

CLAY COUNTY UTILITY AUTHORITY

FINANCIAL STATEMENTS

September 30, 2010 and 2009

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, 2010 and 2009 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, 2010 and 2009, 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, 2010, 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 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*," 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, 2010

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, 2010. 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 4.6 million gallons per day during 2010.

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-six awards over the past decade, varying from "Excellence of Operations" for both our water and wastewater systems, "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 and our most recent receipt of the "Best in Construction" presented by Florida Transportation Builders Association for utility coordination and damage prevention during construction on the most heavily traveled urban corridor in Northeast Florida.

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 4.77% 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 preserving capital, liquidity and lastly returns on investment. The Funds were invested in accordance with Florida Statute 218.415.

The Authority has \$677,000 in Fund B with a weighted average life of 7.49 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, 2010, the net asset value was \$478,000. The financial statements reflect a current year adjustment of \$199,000, to reduce Fund B to the net asset value.

Condensed Statement of Net Assets

	<u>9/30/10</u>	<u>9/30/09</u>
Assets	(in thousands)	
Capital assets - net	\$ 239,441	\$ 233,520
Current assets	39,541	52,251
Other non-current assets	3,266	4,525
	<u>\$ 282,248</u>	<u>\$ 290,296</u>
Liabilities and fund equity		
Net assets	\$ 183,773	\$ 178,722
Long-term debt - net	87,765	99,704
Current liabilities, including restricted	10,710	11,870
	<u>\$ 282,248</u>	<u>\$ 290,296</u>

Management's Discussion and Analysis

Capital Assets - Net

Capital assets, net of depreciation, increased \$5,922,000 during 2010. Developers contributed \$190,000 of these assets and the balance was made up of various utility plant expansions. For the year 2009, capital assets, net of depreciation, increased \$12,976,000. Developers contributed \$4,201,000 of these assets, and the balance was made up of various utility plant expansions.

Current Assets

The current assets increase, for fiscal year 2010 of \$3,819,000, is comprised of an increase in cash of \$4,061,000, a decrease in accounts receivable of \$732,000 and an increase in prepaid items of \$490,000. Normally, cash in excess of working capital needs is transferred to an investment vehicle; however, because the rate of return on investments is currently equal to the bank rate of return, the excess funds were not transferred at September 30, 2010.

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 2010, the Authority had a net income of \$744,000 and developer and other contributions of \$587,000, and grants totaling \$3,719,000 resulting in a total increase in net assets of \$5,050,000. Net assets increased during 2009 due to net income of \$380,000 and developer contributions of \$10,418,000 for a total increase of \$10,798,000.

Long-Term Debt - Net

In fiscal year 2010, the Authority paid off the \$13,008,000 note with a rate of 4.2% provided by the Florida Rural Utility Financing Commission as interim financing until the Department of Environmental Protection (DEP) funds were available. The DEP funds have rates that range from 2.85% to 3.24%.

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.

Management's Discussion and Analysis

Current Liabilities

The 2010 decrease in current liabilities of \$1,187,000 is attributed to a decrease in accounts payable of \$969,000, a decrease in accrued expenses of \$267,000 that is offset by an increase in deferred revenue of \$49,000.

During 2009, the 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.

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

	Year Ended <u>9/30/10</u>	Year Ended <u>9/30/09</u>
	(in thousands)	
Operating revenues	\$ 32,233	\$ 30,570
Operating expenses	<u>(27,968)</u>	<u>(26,822)</u>
Operating income	4,265	3,748
Non-operating (expenses), net	(3,521)	(3,368)
Contributions and grants	<u>4,306</u>	<u>10,418</u>
Increase in net assets	<u>\$ 5,050</u>	<u>\$ 10,798</u>

Operating Revenues

Total revenues increased \$1,663,000 or 5.4% from 2009 to 2010 as a result of a rate increase of 4.8% and a decrease in usage by our customers.

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.

Management's Discussion and Analysis

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

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

Fiscal Year Ending	<u>Water</u>		<u>Sewer</u>		<u>Reuse</u>	
	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>	<u>ERCs</u>	<u>Use/ERC</u>
9/30/1999	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
9/30/2010	47,069	88.4	42,490	69.6	8,105	198.7

Operating Expense

Operating costs, excluding depreciation expense, increased \$826,000 or 4.33% from 2009 to 2010. During the same period, these costs remained the same percentage of 62% of total revenues.

