

CLAY COUNTY UTILITY AUTHORITY

FINANCIAL STATEMENTS

September 30, 2009 and 2008

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 years ended September 30, 2009 and 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 audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 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 3 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.

To the Board of Supervisors
Clay County Utility Authority
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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 10.550, 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
December 15, 2009

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, 2009. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

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

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 4.4 million gallons per day during 2009.

We have taken a leadership role in being the first operational deployment of an exciting new biosolid residual treatment and disposal technology. The new treatment technology produces an environmentally superior product while using approximately half the energy of existing treatment methods.

Our accomplishments have been acknowledged by 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.

Management's Discussion and Analysis

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 6.82% during the year mainly due 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.

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.

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 \$875,000 in Fund B with a weighted average life of 6.69 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted life. These Funds are not available for redemption until the collection of the underlying securities. At September 30, 2009, the net asset value was \$480,000. The financial statements reflect a current year adjustment of \$181,000, and a prior year adjustment of \$214,000 to reduce Fund B to the net asset value.

Condensed Statement of Net Assets

| | <u>9/30/09</u> | <u>9/30/08</u> |
|---|-------------------|-------------------|
| Assets | (in thousands) | |
| Capital assets - net | \$ 233,520 | \$ 220,544 |
| Current assets | 52,251 | 33,796 |
| Other non-current assets | 4,525 | 7,907 |
| | <u>\$ 290,296</u> | <u>\$ 262,247</u> |
| Liabilities and fund equity | | |
| Net assets | \$ 178,722 | \$ 167,924 |
| Long-term debt - net | 99,704 | 83,788 |
| Current liabilities, including restricted | 11,870 | 10,535 |
| | <u>\$ 290,296</u> | <u>\$ 262,247</u> |

Management's Discussion and Analysis

Capital Assets - Net

Capital assets, net of depreciation, increased \$12,976,000 during 2009. Developers contributed \$4,201,000 of these assets and the balance was made up of various utility plant expansions. For the year 2008, capital assets, net of depreciation, increased \$23,231,000. Developers contributed \$14,155,000 of these assets, and the balance was made up of various utility plant expansions.

Current Assets

The current assets decrease for fiscal year 2009 of \$1,209,000 was made up of a decrease in cash of \$1,790,000 offset by a increase in accounts receivables of \$1,051,000 for grant funds and decrease in prepaids of \$470,000.

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 2009, the Authority had a net income of \$380,000 and developer and other contributions of \$10,418,000 resulting in a total increase in net assets of \$10,798,000. Net assets increased during 2008 due to net income of \$167,000 and developer contributions of \$14,408,000 for a total increase of \$14,575,000.

Long-Term Debt - Net

In fiscal year 2009, the Authority borrowed \$10,000,000 at a rate of 4.24% for the construction of extensions, additions, and improvements to the existing water and wastewater system. The Authority also borrowed \$8,905,000 from the Department of Environmental Protection(DEP) at a rate of 3.24% for twenty years. The funds borrowed from DEP will be used to pay down the Florida Rural Utility Financing Commission interim financing.

The bond issue through Florida Rural Utility Financing Commission (FRUFC) in 2008 for \$13,009,000 is interim financing that matures in three years. The Florida DEP authorized the Authority to incur cost for the projects to be funded by the State Revolve Funding (SRF). DEP is working on the loan agreement to obligate the funding for the Authority. The SRF loan will be used to repay the interim financing provided by the Florida Rural Utility Financing Commission (FRUFC), which will have a twenty-year maturity.

Management's Discussion and Analysis

Current Liabilities

The 2009 decrease in current liabilities of \$40,000 is attributed to an increase in accounts payable of \$172,000 and a decrease in accrued expenses and deferred revenue of \$212,000.

