

CLAY COUNTY UTILITY AUTHORITY

FINANCIAL STATEMENTS

September 30, 2011 and 2010

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 accompanying financial statements of the Clay County Utility Authority, as of and for the years ended September 30, 2011 and 2010, 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 opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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, 2011 and 2010, 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 2, 2011, on our consideration of Clay County Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

To the Board of Supervisors
Clay County Utility Authority
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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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Magers & Associates, LLC

Magers & Associates, LLC
Orange Park, Florida
December 2, 2011

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, 2011. 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 reclaimed water 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 report the Authority's financial position.

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 5.2 million gallons per day during the fiscal year ending September 30, 2011.

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 10.8% during the fiscal year 2010/2011 due to the cost of upgrading plant operator staff wages to meet competition, monthly billing conversion, increased sludge processing cost, disturbing volatility in the prices of energy products, renewal and replacement of older systems and a conservative approach in estimating the revenues with the slow down in the housing market and tiered water conversion rate structure. A four tier rate system was implemented along with the monthly billing transition. Management estimated a 15% usage conservation impact when the tiered structure was developed, but this was not achieved. We believe that the lack of rain was a contributing factor. All excess earnings have been transferred to our construction reserves to accommodate future capital projects which may include development of alternative water supplies.

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.

In 2007, 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 moved to a Public Funds Now account that is collateralized with the State of Florida.

The Authority has \$537,000 in Fund B with a weighted average life of 4.82 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, 2011, the net asset value was \$407,000. The financial statements reflect total current year adjustments of \$68,000, to account for the change in Fund B's net asset value.

Condensed Statement of Net Assets

	<u>9/30/11</u>	<u>9/30/10</u>
Assets	(in thousands)	
Capital assets - net	\$ 235,539	\$ 239,441
Current assets	7,654	10,529
Investments	38,499	29,012
Other non-current assets	3,567	3,266
	<u>\$ 285,259</u>	<u>\$ 282,248</u>
Liabilities and fund equity		
Net assets	\$ 190,356	\$ 183,773
Long-term liabilities, net	85,360	87,765
Current liabilities, including restricted	9,543	10,710
	<u>\$ 285,259</u>	<u>\$ 282,248</u>

Management's Discussion and Analysis

Capital Assets - Net

Net capital assets decreased \$3,902,000 during the fiscal year 2010/2011. The decrease is mainly attributed to \$8,553,000 of depreciation expense, offset by \$4,651,000 of various utility expansions and dispositions. Developers contributed \$358,000 of those assets.

For the year 2010, capital assets, net of depreciation, increased \$5,922,000. Of the additions, developers contributed \$190,000 of these assets, with the balance being made up of various utility plant expansions.

Current Assets

The current assets decrease, for fiscal year 2011 of \$2,874,000, is comprised of a decrease in cash of \$3,157,000 due largely to the investing in long term certificates of deposit, an increase in accounts receivable of \$508,000 and a decrease in prepaid items of \$225,000. During 2010, cash in excess of working capital requirements were not transferred to an investment vehicle because there was no benefit in the rate of return.

The Authority turns customer accounts in excess of 60 days overdue to a collection agency. The goal is to minimize the amount of delinquent debt owed to the Authority in a timely manner. All agency collection fees are paid by the customer with the delinquent balance.

Net Assets

For fiscal year 2011, the Authority had a net income of \$5,154,000. In addition, developer and other contributions of \$1,115,000, as well as grants totaling \$315,000 resulted in a total increase in net assets of \$6,583,000. Net assets increased during 2010 due to net income of \$744,000, developer contributions of \$587,000, and grants totaling \$3,719,000 resulting in a total increase in net assets of \$5,050,000.

Long-Term Debt - Net

In fiscal year 2011, net long term debt decreased \$2,405,000. This decrease consisted of debt payments of \$2,603,000, offset by the amortization of bond related cost and issue cost for the Florida Department of Environmental Protection (FDEP) loans that were finalized.

In the fiscal year 2010, the Authority paid off the Florida Rural Utility Financing Commission revenue note of \$13,008,000 with an interest rate of 4.2% with a FDEP revolving fund loan with interest rates ranging from 2.85% to 3.24%.

Management's Discussion and Analysis

Current Liabilities

The 2011 decrease in current liabilities of \$1,263,000 is attributed mainly to the decrease in deferred revenue of \$1,201,000. This was due to the monthly billing transition.

During 2010, the 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.

