

CLAY COUNTY UTILITY AUTHORITY

Annual Financial Report

September 30, 2008 and 2007

CLAY COUNTY UTILITY AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To 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 year ended September 30, 2008 which comprise the basic financial statements 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 audit. The financial statements of the Clay County Utility Authority as of September 30, 2007, were audited by other auditors whose report dated January 9, 2008, expressed an unqualified opinion on those statements.

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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009, on our consideration of the Clay County Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Clay County Utility Authority taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," by Section 215.97, Florida Statutes, Florida Single Audit Act, and by Chapter 10.650, Rules of the Auditor General, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Magers & Associates, LLC

Magers & Associates, LLC

Orange Park, Florida

January 26, 2009

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Management's Discussion and Analysis

As management of the Clay County Utility Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2008. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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 community. We recognize our responsibility to be good stewards of the limited water resources and our environment. We have voluntarily invested in the technology and infrastructure needed to accomplish these objectives.

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 4.8 million gallons per day during 2008.

We have taken a leadership role in being the first operational deployment of an exciting new sludge 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 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.

The 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.

Management's Discussion and Analysis (continued)

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 2.78% during the year mainly to offset increased costs for electricity, fuel, and to provide funds for maintenance and expansion.

The State Board of Administration locked down all transactions of the Local Government Investment Pool on November 29, 2007, after subprime mortgage backed assets surfaced and there was a run on the Pool. The State hired a third party, BlackRock Inc., to assess the investment exposures in the portfolio. The Pool reopened on December 5, 2007 with a split pool: Fund A, containing approximately 86% of all pool assets at the time, and Local Government Investment Pool B consisting of the remaining balance. The assets in Pool B were securities in default, due to impaired or significant credit risk status.

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

The Authority has \$1,058,000 in Fund B with maturities ranging from March 2010 to December 2049. These Funds are not available for redemption until the collection of the underlying securities. At September 30, 2008, the net asset value was \$845,000. The financial statements reflect an adjustment of \$213,000 to reduce Fund B to the net asset value.

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>9/30/08</u>	<u>9/30/07</u>
	(in thousands)	
Assets		
Capital assets – net	\$ 220,544	\$ 197,313
Current assets	33,796	32,790
Other non-current assets	<u>7,907</u>	<u>3,180</u>
	<u>\$ 262,247</u>	<u>\$ 233,283</u>
Liabilities and fund equity		
Net assets	\$ 167,924	\$ 153,349
Long-term debt – net	83,788	71,127
Current liabilities, including restricted	<u>10,535</u>	<u>8,807</u>
	<u>\$ 262,247</u>	<u>\$ 233,283</u>

Management's Discussion and Analysis (continued)

Capital Assets – Net

Capital assets, net of depreciation, increased \$23,231,000 during 2008. Developers contributed \$14,155,000 of these assets and the balance was made up of various utility plant expansions. For the year 2007, capital assets, net of depreciation, increased \$22,490,000. Developers contributed \$18,214,000 of these assets, and the balance was made up of various utility plant expansions.

Current Assets

The current assets increase for fiscal year 2008 of \$1,006,000 was made up of an increase in cash, investments, and prepaid items of \$1,896,000 offset by a decrease in accounts receivables and allowance for doubtful accounts of \$890,000. This increase in cash and investments was done so that we had ready access to pay for our plant expansions.

The Authority turns customer accounts in excess of 45 days overdue to a collection agency. The goal is to minimize the amount of delinquent debt owed to the Authority in a timely manner. The collection fee incurred by the Authority in the course of collecting the debt is passed on to the customer with the delinquent balance.

Net Assets

For fiscal year 2008, the Authority had a net income of \$167,000 and developer and other contributions of \$14,408,000 resulting in a total increase in net assets of \$14,575,000. Net assets increased during 2007 due to net income of \$3,364,000 and developer contributions of \$21,678,000 for a total increase of \$25,042,000.