During 2008, the increase in current liabilities of \$1,500,000 is attributed to an increase in accounts payable of \$1,365,000 and an increase in accrued expenses and deferred revenue of \$135,000.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

| | Year Ended <u>9/30/09</u> | Year Ended <u>9/30/08</u> |
|-------------------------------|------------------------------|------------------------------|
| | (in thousands) | |
| Operating revenues | \$ 30,570 | \$ 29,541 |
| Operating expenses | <u>(26,822)</u> | <u>(26,242)</u> |
| Operating income | 3,748 | 3,299 |
| Non-operating (expenses), net | (3,368) | (3,132) |
| Contributions and grants | <u>10,418</u> | <u>14,408</u> |
| Increase in net assets | <u>\$ 10,798</u> | <u>\$ 14,575</u> |

Operating Revenues

Total revenues increased \$1,029,000 or 3.5% from 2008 to 2009 as a result of a rate increase of 6.8% and a decrease in usage by our customers.

Total revenues increased \$266,000 or 1.0% from 2007 to 2008 as a result of an average rate increase of 2.8% adjusted for inflation, and an increase in water ERCs (Equivalent Residential Connections) of 2.8% and sewer ERCs of 3.3%.

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

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

| Fiscal Year <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> |
| 9/30/1998 | 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 |
| 9/30/2009 | 46,267 | 90.7 | 41,643 | 71.0 | 7,392 | 203.7 |

Operating Expense

Operating costs, excluding depreciation expense, increased \$256,000 or 1.4% from 2008 to 2009. During the same period, these costs decreased from 64% to 62% of total revenues.

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.

Non-Operating Revenue and Expenses

For fiscal 2009, interest revenue decreased \$223,000 due primarily to the current market rates of record lows. Interest expense and bond amortization increased \$436,000 due mainly to the additional debt incurred in the current fiscal year.

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.

Management's Discussion and Analysis

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 \$ 4,201,000 in 2009 compared to \$14,155,000 in 2008. Cash contributions were \$5,270,000 and receivables of \$947,000 in 2009 compared to \$4,541,000 in 2008. The financials reflect an adjustment of \$4,288,000 for the Keystone Heights Grant funds received due to joint ownership for 20 years at which time the Authority will have full ownership.

Economic Factors and Next Year's Rate

Fiscal year 2009/2010 required a rate increase of 4.77% due largely to the decrease in revenue from usage.

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.

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2009 and 2008

ASSETS

| | 2009 | 2008 |
|------------------------------------|-----------------------|----------------------|
| Utility Plant | | |
| Utility plant in service | \$ 263,712,130 | \$254,620,515 |
| Construction in progress | 30,167,958 | 18,645,997 |
| Total utility plant | 293,880,088 | 273,266,512 |
| Accumulated depreciation | (60,359,987) | (52,722,349) |
| Utility plant, net | 233,520,101 | 220,544,163 |
| Current Assets | | |
| Cash | 1,100,160 | 2,889,679 |
| Accounts receivable, net | 5,367,700 | 4,316,603 |
| Prepaid items | 242,095 | 712,443 |
| Total current assets | 6,709,955 | 7,918,725 |
| Investments | | |
| Restricted | 20,447,347 | 9,376,348 |
| Unrestricted | 25,093,335 | 16,500,454 |
| Total investments | 45,540,682 | 25,876,802 |
| Other Assets | | |
| Bond issuance costs, net | 1,302,366 | 1,395,991 |
| Deferred compensation | 1,158,312 | 1,075,885 |
| Bond proceeds held in escrow | 1,374,103 | 4,752,565 |
| Notes receivable - connection fees | 690,467 | 682,425 |
| Total other assets | 4,525,248 | 7,906,866 |
| Total Assets | \$ 290,295,986 | \$262,246,556 |

