construction of new capacity to serve the City.

J. PRIOR YEAR RESTATEMENT

The Statement of Net Assets as of September 30, 2006 has been restated to properly reflect restricted and unrestricted investments and net assets. The Authority had previously reported amounts restricted by designation of the Board of Supervisors as restricted assets. Restricted investments and net assets have been corrected to report only those assets legally restricted by contractual obligations or enabling legislation.

This restatement has no effect on previously reported revenues, expenses, net income or net assets. The restatement is summarized below:

	<u>As of September 30, 2006</u>	
	<u>Corrected</u>	<u>Previously Reported</u>
Investments:		
Restricted	\$ 7,564,257	\$14,222,785
Unrestricted	<u>6,658,528</u>	<u>-</u>
Total	<u>\$14,222,785</u>	<u>\$14,222,785</u>
Net Assets:		
Invested in capital assets, net of related debt	\$108,998,073	\$108,998,073
Restricted	7,564,257	14,222,785
Unrestricted	<u>11,744,500</u>	<u>5,085,972</u>
Total	<u>\$128,306,830</u>	<u>\$128,306,830</u>

CLAY COUNTY UTILITY AUTHORITY

Notes to Financial Statements

September 30, 2007 and 2006

K. SUBSEQUENT EVENTS

As of September 30, 2007, the Authority had \$25,416,017 invested in the Local Government Investment Pool managed by the Florida State Board of Administration. Events occurred subsequent to year-end that affected the pool's liquidity and questioned the risk and ultimate collectibility of certain mortgage-backed investments. As a result, the SBA divided the investment pool into two funds. Fund A, which represented 86% of investment balances, was available for withdrawal subject to certain restrictions and penalties. Investments in Fund B, which represented 14% of investment balances, will not be available for redemption until maturity of the underlying securities.

On December 7, 2007, the Authority liquidated its investment in Fund A and incurred a redemption fee of \$272,152. These funds were deposited in a financial institution covered by the Florida Public Funds Security Act. As of December 7, 2007, the Authority's investment in Fund B was \$3,320,917.

SUPPLEMENTARY INFORMATION



CONNER, HUBBARD & COMPANY, P.A.

Certified Public Accountants

Taxation, Accounting, Pension Planning, and Business Counseling

INDEPENDENT AUDITORS' MANAGEMENT LETTER

Board of Supervisors
Clay County Utility Authority
Middleburg, Florida

We have audited the financial statements of the Clay County Utility Authority as of and for the fiscal year ended September 30, 2007 and have issued our report thereon dated January 9, 2008.

We have issued our "Independent Auditors' Report on Internal Control over Financial Reporting and Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" dated January 9, 2008. Disclosures in that report should be considered in conjunction with this management letter.

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554 (1)(i)1.) require that we comment as to whether or not inaccuracies, irregularities, shortages, defalcations, and/or violations of laws, rules, regulations, and contractual provisions were reported in the preceding annual report have been corrected. The violation of the investment policy noted in our prior year report has been corrected.

The Rules of the Auditor General (Section 10.554 (1)(i)1) require that we comment as to whether or not prior year recommendations made in the preceding annual financial report have been followed. No recommendations were made in the prior year report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)2), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Clay County Utility Authority complied with Section 218.415, Florida Statutes.

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The Rules of the Auditor General (Section 10.554(1)(i)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(i)4.) require that we disclose in this letter the following matters if not already addressed in the auditor's report on the internal control structure or compliance: (1) recommendations to improve financial management, accounting procedures and internal controls; (2) violations of laws, rules, and regulations that may or may not materially affect the financial statements; (3) illegal or improper expenditures, which may or may not materially affect the financial statements; (4) improper or inadequate accounting procedures; (5) failure to properly record financial transactions; and, (6) inaccuracies, shortages, and defalcations discovered by the auditor. In connection with our audit, we noted no such matters in the report on compliance and internal control.

As required by the Rules of the Auditor General (Section 10.554(1)(i)5.a.) a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the Clay County Utility Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(i)2), we determined that the annual financial report for the Clay County Utility Authority for the fiscal year ended September 30, 2007, filed with the Department of Banking Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007.

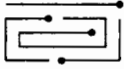
As required by the Rules of the Auditor General (Section 10.554(i)7.c.) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same. Our assessment, which was performed as of September 30, 2007, did not indicate a deteriorating financial condition.

Board of Supervisors
Clay County Utility Authority
Middleburg, Florida
Page 3 of 3

Our report is intended for the information of the Clay County Utility Authority and the Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

Conner, Hubbard & Company, CPA's
Conner, Hubbard & Company, P.A.
Certified Public Accountants

January 9, 2008



CONNER, HUBBARD & COMPANY, P.A.
Certified Public Accountants

Taxation, Accounting, Pension Planning, and Business Counseling

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND COMPLIANCE BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors
Clay County Utility Authority
Middleburg, Florida

We have audited the financial statements of the Clay County Utility Authority as of and for the year ended September 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. No matters were noted involving internal controls that were considered to be material weaknesses.

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Compliance

As part of obtaining reasonable assurance about whether the Clay County Utility Authority's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, 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 did not disclose any issues of noncompliance that are required to be reported under Government Auditing Standards.

Distribution of Report

This report is intended for the information of the Clay County Utility Authority and the Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

Conner, Hubbard & Company, CPA's

Conner, Hubbard & Company, P.A.
Certified Public Accountants

January 9, 2008