Long-Term Debt – Net

In fiscal year 2008, the Authority borrowed \$13,009,000 at an interim rate of 4.2% for the construction of extension, additions, and improvements to the existing water and wastewater system.

The bond issue in 2008 for \$13,009,000 is interim financing through Florida Rural Utility Financing Commission and is due to mature in three years. The Florida Department of Environmental Protection (DEP) authorized the Authority to incur cost for the projects to be funded pending the State Revolve Funding. DEP is currently working on the loan agreement to obligate the funding for the Authority. The interim financing will be defeased by the SRF loan, which will have a twenty-year maturity.

For fiscal year 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.

Management's Discussion and Analysis (continued)

Current Liabilities

The 2008 increase in current liabilities of \$1,728,000 is attributed to an increase in accounts payable of \$1,365,000 and an increase in accrued expenses and deferred revenue of \$363,000.

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended 09/30/08	Year Ended 09/30/07
	(in thousands)	
Operating revenues	\$ 29,541	\$ 29,276
Operating expenses	<u>(26,242)</u>	<u>(24,047)</u>
Operating income	3,299	5,229
Non-operating (expenses), net	(3,132)	(1,865)
Contributions and grants	<u>14,408</u>	<u>21,678</u>
Increase in net assets	<u>\$ 14,575</u>	<u>\$ 25,042</u>

Operating Revenues

Total revenues increased \$266,000 or 1% from 2007 to 2008 as a result of an average rate increase of 2.78% adjusted for inflation, and an increase in water ERCs (Equivalent Residential Connections) of 2.8% and sewer ERCs of 3.7%.

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.

During the 2008 fiscal year, we experienced the lowest growth rate in eight years. Additionally, because of significant rainfall, revenue declined as a result of decreased usage by our customers.

Management's Discussion and Analysis (continued)

The following table provides historical information on water, sewer and reuse consumption:

Fiscal Yr <u>Ending</u>	<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>
9/30/1997	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
9/30/2008	46,453	99.8	41,717	76.6	7,230	252.3

Operating Expenses

Operating costs, excluding depreciation expense, increased \$1,497,000 or 9% from 2007 to 2008. During the same period, these costs increased from 59% to 64% 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. The system has significantly reduced energy costs.

During 2007, operating costs, excluding depreciation expense, increased \$758,000 or 5% and these costs decreased from 65% to 59% of total revenues.

Non-Operating Revenue and Expenses

For fiscal 2008, interest revenue decreased \$531,000 due primarily to the SBA freeze followed by the subprime volatile market forcing federal rates down. Interest expense and bond amortization increased \$185,000 due mainly to the 2007 bond refunding which was outstanding only five months in the prior year.

During fiscal 2007, interest revenue increased \$495,000 due primarily to higher average balances. Interest expense and bond amortization increased approximately \$879,000 due mainly to additional borrowings to fund future expansion.

Management's Discussion and Analysis (continued)

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 \$ 14,155,000 in 2008 compared to \$18,214,000 in 2007. Cash contributions were \$254,000 in 2008 compared to \$3,465,000 in 2007.

Economic Factors and Next Year's Budget and Rates

Fiscal year 2008/2009 required a rate increase of 6.79% due largely to the disturbing volatility in the prices of energy products and a conservative approach in estimating the revenues with the slow down in the housing market.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in 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.

AUDITED FINANCIAL STATEMENTS

Clay County Utility Authority
 Statements of Net Assets
 September 30, 2008 and 2007

ASSETS

	2008	2007
Utility Plant		
Utility plant in service	\$ 254,620,515	\$ 229,894,389
Construction in progress	18,645,997	12,795,461
Total utility plant	273,266,512	242,689,850
Accumulated depreciation	(52,722,349)	(45,377,014)
Utility plant, net	220,544,163	197,312,836
 Current Assets		
Cash	2,889,679	1,624,652
Accounts receivable, net	4,316,603	5,207,183
Prepaid items	712,443	542,615
Total current assets	7,918,725	7,374,450
 Investments		
Restricted	9,376,348	10,079,896
Unrestricted	16,500,454	15,336,121
Total investments	25,876,802	25,416,017
 Other Assets		
Bond issuance costs, net	1,395,991	1,535,069
Deferred compensation	1,075,885	1,193,474
Bond proceeds held in escrow	4,752,565	-
Notes receivable - connection fees	682,425	451,188
Total other assets	7,906,866	3,179,731
Total Assets	\$ 262,246,556	\$ 233,283,034