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2009 and 2008

LIABILITIES AND NET ASSETS

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|----------------------|
| Long-Term Liabilities | | |
| Long-term debt | \$ 97,086,310 | \$ 81,252,748 |
| Unamortized discount and costs | <u>1,459,251</u> | <u>1,486,133</u> |
| Long-term debt, net | 98,545,561 | 82,738,881 |
| Deferred compensation | <u>1,158,312</u> | <u>1,075,885</u> |
| Total long-term liabilities | <u>99,703,873</u> | <u>83,814,766</u> |
| Current Liabilities | | |
| Accounts payable | 2,299,873 | 2,127,807 |
| Accrued general expenses | 951,502 | 1,255,673 |
| Deferred revenues | <u>1,878,689</u> | <u>1,786,547</u> |
| Total current liabilities | <u>5,130,064</u> | <u>5,170,027</u> |
| Liabilities Payable from Restricted Assets | | |
| Customer deposits | 2,522,564 | 2,443,470 |
| Current portion, long-term debt | 2,540,019 | 1,538,122 |
| Accrued interest | <u>1,676,990</u> | <u>1,355,733</u> |
| Total liabilities payable from restricted assets | <u>6,739,573</u> | <u>5,337,325</u> |
| Total Liabilities | <u>\$ 111,573,510</u> | <u>\$ 94,322,118</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 129,493,900 | \$136,307,418 |
| Restricted | 20,447,347 | 9,376,348 |
| Unrestricted | <u>28,781,229</u> | <u>22,240,672</u> |
| Total Net Assets | <u>\$ 178,722,476</u> | <u>\$167,924,438</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, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| Operating Revenues | | |
| Charges for services | \$ 29,775,798 | \$ 28,661,175 |
| Miscellaneous revenues | <u>794,224</u> | <u>879,920</u> |
| Total operating revenues | <u>30,570,022</u> | <u>29,541,095</u> |
| Operating Expenses | | |
| Wages and related benefits | 8,851,284 | 8,821,439 |
| Operating expenses | 6,899,780 | 6,488,071 |
| Subcontractors | 1,973,863 | 2,200,815 |
| In lieu of taxes | 1,330,924 | 1,289,753 |
| Depreciation expense | <u>7,766,432</u> | <u>7,442,136</u> |
| Total operating expenses | <u>26,822,283</u> | <u>26,242,214</u> |
| Income from operations | <u>3,747,739</u> | <u>3,298,881</u> |
| Non-Operating Revenue (Expenses) | | |
| Interest income | 370,950 | 593,515 |
| Interest expense | (3,474,257) | (3,038,259) |
| Gain (loss) on sale of assets | 13,496 | (8,534) |
| Loss on investments | (181,019) | (485,523) |
| Amortization of bond discount and costs | <u>(96,894)</u> | <u>(193,508)</u> |
| Total non-operating revenue (expense) | <u>(3,367,724)</u> | <u>(3,132,309)</u> |
| Net income before contributions | 380,015 | 166,572 |
| Contributions from Developers and Others | | |
| Developers and others | 4,971,246 | 11,233,246 |
| Grants | <u>5,446,777</u> | <u>3,175,225</u> |
| Total contributions | <u>10,418,023</u> | <u>14,408,471</u> |
| Change in net assets | 10,798,038 | 14,575,043 |
| Net assets, beginning of year | <u>167,924,438</u> | <u>153,349,395</u> |
| Net assets, end of year | <u>\$ 178,722,476</u> | <u>\$ 167,924,438</u> |

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, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Receipts from customers | \$ 30,741,255 | \$ 29,619,295 |
| Other receipts (payments) | (117,143) | 879,920 |
| Payments to suppliers | (8,831,430) | (7,230,768) |
| Payment in lieu of taxes | (1,334,992) | (1,287,790) |
| Payments to employees | (8,551,184) | (8,952,638) |
| | <u>11,906,506</u> | <u>13,028,019</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition and construction of capital assets | (16,551,873) | (16,543,019) |
| Proceeds from issuance of debt, net of costs | 22,253,693 | 9,607,693 |
| Capital loans to customers, net | 5,249 | (219,075) |
| Repayment of debt principal | (2,069,923) | (1,517,903) |
| Interest paid on debt | (3,153,000) | (3,007,390) |
| Developer and other contributions | 5,270,116 | 253,095 |
| Proceeds from sale of assets | 23,662 | 16,400 |
| | <u>5,777,924</u> | <u>(11,410,199)</u> |
| Cash Flows from Investing Activities | | |
| Investment income | 370,950 | 593,515 |
| Loss on investment | (181,019) | (485,523) |
| | <u>189,931</u> | <u>107,992</u> |
| Net cash provided by investing activities | <u>189,931</u> | <u>107,992</u> |
| Net increase in cash and cash equivalents | 17,874,361 | 1,725,812 |
| Cash and cash equivalents at beginning of year | <u>28,766,481</u> | <u>27,040,669</u> |
| Cash and cash equivalents at end of year | <u>\$ 46,640,842</u> | <u>\$ 28,766,481</u> |