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

	Year Ended 9/30/11	Year Ended 9/30/10
	(in thousands)	
Operating revenues	\$ 38,934	\$ 32,233
Operating expenses	(30,207)	(27,968)
Operating income	8,727	4,265
Non-operating (expenses), net	(3,573)	(3,521)
Contributions and grants	1,429	4,306
Increase in net assets	<u>\$ 6,583</u>	<u>\$ 5,050</u>

Operating Revenues

Total revenues increased \$6,700,000 or 20.8% from 2010 to 2011 as a result of a rate increase of 10.8%, and less than anticipated reduction in overall potable water usage expected from the conservation tiered rate structure.

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.

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 average annual usage per ERC, *expressed in thousands of gallons*:

Fiscal Year Ending	<u>Water</u>		<u>Wastewater</u>		<u>Reclaimed Water</u>	
	<u>ERCs</u>	Annual Usage/ <u>ERC</u>	<u>ERCs</u>	Annual Usage/ <u>ERC</u>	<u>ERCs</u>	Annual Usage/ <u>ERC</u>
9/30/2000	28,767	138.3	26,341	94.4	42	177.9
9/30/2001	30,504	120.8	27,935	89.4	412	174.0
9/30/2002	32,664	116.1	29,974	86.8	1,244	174.2
9/30/2003	36,438	102.4	32,068	81.7	2,231	121.8
9/30/2004	38,810	114.1	34,138	83.5	3,165	171.7
9/30/2005	41,290	94.9	36,180	78.7	4,933	139.4
9/30/2006	44,083	107.9	38,636	79.5	6,437	254.4
9/30/2007	45,188	110.8	40,230	79.9	6,923	266.7
9/30/2008	46,453	99.8	41,717	76.6	7,230	252.3
9/30/2009	46,267	90.7	41,643	71.0	7,392	203.7
9/30/2010	47,069	88.4	42,490	69.6	7,736	202.3
9/30/2011	46,423	94.6	41,750	75.2	6,769	215.5

Operating Expense

Operating costs, excluding depreciation expense, increased \$1,732,000 or 8.7% from 2010 to 2011. During the same period, these costs decreased to a percentage of 56% of total revenues.

Operating costs, excluding depreciation expense, increased \$826,000 or 4.3% from 2009 to 2010. During the same period, these costs remained at 62% of total revenues.

Non-Operating Revenue and Expenses

For fiscal 2011, interest revenue decreased \$44,000 due primarily to record low rates of return. Interest expense and bond amortization decreased \$134,000 due mainly to the FDEP loan finalized in the current fiscal year. The gain on investments decreased \$129,000 as a result of the fair value adjustment of the SBA Fund B.

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.

Management's Discussion and Analysis

Contributions in Aid of Construction

Developers and others are required to contribute property (water, wastewater, and reclaimed water lines) in their developments and cash for their proportional share of existing water, wastewater, and reclaimed water plants in order to connect to the Authority's systems. Contributed property was \$358,000 in 2011 compared to \$190,000 in 2010. Cash contributions totaled \$1,071,000 in 2011, of which \$315,000 was grant money, compared to cash contributions of \$4,117,000, of which \$3,719,000 was grant money in 2010.

Economic Factors and Next Year's Rate

The Authority's economic condition has been generally affected less by the local economy than by weather and water use restrictions. Water, wastewater and reclaimed water service is a public necessity; thus revenue typically remains stable as long as the number of customers, and customer usage does not decline. Conservation will moderate future water sales, but the Authority's rates fully anticipate that impact.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Patricia Barthlow, Comptroller, 3176 Old Jennings Road, Middleburg, Florida, 32068.

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Utility Plant		
Utility plant in service	\$ 301,771,109	\$282,460,621
Construction in progress	<u>10,391,801</u>	<u>25,050,592</u>
Total utility plant	312,162,910	307,511,213
Accumulated depreciation	<u>(76,623,921)</u>	<u>(68,070,543)</u>
Utility plant, net	<u>235,538,989</u>	<u>239,440,670</u>
Current Assets		
Cash	2,003,416	5,160,837
Accounts receivable, net	5,143,611	4,635,689
Prepaid items	<u>507,344</u>	<u>732,244</u>
Total current assets	<u>7,654,371</u>	<u>10,528,770</u>
Investments		
Restricted	13,901,582	11,620,160
Unrestricted	<u>24,597,037</u>	<u>17,392,169</u>
Total investments	<u>38,498,619</u>	<u>29,012,329</u>
Other Assets		
Bond issuance costs, net	1,517,312	1,354,660
Deferred compensation	1,295,024	1,296,899
Notes receivable - connection fees	<u>754,505</u>	<u>614,899</u>
Total other assets	<u>3,566,841</u>	<u>3,266,458</u>
Total Assets	<u>\$ 285,258,820</u>	<u>\$282,248,227</u>