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

Clay County Utility Authority

Statements of Net Assets

(Continued)

September 30, 2008 and 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Long-Term Liabilities		
Long-term debt	\$ 81,252,748	\$ 68,345,338
Unamortized discount and costs	<u>1,486,133</u>	<u>1,516,977</u>
Long-term debt, net	82,738,881	69,862,315
Deferred compensation	<u>1,075,885</u>	<u>1,193,474</u>
Total long-term liabilities	<u>83,814,766</u>	<u>71,055,789</u>
Current Liabilities		
Accounts payable	2,127,807	762,422
Accrued general expenses	1,255,673	1,122,347
Deferred revenues	<u>1,786,547</u>	<u>1,784,892</u>
Total current liabilities	<u>5,170,027</u>	<u>3,669,661</u>
Liabilities Payable from Restricted Assets		
Customer deposits	2,443,470	2,365,422
Current portion, long-term debt	1,538,122	1,517,903
Accrued interest	<u>1,355,733</u>	<u>1,324,864</u>
Total Liabilities Payable from Restricted Assets	<u>5,337,325</u>	<u>5,208,189</u>
Total Liabilities	<u>\$ 94,322,118</u>	<u>\$ 79,933,639</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	136,307,418	131,557,742
Restricted	9,376,348	4,664,977
Unrestricted	<u>22,240,672</u>	<u>17,126,676</u>
Total Net Assets	<u>\$ 167,924,438</u>	<u>\$ 153,349,395</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, 2008 and 2007

	2008	2007
Operating Revenues		
Charges for services	\$ 28,661,175	\$ 28,135,411
Miscellaneous revenues	879,920	1,140,174
Total Operating Revenues	29,541,095	29,275,585
Operating Expenses		
Wages and related benefits	8,821,439	8,134,947
Operating expenses	6,488,071	5,951,330
Subcontractors	2,200,815	1,950,268
In lieu of taxes	1,289,753	1,266,094
Depreciation expense	7,442,136	6,744,294
Total Operating Expenses	26,242,214	24,046,933
Income From Operations	3,298,881	5,228,652
Non-Operating Revenue (Expense)		
Interest income	593,515	1,124,356
Interest expense	(3,038,259)	(2,815,175)
Gain (loss) on sale of assets	(8,534)	57,553
Loss on investments	(485,523)	-
Amortization of bond discount and costs	(193,508)	(231,173)
Non-Operating (Expense)	(3,132,309)	(1,864,439)
Net Income Before Contributions	166,572	3,364,213
Contributions From Developers and Others		
Developers and others	11,233,246	20,634,056
Grants	3,175,225	1,044,296
Total Contributions	14,408,471	21,678,352
Change In Net Assets	14,575,043	25,042,565
Net Assets, Beginning of Year	153,349,395	128,306,830
Net Assets, End of Year	\$ 167,924,438	\$ 153,349,395

