

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**CITY OF CEDAR KEY
CEDAR KEY, FLORIDA**

SEPTEMBER 30, 2007

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AND
INDEPENDENT AUDITORS' REPORTS**

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SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

We have audited the accompanying financial statements of the governmental activities and major funds of the City of Cedar Key, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City as of September 30, 2007, and the changes in financial position thereof and the budgetary comparison for the general fund and the major special revenue fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2008, on our consideration of the City's internal control over financial reporting and on 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 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.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

The management's discussion and analysis on pages 3 through 9, 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 measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the City's basic financial statements. The accompanying schedule of expenditures of state financial assistance, as required by Chapter 10.550, *Rules of the Auditor General* of the State of Florida, are presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. 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 basic financial statements taken as a whole.

Purvis, Gray and Company, LLP

August 26, 2008
Gainesville, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Cedar Key City Hall's (the City) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget) and, (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements (beginning on page 10).

HIGHLIGHTS

Financial Highlights

The net assets of the City exceeded its liabilities at the close of fiscal year 2007 by \$4,901,762 (net assets). Of this amount, \$1,317,256 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

General Fund revenues decreased by \$582,512 or 28.4% when compared to FY 2006 General fund expenditures decreased by \$106,092 or 5.11% during this same period. The net change in fund balance in the General Fund showed a deficit of \$25,590. This represents 1.3% of the total revenues for the year.

The City's long-term debt as of September 30, 2007, amounted to \$8,671.

City Highlights

The City completed the Historic Reconstruction of the Library (Schlemmer House) setting the pace for future preservation of other historically significant structures in the downtown area.

The City Beach (located at the downtown City Park) lost a significant amount of beach sand during the 2004 hurricanes and was restored during FY 2005. In addition, FRDAP awarded both the City Park and Cemetery Point Park \$200,000 each for park improvements. The Dock Street Project was completed and the City dredged the Marina.

Staff changes within the City led to the hiring of additional personnel in the Police Department and the CRA Board brought in a Community Redevelopment Director to manage the CRA projects.

Overview of the Finance Statements

The new financial statements (implemented in 2004) focus on the City as a whole (government-wide). This will allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability. Comparative analysis at the governmental level is provided this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*

Government-wide Financial Statements

The Government-wide financial statements (see pages 10 to 15) are designed to be corporate-like in that all governmental activities are consolidated into columns which add up to a total for the Primary Government. The focus on the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to bottom line results for the City and its governmental activities. This statement, for the first time, combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The Statement of Activities (see page 11) is focused on both the gross and net cost of various activities, which are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various activities.

The Government Activities reflect the City's basic services, including general government, fire, public services, building services, police, garbage, recreation and Community Redevelopment Agency (CRA) Projects. Property taxes, utility service taxes, gas taxes, and sales taxes, and finance the majority of these services.

Fund Financial Statements

Traditional users of government financial statements will find the Fund Financial Statement presentations more familiar. The focus is now on major funds, rather than (the previous model's) fund types.

The Government's Major Funds (see page 16 and 17) presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statements allow the demonstration of sources and uses and/or budgeting compliance associated therewith.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – buildings, roads, curbs, and sidewalks) have not been reported nor depreciated in government financial statements. This new statement requires that these assets be valued and reported.

GOVERNMENT-WIDE STATEMENTS

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Statement of Net Assets
September 30, 2007

Governmental
Activities

	Fiscal Year 2007	Fiscal Year 2006
Current and Other Assets	\$ 1,464,935	\$ 1,627,398
Capital Assets	5,929,646	3,331,893
Total Assets	7,394,581	4,959,291
Current Liabilities	2,484,148	1,463,977
Non-current Liabilities	8,671	37,016
Total Liabilities	2,492,819	1,500,993
Net Assets:		
Investment in Capital Assets	3,584,506	1,869,565
Unrestricted	1,317,256	1,588,733
Total Net Assets	\$ 4,901,762	\$ 3,458,298

The largest portion of the City's net assets (73.1%) reflects its investment in capital assets (e.g. land, buildings, and equipment). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending.