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

CLAY COUNTY UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
September 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Long-Term Liabilities		
Long-term debt	\$ 82,664,477	\$ 85,034,901
Unamortized discount and costs	<u>1,400,445</u>	<u>1,433,274</u>
Long-term debt, net	84,064,922	86,468,175
Deferred compensation	<u>1,295,024</u>	<u>1,296,899</u>
Total long-term liabilities	<u>85,359,946</u>	<u>87,765,074</u>
Current Liabilities		
Accounts payable	1,181,069	1,330,898
Accrued general expenses	772,078	684,225
Deferred revenues	<u>726,575</u>	<u>1,927,864</u>
Total current liabilities	<u>2,679,722</u>	<u>3,942,987</u>
Liabilities Payable from Restricted Assets		
Customer deposits	2,710,814	2,599,744
Current portion, long-term debt	2,589,928	2,543,860
Accrued interest	<u>1,562,441</u>	<u>1,623,905</u>
Total liabilities payable from restricted assets	<u>6,863,183</u>	<u>6,767,509</u>
Total Liabilities	<u>\$ 94,902,851</u>	<u>\$ 98,475,570</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 148,839,010	\$150,159,390
Restricted	13,901,582	11,620,160
Unrestricted	<u>27,615,377</u>	<u>21,993,107</u>
Total Net Assets	<u>\$ 190,355,969</u>	<u>\$183,772,657</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, 2011 and 2010

	2011	2010
Operating Revenues		
Charges for services	\$ 37,799,598	\$ 31,455,459
Miscellaneous revenues	1,134,041	777,687
Total operating revenues	38,933,639	32,233,146
Operating Expenses		
Wages and related benefits	10,200,026	8,946,643
Operating expenses	7,096,328	6,903,499
Subcontractors	2,616,785	2,616,098
In lieu of taxes	1,700,982	1,415,496
Depreciation expense	8,592,811	8,086,123
Total operating expenses	30,206,932	27,967,859
Income from operations	8,726,707	4,265,287
Non-Operating Revenue (Expenses)		
Interest income	241,843	285,868
Interest expense	(3,795,569)	(3,926,497)
Gain (loss) on sale of assets	(3,498)	9,428
Gain (loss) on investments	67,546	196,167
Amortization of bond discount and costs	(82,998)	(86,227)
Total non-operating revenue (expense)	(3,572,676)	(3,521,261)
Net income before contributions	5,154,031	744,026
Contributions from Developers and Others		
Developers and others	1,114,663	587,570
Grants	314,618	3,718,585
Total contributions	1,429,281	4,306,155
Change in net assets	6,583,312	5,050,181
Net assets, beginning of year	183,772,657	178,722,476
Net assets, end of year	\$ 190,355,969	\$ 183,772,657

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 37,843,420	\$ 32,359,502
Other receipts (payments)	(469,961)	(189,248)
Payments to suppliers	(9,462,336)	(10,824,498)
Payment in lieu of taxes	(1,700,982)	(1,759,884)
Payments to employees	(10,287,879)	(9,023,752)
	<u>15,922,262</u>	<u>10,562,120</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,399,067)	(13,826,139)
Proceeds from issuance of debt, net of costs	-	4,696,742
Capital loans to customers, net	(177,567)	49,581
Repayment of debt principal	(2,602,835)	(15,534,705)
Interest paid on debt	(3,857,033)	(3,979,582)
Developer and other contributions	1,070,930	5,063,899
Proceeds from sale of assets	62,790	18,373
	<u>(9,902,782)</u>	<u>(23,511,831)</u>
Net cash provided by (used in) capital and related financial activities		
Cash Flows from Investing Activities		
Purchase of long-term certificates of deposit	(15,088,986)	-
Investment income	241,843	285,868
Gain (loss) on investment	67,546	196,167
	<u>(14,779,597)</u>	<u>482,035</u>
Net cash provided (used) by investing activities		
Net (decrease) increase in cash and cash equivalents	(8,760,117)	(12,467,676)
Cash and cash equivalents at beginning of year	<u>34,173,166</u>	<u>46,640,842</u>
Cash and cash equivalents at end of year	<u>\$ 25,413,049</u>	<u>\$ 34,173,166</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, 2011 and 2010