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 29,619,295	\$ 27,924,562
Other receipts	879,920	1,140,174
Payments to suppliers	(7,230,768)	(8,264,269)
Payment in lieu of taxes	(1,287,790)	(1,226,260)
Payments to employees	(8,952,638)	(8,150,632)
	<u>13,028,019</u>	<u>11,423,575</u>
Net cash provided by operating activities		
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(16,543,019)	(11,036,303)
Proceeds from issuance of debt, net of costs	9,607,693	45,675,613
Capital loans to customers, net	(219,075)	62,689
Repayment of debt principal	(1,517,903)	(39,588,434)
Interest paid on debt	(3,007,390)	(1,879,332)
Developer and other contributions	253,095	3,464,593
Proceeds from sale of assets	16,400	40,100
	<u>(11,410,199)</u>	<u>(3,261,074)</u>
Net cash used in capital and related financial activities		
Cash Flows From Investing Activities		
Investment income	593,515	1,124,356
Loss on investment	(485,523)	-
	<u>107,992</u>	<u>1,124,356</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents		
	1,725,812	9,286,857
Cash and cash equivalents at beginning of year	<u>27,040,669</u>	<u>17,753,812</u>
Cash and cash equivalents at end of year	<u>\$ 28,766,481</u>	<u>\$ 27,040,669</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Shown in the Financial Statements as		
Cash	\$ 2,889,679	\$ 1,624,652
Investments	<u>25,876,802</u>	<u>25,416,017</u>
	<u>\$ 28,766,481</u>	<u>\$ 27,040,669</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 3,298,881	\$ 5,228,652
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,442,136	6,744,294
Change in non-cash assets and non-cash liabilities:		
Accounts receivable	878,418	(547,460)
Other assets	(169,829)	51,316
Accounts and accrued expenses payable	1,498,711	(389,838)
Deferred credits and other liabilities	<u>79,701</u>	<u>336,611</u>
Net cash provided by operating activities	<u>\$ 13,028,018</u>	<u>\$ 11,423,575</u>
Non-Cash Activities		
Contribution of capital assets from developers	<u>\$ 14,155,378</u>	<u>\$ 18,213,759</u>

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

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note A – 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 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).

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note A – Summary of Significant Accounting Policies (continued)

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 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) Investments and Restricted Investments :

Investments are classified as restricted as a result of various bond indenture requirements and other agreements and consist of deposits in two separate qualified public depositories for additional diversification considering the current economic environment. 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 \$165,405 in 2008 and \$141,228 in 2007.

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note 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 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.

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.

Note B – Restricted Investments

Restricted investments consist of the following as of September 30:

	<u>2008</u>	<u>2007</u>
Future construction	\$ 4,625,531	\$ 7,325,101
Bond payments	4,750,817	2,754,795
	<u>\$ 9,376,348</u>	<u>\$ 10,079,896</u>

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note B – Restricted Investments (continued)

The Authority is a participant in the Fund B Surplus Trust Fund (the “Fund B”) managed by the Florida State Board of Administration (The SBA). Due to a run on the pool of the investments, the SBA locked down all transactions in November of 2007. The pool reopened in December of 2007 with a split pool, Fund A containing 86% of all pool assets at the time, and Fund B consisting of the remaining balance.

As of September 30, 2008 the Authority had \$1,058,310 in Fund B, the net asset value of the investment was \$844,940, the net asset value is determined by multiplying the investment balance by the net asset value factor provided by the SBA. In order to reduce Fund B to the net asset value, an adjustment in the amount of \$213,370 was made to the financial statements. The Fund B is not rated by any nationally recognized statistical agency, therefore there is no credit quality rating for this investment. The Fund B did not participate in a securities lending program in the fiscal year. The weighted average life of the Fund B at September 30, 2008 was 9.73 years.

Note C – Accounts Receivable

Accounts receivable consisted of the following as of September 30:

	2008	2007
Water and sewer services billed	\$ 2,690,393	\$ 3,588,740
Unbilled water & sewer revenues	1,941,638	1,844,309
Notes receivable - current portion	74,239	86,401
Other receivables	123,519	157,402
	4,829,789	5,676,852
Allowance for uncollectible accounts	(513,186)	(469,669)
TOTAL	\$ 4,316,603	\$ 5,207,183

Note D – Utility Plant in Service

Utility Plant in service consisted of the following at September 30, 2008:

	2008	2007
Machinery and Equipment	\$ 247,054,640	\$ 222,384,513
Buildings	4,953,095	4,953,095
Land	2,612,780	2,556,781
TOTAL	\$ 254,620,515	\$ 229,894,389

Depreciation expense for 2008 and 2007 was \$7,442,136 and \$6,744,294, respectively .