The Unrestricted Net Asset balance is intended to be a corporate-style measurement of well-being (or a measure of available resources) for the City and its related government activities.

Current Year Impacts

The following schedule presents the revenues and expenses for the current year:

Statement of Activities
Year Ending September 30, 2007

	Total Government Activities	
Description	Fiscal Year 2007	Fiscal Year 2006
Revenues:		
Charges for Services	\$ 414,882	\$ 404,755
Grants and Contributions	572,684	401,752
Property Taxes	1,973,645	1,488,246
Franchise Fees	44,464	45,912
Local Option Fuel Tax	11,634	11,937
Utility Tax	106,339	103,783
State Shared Revenues	140,004	134,668
Interest	37,046	16,685
Miscellaneous	20,722	27,734
Total Revenues	\$ 3,321,420	\$ 2,635,472

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Statement of Activities
Year Ending September 30, 2007

<u>Description</u>	Total Government Activities	
	Fiscal Year	Fiscal Year
	2007	2006
Expenses:		
General Government	\$ 470,812	\$ 364,639
Public Safety	541,288	439,207
Physical Environment	171,188	171,322
Transportation	51,043	24,604
Comprehensive Planning	98,432	93,231
Culture and Recreation	128,943	134,768
Economic Environment	305,552	256,013
Interest	110,698	0
Total Expenses	1,877,956	1,483,784
Increase in Net Assets	1,443,464	1,151,688
Net Assets, Beginning of Year	3,458,298	2,306,610
Net Assets, End of Year	\$ 4,901,762	\$ 3,458,298

Normal Impacts

There are eight basic (normal) impacts on revenues and expenses as reflected below:

Revenues

Economic Condition – which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas and other tax revenue as well as public spending habits for permits, elective user fees and volumes of consumption.

Increase/Decrease in Commission Approved Rates – while certain tax rates are set by statutes, the City Commission has significant authority to impose and periodically increase/decrease rates.

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring) – certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year to year comparisons.

Market Impacts on Investment Income – due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year to year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Expenses

Introduction of New Programs – within the functional expense categories (General Government, Public Safety – General Government, Public Safety, Physical Environment, Roads & Streets, Comprehensive Planning and Codes Enforcement; and Culture and Recreation) individual programs may be added or deleted to meet changing community needs.

Increase/Decrease in Authorized Personnel – changes in service demand may cause the Commission to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent a significant portion of General Fund expenditures.

Salary Increases (cost-of-living, merit and market adjustment) – the ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

Inflation – while overall inflation appears to be reasonably modest, the City is a consumer of certain commodities such as chemicals and supplies, fuel and parts. Some functions may experience unusual commodity specific increases (for example fuel prices).

Current Year Impacts

Revenues

The City's property tax grew based on increases in taxable value. The City reduced its millage rate to 3.125 mills, effective October 1, 2006.

Most categories of General Governmental Fund revenues increased from the prior year, with an overall increase of 26.0%.

Expenses

General Governmental Fund expenditures increased by \$2,565,095 or 123.6%.

THE CITY FUNDS

As of year-end, the Governmental Funds (as presented on the balance sheet) reported a fund balance of \$1,325,927, which is a 17% decrease over the previous year (\$1,597,404).

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the City had \$5,929,646 invested in a variety of capital assets, as reflected in the following schedule:

<u>Description</u>	Capital Assets	
	Total Government	
	Fiscal Year 2007	Fiscal Year 2006
Land	\$ 2,637,427	\$ 1,593,657
Buildings and Improvements	1,167,391	682,891
Machinery and Equipment	1,177,537	1,026,232
Infrastructure	1,571,693	500,259
Accumulated Depreciation	(624,402)	(471,146)
Capital Assets Net of Depreciation	\$ 5,929,646	\$ 3,331,893

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 23 of the notes:

<u>Description</u>	Change in Capital Assets	
	Total Government	
	Fiscal Year 2007	Fiscal Year 2006
Beginning Balance	\$ 3,331,893	\$ 2,746,563
Additions	2,811,633	718,211
Deletions	(20,510)	0
Change in Accumulated Depreciation	(193,370)	(132,881)
Ending Balance	\$ 5,929,646	\$ 3,331,893

Further information regarding capital projects and their various sources of funding can be found in the notes to the financial statements

Debt Outstanding

The City had outstanding debt in the amount of \$2,353,811 (\$28,345 - police vehicles, \$1,369,589 - Promissory Note, Mortgages \$947,206 and Compensated Absences \$8,671) as of September 30, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

ECONOMIC FACTORS

The State of Florida, by constitution, does not have a state personal income tax and, therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, etc.) and fees (franchise, occupational licenses, etc.) for their government activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and the governments.

For certain governmental activities (permitting, garbage, marina, etc.) the user (of services) pays a related fee (or charge) associated therewith.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional information, contact City Hall, City of Cedar Key, P.O. Box 339, Cedar Key, FL 32625, telephone: 352-543-5132.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash Deposits	\$ 1,276,088
Garbage Receivable (Net of Allowance for Uncollectibles of \$11,947)	5,158
Due from Other Governments	175,490
Utility Taxes Receivable	8,199
Total Current Assets	<u>1,464,935</u>
Capital Assets	
Land	2,637,427
Buildings and Improvements	1,167,391
Machinery and Equipment	1,177,537
Infrastructure	1,571,693
(Accumulated Depreciation)	(624,402)
Total Capital Assets	<u>5,929,646</u>
Total Assets	<u>7,394,581</u>
Liabilities	
Current Liabilities	
Accounts Payable	139,008
Installment Purchase Obligation	28,345
Mortgage Notes Payable	947,206
Promissory Note Payable	1,369,589
Total Current Liabilities	<u>2,484,148</u>
Noncurrent Liabilities	
Compensated Absences	8,671
Total Liabilities	<u>2,492,819</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,584,506
Unrestricted	1,317,256
Total Net Assets	<u>\$ 4,901,762</u>

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

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities				
General Government	\$ 470,812	\$ 14,450	\$ 0	\$ (456,362)
Public Safety	541,288	67,496	9,222	(464,570)
Physical Environment	171,188	185,277	81,279	95,368
Roads and Streets	51,043	0	0	(51,043)
Comprehensive Planning and Codes				
Enforcement	98,432	31,326	0	(67,106)
Culture and Recreation	128,943	111,243	429,131	411,431
Economic Environment	305,552	5,090	53,052	(247,410)
Interest and Fiscal Charges	110,698	0	0	(110,698)
Total Governmental Activities	\$ 1,877,956	\$ 414,882	\$ 572,684	(890,390)
General Revenues				
				1,973,645
Property Taxes				44,464
Franchise Fees				11,634
Local Option Fuel Tax				106,339
Utility Tax				140,004
Sales Tax and Other State Shared Revenue				37,046
Interest Earnings				20,722
Miscellaneous				2,333,854
Total General Revenues				1,443,464
Change in Net Assets				3,458,298
Net Assets, Beginning of Year				\$ 4,901,762
Net Assets, End of Year				

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

	<u>Major Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>CRA Special Revenue</u>	<u>Governmental Funds</u>
Assets			
Cash Deposits	\$ 776,803	\$ 499,285	\$ 1,276,088
Garbage Receivable (Net of Allowance for Uncollectibles of \$11,947)	5,158	0	5,158
Due from Other Governments	175,490	0	175,490
Utility Taxes Receivable	8,199	0	8,199
Total Assets	<u>965,650</u>	<u>499,285</u>	<u>1,464,935</u>
Liabilities			
Accounts Payable	<u>58,267</u>	<u>80,741</u>	<u>139,008</u>
Fund Equity			
Fund Balance:			
Reserved - Community Redevelopment	0	418,544	418,544
Reserved - Capital Improvement	178,253	0	178,253
Reserved - Library Fund	20,237	0	20,237
Designated for Fire Department	19,674	0	19,674
Designated for Marina Project	132,043	0	132,043
Unreserved and Undesignated	<u>557,176</u>	<u>0</u>	<u>557,176</u>
Total Fund Equity	<u>907,383</u>	<u>418,544</u>	<u>1,325,927</u>
Total Liabilities and Fund Equity	<u>\$ 965,650</u>	<u>\$ 499,285</u>	<u>\$ 1,464,935</u>