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, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Shown in the Financial Statements as: | | |
| Cash | \$ 1,100,160 | \$ 2,889,679 |
| Investments | <u>45,540,682</u> | <u>25,876,802</u> |
| | <u>\$ 46,640,842</u> | <u>\$ 28,766,481</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating income | \$ 3,747,739 | \$ 3,298,881 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 7,766,432 | 7,442,136 |
| Change in non-cash assets and non-cash liabilities: | | |
| Accounts receivable | (117,143) | 878,418 |
| Other assets | 470,349 | (169,829) |
| Accounts and accrued expenses payable | (132,106) | 1,498,711 |
| Deferred credits and other liabilities | <u>171,235</u> | <u>79,701</u> |
| Net cash provided by operating activities | <u>\$ 11,906,506</u> | <u>\$ 13,028,018</u> |
| Non-Cash Activities | | |
| Contribution of capital assets from developers | <u>\$ 4,200,661</u> | <u>\$ 14,155,378</u> |

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

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

Proprietary Activity Accounting and Financial Reporting

The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

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 qualified public depositories, including participation in the Certificate of Deposit Account Registry Service (CDARS) program that has a maturity date of January 28, 2010. Investments in the deferred compensation benefit plan are reported at market value. An independent plan administrator holds these assets in an investment pool.

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 FASB ASC 835-20-15-5-2 (previously SFAS No. 34 and No. 62). Capitalized interest was \$457,448 in 2009 and \$165,405 in 2008.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Amortization

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

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.

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 2 - RESTRICTED INVESTMENTS

Restricted investments consisted of the following as of September 30:

| | <u>2009</u> | <u>2008</u> | |
|---------------------|----------------------|---------------------|--|
| Future construction | \$ 3,209,613 | \$ 4,625,531 | |
| Bond payments | <u>17,237,734</u> | <u>4,750,817</u> | |
| | <u>\$ 20,447,347</u> | <u>\$ 9,376,348</u> | |

The restricted bond payments shown above for the 2009 fiscal year, includes \$8,905,380 of bond proceeds received from the Florida Department of Environmental Protection (FDPE) in September of 2009, please refer to Note 10 for more detailed information. \$4,403,676 is also included in restricted bond payments for bond surety reserve.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 2 - RESTRICTED INVESTMENTS (cont.)

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. After evaluation of the investment policies, the Authority elected to withdraw all available funds and paid the required penalty. The Funds were moved to a Public Funds Now account that is collateralized with the State of Florida.

As of September 30, 2009, the Authority had \$874,769 in Fund B, the net asset value of the investment was \$480,380, 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 \$181,019 was made to the financial statements during the current fiscal year, and \$213,370 to the prior fiscal year for a total adjustment of \$395,389. These Funds are not available for redemption until the collection of the underlying securities. 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, 2009 was 6.69 years. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30:

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|---------------------|---------------------|
| Water and sewer services billed | \$ 2,775,193 | \$ 2,690,393 |
| Unbilled water and sewer revenues | 1,967,961 | 1,941,638 |
| Notes receivable - current portion | 60,948 | 74,239 |
| Other receivables | <u>1,089,863</u> | <u>123,519</u> |
| | 5,893,965 | 4,829,789 |
| Allowance for doubtful accounts | <u>(526,265)</u> | <u>(513,186)</u> |
| Total | <u>\$ 5,367,700</u> | <u>\$ 4,316,603</u> |

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 4 - UTILITY PLANT SERVICE

Utility Plant in service consisted of the following as of September 30:

| | <u>2009</u> | <u>2008</u> |
|-------------------------|-----------------------|-----------------------|
| Machinery and equipment | \$ 256,134,334 | \$ 247,054,640 |
| Buildings | 4,953,095 | 4,953,095 |
| Land | 2,624,701 | 2,612,780 |
| Total | <u>\$ 263,712,130</u> | <u>\$ 254,620,515</u> |

Depreciation expense for 2009 and 2008 was \$7,766,432 and \$7,442,136, respectively.