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note E – 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, 2008, construction commitments were approximately \$2.9 million. Changes in construction in progress are as follows:

	2008	2007
Balance at beginning of year	\$ 12,795,461	\$ 26,527,134
Costs incurred during the year	20,531,708	10,852,080
Completed jobs transferred to plant and equipment	(14,681,172)	(24,583,753)
Balance at end of year	\$ 18,645,997	\$ 12,795,461

Note F – Long-Term Debt

	2008	2007
<p>\$14,950,000 - Utility System Revenue and Refunding Bonds, Series 2003B; consisting of:</p>		
<p>\$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.</p>	6,490,000	6,985,000
<p>\$6,545,000 Term Bonds due November 1, 2024. Interest payable semi-annually at 5.0%.</p>	6,545,000	6,545,000
<p>\$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%.</p>		
	9,820,000	10,710,000
<p>\$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%.</p>		
	42,905,000	42,905,000

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note F - Long-Term Debt (continued)

	2008	2007
\$273,564 - Subordinate Utilities Revenue Bond, Series 1998; due in equal annual installments through November 1, 2008, with interest at 7%.	36,213	70,246
\$4,117,266 - Clean Water State Revolving Fund; due in semi annual installments of \$140,130 including interest at 3.05%.	1,827,167	1,926,037
\$721,958 - Clean Water State Revolving Fund; due in semi-annual installments commencing on August 15, 2010 with interest at 2.85%.	721,958	721,958
\$978,176 - Clean Water State Revolving Fund; due in semi-annual installments commencing on August 15, 2010 with interest at 2.85%.	978,176	-
\$13,008,900 - Florida Rural Utility Financing Commission Revenue Notes, Series 2008B; commencing on October 1, 2009 including interest at 4.20%.	13,008,900	-
\$458,456 - The School Board of Clay County, Florida, present value annual services.	458,456	-
Total long-term debt	82,790,870	69,863,241
Less current maturities	(1,538,122)	(1,517,903)
LONG-TERM DEBT	\$ 81,252,748	\$ 68,345,338

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note F - Long-Term Debt (continued)

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>
2009	\$ 1,546,917	\$ 2,928,952	\$ 4,475,869
2010	2,023,376	3,506,685	5,530,061
2011	1,636,705	3,159,093	4,795,798
2012	14,700,259	2,957,524	17,657,783
2013	1,799,286	2,975,203	4,774,489
Thereafter	<u>61,084,327</u>	<u>44,522,420</u>	<u>105,606,747</u>
TOTAL	<u><u>\$ 82,790,870</u></u>	<u><u>\$ 60,049,877</u></u>	<u><u>\$ 142,840,747</u></u>

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, 2008.

On February 7, 2008, Moody's Investor Services downgraded the insurance financial strength ratings of XL Capital Assurance, Inc. (XLCA) from Aaa to A3. XLCA is the bond insurer for the Utility System Revenue and Refunding Bonds, Series 2007. As a result of the downgraded ratings, the Authority is required to fund in a reserve account the lesser of (1) MADS (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.

Note G – Unrestricted Net Assets

The following summarizes unrestricted net assets:

	<u>2008</u>	<u>2007</u>
Designated:		
Customer deposits	\$ 2,299,004	\$ 2,218,173
Future construction	18,458,930	13,358,373
Debt Stabilization and reserve	982,738	1,050,130
Self-insurance	<u>500,000</u>	<u>500,000</u>
Total Unrestricted Net Assets	<u><u>\$ 22,240,672</u></u>	<u><u>\$ 17,126,676</u></u>

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note H – 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, 2008 was \$103,208 for the Florida State Retirement System and \$6,672,220 for the Clay County Utility Authority Employees Plan. The Authority's total payroll was \$6,775,428.