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

Fund Balance, Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 1,325,927
 Amounts Reported in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the statement of revenues, expenditures, and changes in fund balances.	5,929,646
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(2,353,811)</u>
Total Net Assets, Statement of Net Assets	<u><u>\$ 4,901,762</u></u>

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

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

	General Fund	CRA Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 901,601	\$ 1,234,481	\$ 2,136,082
Licenses and Permits	37,785	0	37,785
Intergovernmental Revenues	660,688	0	660,688
Charges for Services	351,611	0	351,611
Miscellaneous	101,275	28,889	130,164
Rent	0	5,090	5,090
Total Revenues	<u>2,052,960</u>	<u>1,268,460</u>	<u>3,321,420</u>
Expenditures			
Current:			
General Government	459,525	0	459,525
Public Safety	504,490	0	504,490
Garbage	171,188	0	171,188
Culture and Recreation	715,789	0	715,789
Comprehensive Planning and Codes Enforcement	96,826	0	96,826
Transportation	21,098	0	21,098
Economic Environment	0	2,671,187	2,671,187
(Total Expenditures)	<u>(1,968,916)</u>	<u>(2,671,187)</u>	<u>(4,640,103)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>84,044</u>	<u>(1,402,727)</u>	<u>(1,318,683)</u>
Other Financing Sources (Uses)			
Loan Proceeds	0	1,047,206	1,047,206
Transfers (to) from Other Funds	(109,634)	109,634	0
Total Other Financing Sources (Uses)	<u>(109,634)</u>	<u>1,156,840</u>	<u>1,047,206</u>
Net Change in Fund Balances	(25,590)	(245,887)	(271,477)
Fund Balances (as Restated), Beginning of Year	<u>932,973</u>	<u>664,431</u>	<u>1,597,404</u>
Fund Balances, End of Year	<u>\$ 907,383</u>	<u>\$ 418,544</u>	<u>\$ 1,325,927</u>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

Net Change in Fund Balances - Statement of Revenues, Expenditures, and Changes in Fund Balance	\$	(271,477)
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		2,618,263
The loss on disposal of fixed assets is not reported in the governmental funds. The loss on disposal of fixed assets is a decrease in net assets.		(20,510)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		<u>(882,812)</u>
Change in Net Assets on Statement of Activities	\$	<u><u>1,443,464</u></u>

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

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Revenues				
Taxes	\$ 415,183	\$ 415,183	\$ 901,601	\$ 486,418
Licenses and Permits	63,088	63,088	37,785	(25,303)
Intergovernmental Revenues	447,317	447,317	660,688	213,371
Charges for Services	338,020	338,020	351,611	13,591
Miscellaneous	18,000	18,000	101,275	83,275
Total Revenues	<u>1,281,608</u>	<u>1,281,608</u>	<u>2,052,960</u>	<u>771,352</u>
Expenditures				
Current:				
General Government	433,232	433,232	459,525	(26,293)
Public Safety	561,397	561,397	504,490	56,907
Garbage	185,000	185,000	171,188	13,812
Culture and Recreation	455,724	455,724	715,789	(260,065)
Comprehensive Planning and Codes Enforcement	243,363	243,363	96,826	146,537
Transportation	197,500	197,500	21,098	176,402
(Total Expenditures)	<u>(2,076,216)</u>	<u>(2,076,216)</u>	<u>(1,968,916)</u>	<u>107,300</u>
Excess of Revenues Over Expenditures	(794,608)	(794,608)	84,044	878,652
Other Financing Sources (Uses)				
Transfers to Other Fund	<u>(78,589)</u>	<u>(78,589)</u>	<u>(109,634)</u>	<u>(31,045)</u>
Net Change in Fund Balance	(873,197)	(873,197)	(25,590)	847,607
Fund Balance (as Restated), Beginning of Year	<u>349,270</u>	<u>349,270</u>	<u>932,973</u>	<u>583,703</u>
Fund Balance, End of Year	<u>\$ (523,927)</u>	<u>\$ (523,927)</u>	<u>\$ 907,383</u>	<u>\$ 1,431,310</u>