	2011	2010
Shown in the Financial Statements as:		
Cash	\$ 2,003,416	\$ 5,160,837
Investments	38,498,619	29,012,329
Less long-term investments	(15,088,986)	-
	\$ 25,413,049	\$ 34,173,166
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 8,726,707	\$ 4,265,287
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,592,811	8,086,123
Change in non-cash assets and non-cash liabilities:		
Accounts receivable	(469,961)	(189,248)
Other assets	224,900	(490,149)
Accounts and accrued expenses payable	(61,976)	(1,236,251)
Deferred credits and other liabilities	(1,090,219)	126,358
Net cash provided by operating activities	\$ 15,922,262	\$ 10,562,120
Non-Cash Activities		
Contribution of capital assets from developers	\$ 358,351	\$ 189,501

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, 2011 and 2010

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 reclaimed water 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, wastewater, and reclaimed water 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, 2011 and 2010

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

The Authority has an adopted investment policy pursuant to Section 218.45, Florida Statutes. In addition, the Authority may authorize additional investments through the adoption of a resolution.

Investments are classified as restricted as a result of various bond indenture requirements and other agreements and consist of deposits in qualified public depositories. 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, Wastewater, and Reclaimed Water Lines	40 years
Equipment	7 - 25 years

Interest costs related to the construction of fixed assets are capitalized as required by FASB standards. There was no capitalized interest in 2011. In 2010, \$60,513 of interest was capitalized.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

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

Amortization

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

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 - MANAGEMENT'S REVIEW

The Authority has evaluated subsequent events through December 2, 2011, the date which the financial statements were available to be issued.

NOTE 3 - RESTRICTED INVESTMENTS

Restricted investments consisted of the following as of September 30:

	<u>2011</u>	<u>2010</u>
Future construction	\$ 5,018,538	\$ 3,238,214
Bond payments	8,883,044	8,381,946
	<u>\$ 13,901,582</u>	<u>\$ 11,620,160</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 3 - 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, 2011 and 2010, the Authority had \$537,408 and \$676,663 in Fund B, the net asset value of the investment was \$406,731 and \$478,440, 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, 2011 and 2010 was 4.82 and 7.49 years, respectively. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life.

NOTE 4 - 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>2011</u>	<u>2010</u>
Water, wastewater, and reclaimed water services billed	\$ 2,385,242	\$ 2,628,950
Unbilled water, wastewater, and reclaimed water revenues	2,769,020	2,140,333
Notes receivable - current portion	124,895	86,935
Other receivables	<u>339,034</u>	<u>162,849</u>
	5,618,191	5,019,067
Allowance for doubtful accounts	<u>(474,580)</u>	<u>(383,378)</u>
Total	<u>\$ 5,143,611</u>	<u>\$ 4,635,689</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 5 - UTILITY PLANT SERVICE

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

	<u>2010</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>2011</u>
Machinery and equipment	\$ 274,723,261	\$ 19,172,070	\$ (186,493)	\$ 293,708,838
Buildings	5,112,659	-	-	5,112,659
Land	2,624,701	324,911	-	2,949,612
Construction in Progress	25,050,592	3,606,197	(18,264,988)	10,391,801
Total utility plant	<u>307,511,213</u>	<u>23,103,178</u>	<u>(18,451,481)</u>	<u>312,162,910</u>
Accumulated depreciation:				
Buildings	(2,709,288)	(383,052)	-	(3,092,340)
Machinery and equipment	(65,361,255)	(8,294,214)	123,888	(73,531,581)
Total accumulated depreciation	<u>(68,070,543)</u>	<u>(8,677,266)</u>	<u>123,888</u>	<u>(76,623,921)</u>
Utility plant, net	<u>\$ 239,440,670</u>	<u>\$ 14,425,912</u>	<u>\$ (18,327,593)</u>	<u>\$ 235,538,989</u>

In the fiscal year ending September 30, 2011, \$18,264,988 of completed construction in progress jobs were transferred to machinery and equipment.

Depreciation expense for 2011 and 2010 was \$8,592,811 and \$8,086,123, respectively.

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction work in progress consists of costs incurred and various improvements to the water, wastewater, and reclaimed water treatment systems. Construction work in progress is not depreciated until completed and placed into service. At September 30, 2011, construction commitments were approximately \$524,716. Changes in construction in progress are as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 25,050,592	\$ 30,167,958
Costs incurred during the year	3,606,197	14,823,734
Completed jobs transferred to plant and equipment	<u>(18,264,988)</u>	<u>(19,941,100)</u>
Balance at end of year	<u>\$ 10,391,801</u>	<u>\$ 25,050,592</u>

NOTE 7 - LONG TERM DEBT

The following is a summary of long term debt transactions for the year ended September 30, 2011:

Long term debt beginning balance	\$ 87,578,761
Additions	278,479
Reductions	<u>(2,602,835)</u>
Ending Balance	<u>\$ 85,254,405</u>
Due within one year	<u>\$ 2,589,928</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 7 - LONG TERM DEBT (cont.)