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, 2008 and 9.85% as of July 1, 2007. The Authority contributed \$10,166 for 2008 and \$9,404 for 2007.

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 year to the Authority's plan. The Authority contributed \$667,224 for 2008 and \$614,367 for 2007. No employee contributions are allowed by the Plans.

Note I – 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 an 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 \$1,075,885 as of September 30, 2008, and \$1,193,474 as of September 30, 2007.

Clay County Utility Authority
Notes to Financial Statements
September 30, 2008 and 2007

Note J – Interlocal Agreement

In September 2003, the Authority entered into an agreement with the City of Keystone Heights (the “City”) to construct a central wastewater system, to be known as the Central Wastewater Facilities, to serve customers previously served by septic tanks. The construction was financed by loans and grants obtained by the City from the Florida Department of Environmental Protection (FDPE), and by interim financing provided by the Authority. The City transferred the grant funds and loan proceeds to the Authority for payment of the project. The Authority completed the project in fiscal year 2008 for a cost of \$5,101,000. During the construction of the project, the Authority recorded the project in construction in progress and recognized the payments from the City as contributions in aid of construction. Upon completion of the project, the construction in progress and contributions in aid of construction were removed from the Authority’s accounts.

The agreement provides that at such time as all indebtedness is repaid by the City with respect to the Central Wastewater Facilities, the ownership of the Central Wastewater Facilities shall automatically vest solely in the Authority without further action by either the Authority or the City. The agreement also prohibits transfer of the assets subject to the FDEP Grant, without FDEP consent, prior to the expiration of the assets’ expected useful life, which is twenty years.

Note K – Subsequent Events

Credit Downgrade

On November 11, 2008 Moody’s Investor Services downgraded from Aaa to Aa3 the insurance financial strength ratings of Financial Security Assurance, Inc. (FSA). FSA is the bond insurer for the Utility System Revenue and Refunding Bonds, Series 2003 B & C. As a result of the downgrade, the Authority is required per the bond resolution to fund the reserve in semi-annual equal installments over the next five years in the amount of \$2,444,103 (125% of August debt service).

Debt Issuance

On January 6, 2009, the Authority issued the Clay County Utility Authority, Utilities System Revenue Note, Series 2009 in the amount of \$10,000,000. The Note is intended to finance all or a part of the cost of the acquisition, construction and installation of certain capital improvements to the System in accordance with plans and specifications on file or to be on file with the Issuer, including but not limited to the Miller Street reclaimed water and sludge treatment facility, the reclaimed water transmission main from Miller Street to the Oakleaf area and other miscellaneous budget capital projects. The Note is expected to be repaid over a period of approximately 238 months at an interest rate of 4.2%.

Required Supplementary Information

Clay County Utility Authority

Year Ended September 30, 2008

Clay County Utility Authority
 Schedule of Expenditures of Federal Financial Awards
 and State Financial Assistance
 Year Ended September 30, 2008

<u>Federal/State Agency, Pass-through Entity</u>	<u>CFDA CFSA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>FEDERAL AWARDS</u>			
Indirect Programs			
<u>Environmental Protection Agency</u>			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for State Revolving Funds	66.458	WW858030	\$ 978,176
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 978,176</u></u>
 <u>STATE AWARDS</u>			
Indirect Programs			
<u>Department of Environmental Protection</u>			
Passed through St. Johns River Water Management District			
Statewide Surface Water Restoration and Wastewater Projects	37.039	SK944AA	\$ 1,912,500
Water Management Districts-Land Acquisition	37.022	SK944AA	1,203,357
TOTAL STATE GRANTS AND AWARDS			<u><u>\$ 3,115,857</u></u>



INDEPENDENT AUDITORS' MANAGEMENT LETTER

To the Board of Supervisors
Clay County Utility Authority
Clay County, Florida

We have audited the financial statements of the Clay County Utility Authority, a special district created by special act by the Florida Legislature, Chapter 2001-317, House Bill 897, as of and for the fiscal year ended September 30, 2008 and have issued our report thereon dated January 26, 2009

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Internal Control over Compliance Applicable to each State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports, if any, should be considered in conjunction with this management letter.