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

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE - CRA
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Taxes	\$ 523,927	\$ 523,927	\$ 1,234,481	\$ 710,554
Miscellaneous	0	0	28,889	28,889
Rent	0	0	5,090	5,090
Total Revenues	<u>523,927</u>	<u>523,927</u>	<u>1,268,460</u>	<u>744,533</u>
Expenditures				
Current:				
Economic Environment	2,182,598	2,182,598	2,671,187	(488,589)
(Total Expenditures)	<u>(2,182,598)</u>	<u>(2,182,598)</u>	<u>(2,671,187)</u>	<u>(488,589)</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(1,658,671)</u>	<u>(1,658,671)</u>	<u>(1,402,727)</u>	<u>255,944</u>
Other Financing Sources (Uses)				
Loan Proceeds	0	0	1,047,206	1,047,206
Transfers from Other Fund	78,589	78,589	109,634	31,045
Total Other Financing Sources (Uses)	<u>78,589</u>	<u>78,589</u>	<u>1,156,840</u>	<u>1,078,251</u>
Net Change in Fund Balance	(1,580,082)	(1,580,082)	(245,887)	1,334,195
Fund Balance (as Restated), Beginning of Year	<u>0</u>	<u>0</u>	<u>664,431</u>	<u>664,431</u>
Fund Balance, End of Year	<u>\$ (1,580,082)</u>	<u>\$ (1,580,082)</u>	<u>\$ 418,544</u>	<u>\$ 1,998,626</u>

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

NOTES TO FINANCIAL STATEMENTS CITY OF CEDAR KEY, FLORIDA

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Cedar Key, Florida (the City) conform to generally accepted accounting principles for governmental entities. The following is a summary of significant accounting policies:

Reporting Entity

The City is a Florida municipal corporation governed by an elected five-member City Commission. The City provides services to its citizens including refuse collection, parks and recreation, streets, public safety and other general governmental activities.

The accompanying financial statements present the financial position and results of operations of the applicable fund types and account groups governed by the City Commission of the City in accordance with governmental accounting standards. The reporting entity for the City (the primary government) contained one separate legal entity (component unit) for which the City Commission has financial accountability. Financial accountability is present if the City Commission appoints a voting majority of a component unit's governing body and has the ability to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The City established the Cedar Key Community Redevelopment Agency (CKCRA) on December 19, 1999, it is a dependent special district and is reported as a component unit of the City. The City Commission designated itself as the CKCRA and has committed itself to the implementation of the Cedar Key Redevelopment Plan. The CKCRA is presented as a special revenue fund.

Full Accrual and Modified Accrual Financial Statements

The basic financial statements of the City are composed of the following:

- Full Accrual Financial Statements
- Modified Accrual Financial Statements
- Notes to Financial Statements

The statement of activities shows the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly related to a specific function or segment. *Program revenues* include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and b) grants and contributions that are restricted to meeting specific requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The full accrual financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of governmental Accounting Standards Board (GASB) Statement No. 33,

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies *(Continued)*

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Government-wide Financial Statements *(Concluded)*

Accounting and Financial Reporting for Nonexchange Transactions. Program revenues include charges for services, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Indirect expenses such as interest and depreciation are allocated to specific programs when it is clearly applicable to specific program(s).

Amounts paid to acquire capital assets are capitalized as assets in the full accrual financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the full accrual financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of related liability, rather than as an expenditure.