	<u>2011</u>	<u>2010</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.	\$ 4,955,000	\$ 5,475,000
\$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
\$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%.	7,015,000	7,980,000
\$42,905,000 - Utility System Revenue and Refunding Bonds, Series 2007; with a payment of \$445,000 due in 2010. No principal payments are due for the years 2011 through 2018. Interest is fixed at 4.68%.	42,070,000	42,070,000
\$2,332,115 - Clean Water State Revolving Fund; due in semi annual installments of \$156,866 including interest at 3.05%.	1,511,949	1,620,218
\$3,988,039 - Clean Water State Revolving Funds; due in semi-annual installments commencing on November 15, 2010 with interest at 2.92%.	3,902,429	3,988,039
\$461,195 - The School Board of Clay County, Florida, present value annual services of captial lease in which ownership will be transferred at the end of the term.	378,302	461,195
\$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%.	9,209,147	9,558,379
\$9,716,684 - 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>9,667,578</u>	<u>9,880,930</u>
Total long term debt	85,254,405	87,578,761
Less current maturities	<u>(2,589,928)</u>	<u>(2,543,860)</u>
Long term debt	<u>\$ 82,664,477</u>	<u>\$ 85,034,901</u>

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 7 - LONG TERM DEBT (cont.)

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

Year ending September 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,589,928	\$ 3,760,925	\$ 6,350,853
2013	2,672,480	3,677,610	6,350,090
2014	2,761,347	3,589,579	6,350,926
2015	2,854,634	3,483,125	6,337,759
2016	2,978,226	3,354,113	6,332,339
2017-2021	13,017,787	15,068,639	28,086,426
2022-2026	16,117,436	12,088,342	28,205,778
2027-2031	16,572,567	8,391,999	24,964,566
2032-2036	20,870,000	3,915,750	24,785,750
2037	4,820,000	120,505	4,940,505
Total	<u>\$85,254,405</u>	<u>\$ 57,450,587</u>	<u>\$ 142,704,992</u>

Net revenues of the water, wastewater, and reclaimed water 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 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.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 8 - UNRESTRICTED NET ASSETS

The following summarizes unrestricted net assets:

	<u>2011</u>	<u>2010</u>
Designated:		
Bond surety reserve	\$ 1,059,112	\$ 1,547,934
Customer deposits	2,591,735	2,457,974
Future construction	18,712,318	11,643,368
Debt stabilization and reserve	980,872	489,893
Self-insurance	1,253,000	1,253,000
Undesignated	3,018,340	4,600,938
Total unrestricted net assets	<u>\$27,615,377</u>	<u>\$ 21,993,107</u>

NOTE 9 - 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, included as part of the Authority's reporting entity. The Authority has the right to amend the Plan at any time, provided that no amendment or modification shall reduce the account balances of any participant. The Plan's benefits depend solely on amounts contributed plus investment income. The payroll for employees covered by this plan for the year ended September 30, 2011 was \$7,539,250, the total payroll was \$7,670,670. 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 \$753,925 for 2011, and \$664,890 for 2010. 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, 2011 was \$115,550. For the year ended September 30, 2011, the Authority's contribution rate to the Florida State Retirement System was 9.63% until July 1, 2011. The Florida State Retirement System changed the contribution rate to include mandatory employee contributions. Beginning July 1, 2011, the Authority's contribution rate was 4.91%, with a mandatory employee contribution rate of 3.0%. The Authority contributed \$9,997 for 2011, and \$11,057 for 2010.

CLAY COUNTY UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2011 and 2010

NOTE 10 - 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 \$1,295,024 as of September 30, 2011, and \$1,296,899 as of September 30, 2010.

NOTE 11 - 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.



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 established pursuant to Chapter 94-491, Laws of Florida (1994), as of and for the fiscal year ended September 30, 2011 and have issued our report thereon dated December 2, 2011.

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 Compliance and Other Matters. Disclosures in that report, which is dated December 2, 2011, 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 auditors' reports:

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 the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Clay County Utility Authority complied with Section 218.415, Florida Statutes.

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), 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, 2011, 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, 2011. In connection with our audit, we determined that the two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c., and 10.556(7), Rules of the Auditor General, we applied financial condition 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, 2011.

To the Board of Supervisors
Clay County Utility Authority
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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 2, 2011



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, 2011, and have issued our report thereon dated December 2, 2011. 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 a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority's board of supervisors, management, others within the entity, 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 2, 2011