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 governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

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 significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the prior year audit.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of 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.

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

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or the official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the 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.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the financial conditions described in Section 218.503(1) of Florida Statutes and identification of the specific condition met. 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.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Clay County Utility Authority for the fiscal year ended September 30, 2007, 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, 2008. In connection with our audit, we determined that the two reports were in agreement.

Sections 10.554(i)7.c., and 10.556(7), Rules of the Auditor General, require that we apply financial assessment procedures. In connection with our audit, 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 was performed as of September 30, 2008.

To the Board of Supervisors
Clay County Utility Authority
Page Three

This management letter is intended solely for the information of the Clay County Utility Authority and management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
January 26, 2009

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 the financial statements of the Clay County Utility Authority (the Authority) as of and for the year ended September 30, 2008 and have issued our report thereon dated January 26, 2009. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Supervisors
Clay County Utility Authority
Page Two

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the consolidated financial statements of the Clay County Utility Authority are free of material misstatement, we performed tests of their 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*.

This report is intended solely for the information of the board of directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
January 26, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Supervisors
Clay County Utility Authority

COMPLIANCE

We have audited the compliance of the Clay County Utility Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the Department of Financial Services *State Projects Compliance Supplement*, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The Clay County Utility Authority's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the Clay County Utility Authority's management. Our responsibility is to express an opinion on the Clay County Utility Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Clay County Utility Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Clay County Utility Authority's compliance with those requirements.

In our opinion, the Clay County Utility Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008.

To the Board of Supervisors
Clay County Utility Authority
Page Two

INTERNAL CONTROL OVER COMPLIANCE

The management of the Clay County Utility Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Clay County Utility Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Clay County Utility Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of the board of supervisors, management, others within the Authority, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Magars & Associates, LLC
Magars & Associates, LLC
Orange Park, Florida
January 26, 2009

Clay County Utility Authority
 Schedule of Findings and Questioned Costs
 Federal Programs and State Projects
 For the Year Ended September 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Significant deficiency identified?	No
Significant deficiency considered a material weakness?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance Projects

Internal control over major programs:	
Significant deficiency identified?	No
Material weakness identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133 or Rules of the Auditor General §10.550?	No

Clay County Utility Authority
 Schedule of Findings and Questioned Costs
 Federal Awards and State Projects
 For the Year Ended September 30, 2008
 -Continued -

Identification of major programs:

Federal Program	Federal CFDA No.
Capitalization Grants for State Revolving Funds	66.458
State Project	State CSFA No.
Statewide Surface Water Restoration and Wastewater Projects	37.039
Water Management Districts -Land Acquisition	37.022

Dollar threshold used to distinguish between
 type A and type B programs:

Federal Programs	\$ 300,000
State Projects	300,000

Auditee qualified as low-risk auditee? Yes

Prior findings and questioned costs relative to
 federal awards which require auditee to prepare
 a summary schedule of prior audit findings as
 discussed in Section 315(b) of OMB A-133
 or Chapter 10.550, Rules of the Florida Auditor
 General None

B. FINANCIAL STATEMENT FINDINGS None

C. FINDINGS AND QUESTIONED COSTS-
MAJOR FEDERAL PROGRAMS None

Clay County Utility Authority
Schedule of Findings and Questioned Costs
Federal Awards and State Projects
For the Year Ended September 30, 2008
-Continued -

D. FINDINGS AND QUESTIONED COSTS-

MAJOR STATE PROJECTS	None
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E. OTHER ISSUES

Management Letter	There are no findings to be reported. The management letter presented on page 24 is required by the Auditor General of the State of Florida.
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Summary of Prior Audit Findings	Not required because there were no prior year findings .
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Corrective Action Plan	Not required because there were no findings required to be reported under Federal or Florida Single Audit Acts.
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