Modified Accrual Financial Statements

Modified accrual financial statements are reported using *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, sales taxes, gas taxes, operating and capital grants, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or funds liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Concluded)

Modified Accrual Financial Statements (Concluded)

The City reports two major governmental funds: the general fund and the Community Redevelopment Agency (CRA) fund, a special revenue fund. The general fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund. The CRA special revenue fund accounts for activities from specific revenue sources collected by the City and used for specific purposes.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, storm water drainage and similar items), are reported in the full accrual financial statements. Capital assets are defined by Florida Statute 274.02 to include items of a nonconsumable nature with a value of at least \$750 and a life of one year or more. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	20-50
Equipment	5-10
Infrastructure	50

Depreciation expense was charged to functions as follows:

Comprehensive Planning and Code Enforcement	\$ 1,606
Culture and Recreation	43,018
Economic Environment	12,113
Public Safety	94,126
General Government	12,562
Transportation	29,945
Total Depreciation Expense	\$ 193,370

As required by GASB Statement No. 34, the City has added infrastructure assets that were constructed after October 1, 2003. Also, as allowed by GASB Statement No. 34, the City has not reported infrastructure assets that were constructed prior to October 1, 2003.

Budget and actual data, when presented in the statement of revenue, expenditures, and changes in fund balance, is prepared on essentially the same basis of accounting as described for the fund financial statements.

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Concluded)

Fund balances are designated within the general fund to indicate tentative spending plans.

Receivables

Customer accounts receivable are recorded at their net realizable value which includes an allowance for uncollectible accounts.

Capitalized Interest During Construction

No interest was capitalized during fiscal year 2007.

Compensated Absences

The City accrues accumulated unpaid vacation when incurred. The liability is reported as a noncurrent liability on the statement of net assets, the current liability is immaterial.

Budgeting

The City's procedures in preparing and adopting the annual budget are as follows:

- The City Clerk is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Appropriations lapse at the end of the year. Encumbrances are not recorded. Budgets are amended through the passage of a resolution. The original and amended budget is presented in the statement of revenues, expenditures and changes in fund balance - budget and actual.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit cities to levy property taxes at a rate of up to 10 mills for general operations. The tax levy rate for the tax year ended September 30, 2007, was 3.125 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year. The County Property Appraiser incorporates the City millages into the total tax levy which includes Levy County (the County), various other municipalities and County School Board tax requirements.

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Property Taxes (Concluded)

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the Florida Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are levied on November 1 of each year, or as soon thereafter, as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount.

On or prior to June 1 following the tax year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold tax certificates are estimated to be immaterial.

Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

The City does not accrue its portion of the County held tax sale certificates or personal property tax warrants because such amounts are estimated to be immaterial.

Franchise Fees

Continuing franchise fees are reported as revenues as the fees are earned and become receivable from the franchisee.

Reserves

Reserves are used to indicate that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use.

Designation

The fund balance designation represents those amounts set aside by the City for specific purposes. This designation is subject to change by management.

Note 2 - Cash Deposits

Chapter 280 of the Florida Statutes requires, in general, that all public deposits (including those of the City) be made in qualified public depositories within the state of Florida. The City's deposits are considered 100% insured for risk disclosure purposes.

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 2 - Cash Deposits (Concluded)

Cash Deposits include cash deposited with qualified depositories.

Florida Statutes authorize the City to invest in the following:

- Direct Obligations of, or Obligations Guaranteed by, the U.S. Government
- Interest-bearing Time Deposits or Savings Accounts in Qualified Institutions
- Obligations of the Federal Farm Credit Banks
- Obligations of the Federal National Mortgage Association
- The Local Government Surplus Funds Trust Fund

Presently, the City has no investments.