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.

Non-Operating Revenue and Expenses

For fiscal 2010, interest revenue decreased \$85,000 due primarily to record low rates. Interest expense and bond amortization increased \$452,000 due mainly to the additional debt incurred in the current fiscal year.

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.

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 \$190,000 in 2010 compared to \$4,201,000 in 2009. Cash contributions totaled \$4,117,000 in 2010, of which \$3,719,000 was grant money and the remaining \$398,000 was connection fees, compared to \$5,270,000 of cash contributions in 2009.

Economic Factors and Next Year's Rate

Fiscal year 2010/2011 required a rate increase of 10.81% due largely to the cost of upgrading plant operator staff wages to meet competition, cost of living increases, increased sludge processing costs, and the cost to convert to monthly billing.

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, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Utility Plant		
Utility plant in service	\$ 282,460,621	\$263,712,130
Construction in progress	<u>25,050,592</u>	<u>30,167,958</u>
Total utility plant	307,511,213	293,880,088
Accumulated depreciation	<u>(68,070,543)</u>	<u>(60,359,987)</u>
Utility plant, net	<u>239,440,670</u>	<u>233,520,101</u>
Current Assets		
Cash	5,160,837	1,100,160
Accounts receivable, net	4,635,689	5,367,700
Prepaid items	<u>732,244</u>	<u>242,095</u>
Total current assets	<u>10,528,770</u>	<u>6,709,955</u>
Investments		
Restricted	11,620,160	20,447,347
Unrestricted	<u>17,392,169</u>	<u>25,093,335</u>
Total investments	<u>29,012,329</u>	<u>45,540,682</u>
Other Assets		
Bond issuance costs, net	1,354,660	1,302,366
Deferred compensation	1,296,899	1,158,312
Bond proceeds held in escrow	-	1,374,103
Notes receivable - connection fees	<u>614,899</u>	<u>690,467</u>
Total other assets	<u>3,266,458</u>	<u>4,525,248</u>
Total Assets	<u><u>\$ 282,248,227</u></u>	<u><u>\$290,295,986</u></u>