NOTE 5 - 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, 2009, construction commitments were approximately \$9.2 million. Changes in construction in progress are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Balance at beginning of year | \$ 18,645,997 | \$ 12,795,461 |
| Costs incurred during the year | 16,074,593 | 20,531,708 |
| Completed jobs transferred to plant and equipment | <u>(4,552,632)</u> | <u>(14,681,172)</u> |
| Balance at end of year | <u>\$ 30,167,958</u> | <u>\$ 18,645,997</u> |

NOTE 6 - LONG TERM DEBT

| | <u>2009</u> | <u>2008</u> |
|--|--------------|--------------|
| \$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 \$775,000, plus interest payable semi-annually at 2.0% to 5.0% through November 11, 2011. | \$ 5,985,000 | \$ 6,490,000 |
| \$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%. | 8,920,000 | 9,820,000 |

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

| NOTE 6 - LONG TERM DEBT (cont.) | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| \$42,905,000 - Utility System Revenue and Refunding Bonds, Series 2007; with a payment of \$445,000 due in 2010. No payments are due for the years 2010 through 2018. Interest is fixed at 4.68%. | 42,515,000 | 42,905,000 |
| \$273,564 - Subordinate Utilities Revenue Bond, Series 1998; due in equal annual installments through November 1, 2008, and interest at 7%. | - | 36,213 |
| \$4,117,266 - Clean Water State Revolving Fund; due in semi annual installments of \$140,130 including interest at 3.05%. | 1,725,258 | 1,827,167 |
| \$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 | 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 | 13,008,900 |
| \$458,456 - The School Board of Clay County, Florida, present value annual services. | 456,989 | 458,456 |
| \$10,000,000 - Clay County Utility Authority Utilities System Revenue Note, Series 2009; due in semi-annual installments commencing on May 1, 2009 with interest at 4.24%. | 9,864,666 | - |
| \$8,905,382 - Clean Water State Revolving Fund; due in semi-annual installments commencing on May 15, 2010 with interest at 3.24%. | <u>8,905,382</u> | <u>-</u> |
| Total long term debt | 99,626,329 | 82,790,870 |
| Less current maturities | <u>(2,540,019)</u> | <u>(1,538,122)</u> |
| Long term debt | <u>\$ 97,086,310</u> | <u>\$ 81,252,748</u> |

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 6 - LONG TERM DEBT (cont.)

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

Year ending September 30,

| | Principal | Interest | Total |
|------------|----------------------|----------------------|-----------------------|
| 2010 | \$ 2,529,349 | \$ 3,258,187 | \$ 5,787,536 |
| 2011 | 2,369,200 | 3,228,662 | 5,597,862 |
| 2012 | 15,460,303 | 3,004,598 | 18,464,901 |
| 2013 | 2,529,729 | 2,951,819 | 5,481,548 |
| 2014 | 2,614,215 | 2,895,978 | 5,510,193 |
| Thereafter | <u>74,123,533</u> | <u>40,771,468</u> | <u>114,895,001</u> |
| Total | <u>\$ 99,626,329</u> | <u>\$ 56,110,712</u> | <u>\$ 155,737,041</u> |

The bond issue obtained from the Florida Rural Utility Financing Commission of \$13,008,900 matures in the fiscal year 2012. In October of 2009, the Authority made a payment of \$8,905,000 on that bond. Please refer to Note 10 for more detail on this transaction.

Net revenues of the water and sewer utility system are pledged as collateral for the revenue bonds. The bond agreements contain various reserve requirements.

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.

On November 21, 2008 Moody's Investor Services also downgraded the insurance financial strength ratings of Financial Security Assurance, Inc. (FSA). FSA is the bond issuer for the Utility System Revenue and Refunding Bonds, Series 2003 B&C.