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Long-Term Liabilities		
Long-term debt	\$ 85,034,901	\$ 97,086,310
Unamortized discount and costs	<u>1,433,274</u>	<u>1,459,251</u>
Long-term debt, net	86,468,175	98,545,561
Deferred compensation	<u>1,296,899</u>	<u>1,158,312</u>
Total long-term liabilities	<u>87,765,074</u>	<u>99,703,873</u>
Current Liabilities		
Accounts payable	1,330,898	2,299,873
Accrued general expenses	684,225	951,502
Deferred revenues	<u>1,927,864</u>	<u>1,878,689</u>
Total current liabilities	<u>3,942,987</u>	<u>5,130,064</u>
Liabilities Payable from Restricted Assets		
Customer deposits	2,599,744	2,522,564
Current portion, long-term debt	2,543,860	2,540,019
Accrued interest	<u>1,623,905</u>	<u>1,676,990</u>
Total liabilities payable from restricted assets	<u>6,767,509</u>	<u>6,739,573</u>
Total Liabilities	<u>\$ 98,475,570</u>	<u>\$111,573,510</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 150,159,390	\$129,493,900
Restricted	11,620,160	20,447,347
Unrestricted	<u>21,993,107</u>	<u>28,781,229</u>
Total Net Assets	<u>\$ 183,772,657</u>	<u>\$178,722,476</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Charges for services	\$ 31,455,459	\$ 29,775,798
Miscellaneous revenues	<u>777,687</u>	<u>794,224</u>
Total operating revenues	<u>32,233,146</u>	<u>30,570,022</u>
Operating Expenses		
Wages and related benefits	8,946,643	8,851,284
Operating expenses	6,903,499	6,899,780
Subcontractors	2,616,098	1,973,863
In lieu of taxes	1,415,496	1,330,924
Depreciation expense	<u>8,086,123</u>	<u>7,766,432</u>
Total operating expenses	<u>27,967,859</u>	<u>26,822,283</u>
Income from operations	<u>4,265,287</u>	<u>3,747,739</u>
Non-Operating Revenue (Expenses)		
Interest income	285,868	370,950
Interest expense	(3,926,497)	(3,474,257)
Gain (loss) on sale of assets	9,428	13,496
Gain (loss) on investments	196,167	(181,019)
Amortization of bond discount and costs	<u>(86,227)</u>	<u>(96,894)</u>
Total non-operating revenue (expense)	<u>(3,521,261)</u>	<u>(3,367,724)</u>
Net income before contributions	744,026	380,015
Contributions from Developers and Others		
Developers and others	587,570	4,971,246
Grants	<u>3,718,585</u>	<u>5,446,777</u>
Total contributions	<u>4,306,155</u>	<u>10,418,023</u>
Change in net assets	5,050,181	10,798,038
Net assets, beginning of year	<u>178,722,476</u>	<u>167,924,438</u>
Net assets, end of year	<u>\$ 183,772,657</u>	<u>\$ 178,722,476</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 32,359,502	\$ 30,741,255
Other receipts (payments)	(189,248)	(117,143)
Payments to suppliers	(10,824,498)	(8,831,430)
Payment in lieu of taxes	(1,759,884)	(1,334,992)
Payments to employees	(9,023,752)	(8,551,184)
	<u>10,562,120</u>	<u>11,906,506</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(13,826,139)	(16,551,873)
Proceeds from issuance of debt, net of costs	4,696,742	22,253,693
Capital loans to customers, net	49,581	5,249
Repayment of debt principal	(15,534,705)	(2,069,923)
Interest paid on debt	(3,979,582)	(3,153,000)
Developer and other contributions	5,063,899	5,270,116
Proceeds from sale of assets	18,373	23,662
	<u>(23,511,831)</u>	<u>5,777,924</u>
Cash Flows from Investing Activities		
Investment income	285,868	370,950
Gain (loss) on investment	196,167	(181,019)
	<u>482,035</u>	<u>189,931</u>
Net (decrease) increase in cash and cash equivalents	(12,467,676)	17,874,361
Cash and cash equivalents at beginning of year	<u>46,640,842</u>	<u>28,766,481</u>
Cash and cash equivalents at end of year	<u>\$ 34,173,166</u>	<u>\$ 46,640,842</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Shown in the Financial Statements as:		
Cash	\$ 5,160,837	\$ 1,100,160
Investments	<u>29,012,329</u>	<u>45,540,682</u>
	<u>\$ 34,173,166</u>	<u>\$ 46,640,842</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 4,265,287	\$ 3,747,739
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,086,123	7,766,432
Change in non-cash assets and non-cash liabilities:		
Accounts receivable	(189,248)	(117,143)
Other assets	(490,149)	470,349
Accounts and accrued expenses payable	(1,236,251)	(132,106)
Deferred credits and other liabilities	<u>126,358</u>	<u>171,235</u>
Net cash provided by operating activities	<u>\$ 10,562,120</u>	<u>\$ 11,906,506</u>
Non-Cash Activities		
Contribution of capital assets from developers	<u>\$ 189,501</u>	<u>\$ 4,200,661</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, 2010 and 2009

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.

The principal operating revenues of the Authority are charges for water and sewer service, operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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, 2010 and 2009

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 mature in February and May of 2011. 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 professional standards. Capitalized interest was \$60,513 in 2010 and \$457,448 in 2009.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009

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>2010</u>	<u>2009</u>
Future construction	\$ 3,238,214	\$ 3,209,613
Bond payments	<u>8,381,946</u>	<u>17,237,734</u>
	<u>\$11,620,160</u>	<u>\$ 20,447,347</u>

The restricted bond payments shown above for the 2009 fiscal year, included \$8,905,380 of bond proceeds received from the Florida Department of Environmental Protection (FDPE) in September of 2009. \$4,892,498 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, 2010 and 2009

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, 2010 and 2009, the Authority had \$676,663 and \$874,769 in Fund B, the net asset value of the investment was \$478,440 and \$480,380, respectively. The net asset value is determined by multiplying the investment balance by the net asset value factor provided by SBA. 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 either fiscal year. The weighted average life of the Fund at September 30, 2010 and 2009 was 7.49 and 6.69 years, respectively. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life.

NOTE 3 - ACCOUNTS RECEIVABLE

Unbilled receivables represent amounts earned which have not yet been billed, along with other amounts which can be invoiced upon completion or attainment of contract objectives. Allowance for doubtful accounts is estimated by analysis of accounts receivable balance over 60 days, and historical collection trends.

Accounts receivable consisted of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Water and sewer services billed	\$ 2,628,950	\$ 2,775,193
Unbilled water and sewer revenues	2,140,333	1,967,961
Notes receivable - current portion	86,935	60,948
Other receivables	<u>162,849</u>	<u>1,089,863</u>
	5,019,067	5,893,965
Allowance for doubtful accounts	<u>(383,378)</u>	<u>(526,265)</u>
Total	<u>\$ 4,635,689</u>	<u>\$ 5,367,700</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009

NOTE 4 - UTILITY PLANT SERVICE

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

	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>
Machinery and equipment	\$ 256,134,334	\$ 19,068,467	\$ (479,540)	\$ 274,723,261
Buildings	4,953,095	159,564	-	5,112,659
Land	2,624,701	-	-	2,624,701
Construction in Progress	<u>30,167,958</u>	<u>14,823,734</u>	<u>(19,941,100)</u>	<u>25,050,592</u>
Total utility plant	<u>293,880,088</u>	<u>34,051,765</u>	<u>(20,420,640)</u>	<u>307,511,213</u>
Accumulated depreciation:				
Buildings	(2,329,809)	(379,479)	-	(2,709,288)
Machinery and equipment	<u>(58,030,178)</u>	<u>(7,801,672)</u>	<u>470,595</u>	<u>(65,361,255)</u>
Total accumulated depreciation	<u>(60,359,987)</u>	<u>(8,181,151)</u>	<u>470,595</u>	<u>(68,070,543)</u>
Utility plant, net	<u>\$ 233,520,101</u>	<u>\$ 25,870,614</u>	<u>\$ (19,950,045)</u>	<u>\$ 239,440,670</u>

Depreciation expense for 2010 and 2009 was \$8,086,123 and \$7,766,432, 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, 2010, construction commitments were approximately \$660,000. Changes in construction in progress are as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 30,167,958	\$ 18,645,997
Costs incurred during the year	14,823,734	16,074,593
Completed jobs transferred to plant and equipment	<u>(19,941,100)</u>	<u>(4,552,632)</u>
Balance at end of year	<u>\$ 25,050,592</u>	<u>\$ 30,167,958</u>

NOTE 6 - LONG TERM DEBT

	<u>2010</u>	<u>2009</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 \$755,000, plus interest payable semi-annually at 2.0% to 5.0% through November 1, 2018.	\$ 5,475,000	\$ 5,985,000
\$6,545,000 - Term Bonds due in annual installments beginning November 1, 2019, varying from \$905,000 to \$935,000 plus interest payable semi annually at 5%. Final balloon payment of \$3,140,000 due November 1, 2023.	6,545,000	6,545,000

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009

NOTE 6 - LONG TERM DEBT (cont.)

	<u>2010</u>	<u>2009</u>
\$13,265,000 - Utility System Revenue Refunding Bonds, Series 2003C; due in annual installments varying from \$510,000 to \$1,195,000 plus interest payable semi-annually at 2.0% to 5.0%.	7,980,000	8,920,000
\$42,905,000 - Utility System Revenue and Refunding Bonds, Series 2007; with a payment of \$445,000 due in 2010. No principal payments are due for the years 2011 through 2018. Interest is fixed at 4.68%.	42,070,000	42,515,000
\$2,332,115 - Clean Water State Revolving Fund; due in semi annual installments of \$156,866 including interest at 3.05%.	1,620,218	1,725,258
\$3,988,039 - Clean Water State Revolving Funds; due in semi-annual installments commencing on November 15, 2010 with interest at 2.92%.	3,988,039	978,176
\$13,008,900 - Florida Rural Utility Financing Commission Revenue Notes, Series 2008B; commencing on October 1, 2009 including interest at 4.20%. Proceeds from Clean Water State Revolving note were used to retire this debt.	-	13,008,900
\$461,195 - The School Board of Clay County, Florida, present value annual services.	461,195	456,989
\$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%.	9,558,379	9,864,666
\$10,100,407 - Clean Water State Revolving Fund; due in semi-annual installments commencing on May 15, 2010 with interest ranging from 2.85% to 3.24%.	<u>9,880,930</u>	<u>9,627,340</u>
Total long term debt	87,578,761	99,626,329
Less current maturities	<u>(2,543,860)</u>	<u>(2,540,019)</u>
Long term debt	<u>\$ 85,034,901</u>	<u>\$ 97,086,310</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009