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 7 - UNRESTRICTED NET ASSETS

The following summarizes unrestricted net assets:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------|----------------------|----------------------|
| Designated: | | |
| Bond surety reserve | \$ 2,036,755 | \$ - |
| Customer deposits | 2,356,207 | 2,299,004 |
| Future construction | 23,887,994 | 18,458,930 |
| Debt stabilization and reserve | 273 | 982,738 |
| Self-insurance | <u>500,000</u> | <u>500,000</u> |
| Total unrestricted net assets | <u>\$ 28,781,229</u> | <u>\$ 22,240,672</u> |

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 8 - 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. The Plan's benefits depend solely on amounts contributed plus investment income. 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, 2009 was \$112,206 for the Florida State Retirement System and \$7,001,419 for the Clay County Utility Authority Employees Plan. The Authority's total payroll was \$7,118,741.

Participants are fully vested after 4 years and one day 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 \$700,142 for 2009 and \$667,224 for 2008. No employee contributions are allowed by the plans.

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, 2009 and 9.85% as of July 1, 2008. The Authority contributed \$10,961 for 2009 and \$10,166 for 2008.

NOTE 9 - 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 \$1,158,312 as of September 30, 2009, and \$1,075,885 as of September 30, 2008.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

NOTE 10 - SUBSEQUENT EVENTS

On October 13, 2009, the Authority used the loan proceeds received from the Florida Department of Environmental Protection (FDPE) of \$8,905,000 as payment on the Florida Rural Utility Financing Commission Revenue Notes, Series 2008B obtained for interim financing from Florida Rural Utility Financing Commission (FRUFC).

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE PROJECTS
Year Ended September 30, 2009

| | CFDA/ CSFA Number | Contract Number | Expenditures |
|--|-------------------------|--------------------|--------------|
| <u>Pass-Through Entity</u> | | | |
| Federal/State Agency | | | |
| FEDERAL AWARDS | | | |
| <u>Indirect Programs</u> | | | |
| Environmental Protection Agency | | | |
| Passed through Florida Department of Environmental Protection Capitalization Grants for State Revolving Fund | 66.458 | WW858030 | \$ 8,905,380 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 8,905,380 |
| STATE AWARDS | | | |
| <u>Indirect Programs</u> | | | |
| Department of Environmental Protection | | | |
| Passed through St. Johns River Water Management District Statewide Surface Water Restoration and Wastewater Projects | 37.039 | SK944AA | \$ 1,573,103 |
| Water Management Districts - Land Acquisition | 37.022 | SK944AA | 1,636,218 |
| TOTAL EXPENDITURES OF STATE AWARDS | | | \$ 3,209,321 |

NOTE - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The above schedule of federal and state awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Loans Payable

The above schedule of federal and state awards includes expenditures from a federal loan the Authority has through the Florida Department of Environmental Protection (FDEP) under CFDA 66.458. The loans will be repaid over forty semi-annual payments.



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, 2009 and have issued our report thereon dated December 15, 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 Federal Program and 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.

To the Board of Supervisors
Clay County Utility Authority
Page Two

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 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, 2009, 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, 2009. In connection with our audit, we determined that the two reports were in agreement.

To the Board of Supervisors
Clay County Utility Authority
Page Three

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, 2009.

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

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
December 15, 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, 2009 and have issued our report thereon dated December 15, 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 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 Authority's board of supervisors, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
December 15, 2009



APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT
AND ONINTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE
AUDITOR GENERAL

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, 2009. The Clay County Utility Authority's major federal programs and 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, 2009.

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 and state projects. 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 or state project 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 or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project 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 Authority's board of supervisors, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
December 15, 2009

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2009

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|--|---------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness identified? | No |
| Significant deficiency identified that are not considered to be material weaknesses? | None Reported |

| | |
|---|----|
| Noncompliance material to financial statements noted? | No |
|---|----|

Federal Awards and State Financial Assistance Projects

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness identified? | No |
| Significant deficiency identified that are not considered to be material weaknesses? | 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 |
|--|----|

Identification of major programs:

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

(Continued on next page)

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2009

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 Auditor General? None

B. FINANCIAL STATEMENT FINDINGS None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS None

D. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS None

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 |
|-------------------|---|

| | |
|---------------------------------|---|
| Summary of Prior Audit Findings | Not required because there were no prior year findings. |
|---------------------------------|---|

| | |
|------------------------|---|
| Corrective Action Plan | Not required because there were no findings required to be reported under Federal or Florida Single Audit Acts. |
|------------------------|---|