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
2011	\$ 2,543,861	\$ 3,835,275	\$ 6,379,136
2012	2,588,531	3,755,137	6,343,668
2013	2,671,209	3,671,697	6,342,906
2014	2,760,092	3,583,649	6,343,741
2015	2,853,397	3,477,177	6,330,574
Thereafter	<u>74,161,671</u>	<u>42,861,373</u>	<u>117,023,044</u>
Total	<u>\$ 87,578,761</u>	<u>\$ 61,184,308</u>	<u>\$ 148,763,069</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.

On February 7, 2008, Moody's Investor Services downgraded the insurance financial strength ratings of XL Capital Assurance, Inc. (XLCA) from Aaa to A3. Moody's downgraded XLCA to B2 on June 20, 2008. Effective August 4, 2008, XLCA became known as Syncora Guarantee, Inc. On October 24, 2008, Moody's downgraded Syncora from B2 to Caa1, and further downgraded Syncora on March 9, 2009 to Ca. Syncora Guarantee, Inc. 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) from Aaa to Aa3. 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>2010</u>	<u>2009</u>
Designated:		
Bond surety reserve	\$ 1,547,934	\$ 2,036,755
Customer deposits	2,457,974	2,356,207
Future construction	11,643,368	23,887,994
Debt stabilization and reserve	489,893	273
Self-insurance	1,253,000	500,000
Undesignated	<u>4,600,938</u>	-
Total unrestricted net assets	<u>\$ 21,993,107</u>	<u>\$ 28,781,229</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009

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 administered by BB&T. The Authority has the right to amend the Plan at any time, provided that no amendment or modification shall reduce the account balances of any participant. The Plan's benefits depend solely on amounts contributed plus investment income. The payroll for employees covered by this plan for the year ended September 30, 2010 was \$6,648,900, the total payroll was \$6,767,383. 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 Plan. The Authority contributed \$664,890 for 2010, and \$700,142 for 2009. No employee contributions are allowed by the Plan.

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. Two employees elected to remain covered by this plan, which is a cost-sharing, multiple-employer public employment system administered by the State of Florida. The payroll for employees covered by this plan for the year ended September 30, 2010 was \$111,872. The Authority's contribution rate to the Florida State Retirement System is 9.85% effective July 1, 2009. The Authority contributed \$11,057 for 2010, and \$10,961 for 2009.

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, this plan is administered by BB&T. 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, held by the administrator were \$1,296,899 as of September 30, 2010, and \$1,158,312 as of September 30, 2009.

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance.

NOTE 11 - SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 15, 2010, the date which the financial statements were available to be issued.

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2010

	CFDA 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	\$ 3,009,863
Protection Capitalization Grants for State Revolving Fund	66.458	WW858041	473,067
Total CFDA 66.458			3,482,930
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,482,930

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, 2010 and have issued our report thereon dated December 15, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on each Federal Program, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 15, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no 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. 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 occurred, or are likely to have occurred, 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, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. 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, 2010, 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, 2010. 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

Pursuant to Sections 10.554(i)7.c., and 10.556(7), Rules of the Auditor General, we applied financial assessment procedures. It is management's responsibility to monitor the Clay County Utility Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same. Our assessment was performed as of September 30, 2010.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, board of supervisors, 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
December 15, 2010



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, 2010 and have issued our report thereon dated December 15, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 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, 2010



REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL 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* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The Clay County Utility Authority's major federal programs 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 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; and OMB Circular A-133. Those standards and OMB Circular A-133 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 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Magars & Associates, LLC

Magars & Associates, LLC
Orange Park, Florida
December 15, 2010

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

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
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Federal Awards

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
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Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?	No
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Identification of major programs:

Federal Program	CFDA No.
Capitalization Grants for State Revolving Funds	66.458

(Continued on next page)

CLAY COUNTY UTILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

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

Federal Programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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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?	None
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B. FINANCIAL STATEMENT FINDINGS	None
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C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS	None
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D. OTHER ISSUES

Management Letter	There are no findings to be reported. The mangement letter presented on page 23 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 Single Audit Acts.
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