Note 3 - Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance 10/1/2006	Increases	(Decreases)	Ending Balance 9/30/2007
Capital Assets Not Being Depreciated:				
Land	\$ 1,593,657	\$ 1,043,770	\$ 0	\$ 2,637,427
Total Not Being Depreciated	<u>1,593,657</u>	<u>1,043,770</u>	<u>0</u>	<u>2,637,427</u>
Capital Assets Being Depreciated:				
Buildings	682,891	484,500	0	1,167,391
Machinery and Equipment	1,026,232	211,929	(60,624)	1,177,537
Infrastructure	500,259	1,071,434	0	1,571,693
Total Being Depreciated	<u>2,209,382</u>	<u>1,767,863</u>	<u>(60,624)</u>	<u>3,916,621</u>
Total Before Depreciation	<u>3,803,039</u>	<u>2,811,633</u>	<u>(60,624)</u>	<u>6,554,048</u>
Less Accumulated Depreciation for:				
Buildings	(41,123)	(29,805)	0	(70,928)
Machinery and Equipment	(397,168)	(111,860)	40,114	(468,914)
Infrastructure	(32,855)	(51,705)	0	(84,560)
Total Accumulated Depreciation	<u>(471,146)</u>	<u>(193,370)</u>	<u>40,114</u>	<u>(624,402)</u>
Total Being Depreciated, Net	<u>1,738,236</u>	<u>1,574,493</u>	<u>(20,510)</u>	<u>3,292,219</u>
Fixed Assets, Cost Less Depreciation	<u><u>\$ 3,331,893</u></u>	<u><u>\$ 2,618,263</u></u>	<u><u>\$ (20,510)</u></u>	<u><u>\$ 5,929,646</u></u>

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 4 - Long-term Debt

On February 4, 2004, the City entered into a promissory note for up to \$1.5 million to finance improvements to streets and parking lots within the City. The note carries an annual interest rate of 2.95%. Interest only was paid monthly for one year from date of inception, then principal and interest monthly, based on a 20-year amortization with a 36-month balloon. The outstanding balance at September 30, 2007, was \$1,369,589. The note is secured by all non-ad valorem taxes and revenue (utility taxes, franchise taxes and local option gas tax).

On October 5, 2006, the City entered into an agreement to purchase property referred to as the Lions Club Building. A promissory note for \$650,000 was entered into to finance the purchase. Sixteen monthly payments of \$2,979.27, which represents interest only at 5.5%, are payable beginning November 5, 2006. The entire outstanding principal will be repaid in fiscal year 2008.

On November 30, 2006, the City entered into an agreement to purchase property from James Meade. A mortgage note for \$397,206.25 was entered into to finance the purchase. The note was originally to mature by June 29, 2007, but was extended for 90 days to allow the City to get other financing in place. One payment of \$100,000 was made to repay a portion of the outstanding mortgage loan balance on June 29, 2007. In addition, interest payments at an interest rate of 5.5% were made through September 21, 2007. The remaining principal will be repaid in fiscal year 2008.

Interest expense during 2007 on long-term debt totaled \$110,698, none of which was capitalized.

Principal and interest amounts due through maturity on all long-term debt, excluding compensated absences, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2008	\$ 2,345,140	\$ 29,802

The following tabulation summarizes the changes in the City's long-term debt during the year ended September 30, 2007:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending</u> <u>Balance</u>
Compensated Absences	\$ 8,671	\$ 0	\$ 0	\$ 8,671
James Meade Property Purchase	0	397,206	(100,000)	297,206
Lion's Club Building Purchase	0	650,000	0	650,000
Installment Purchase – Police Vehicles	55,212	0	(26,867)	28,345
1.5 Million Capital Improvement Loan	<u>1,407,116</u>	<u>0</u>	<u>(37,527)</u>	<u>1,369,589</u>
Total	<u>\$ 1,470,999</u>	<u>\$ 1,047,206</u>	<u>\$ (164,394)</u>	<u>\$ 2,353,811</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Continued)

Note 5 - Retirement Plan

During the year ended September 30, 1993, the City established a defined contribution plan to provide pension benefits for its employees. The plan is the Northwestern Mutual Life Insurance Company Prototype Defined Contribution Plan and Trust, administered by the Florida Municipal Pension Trust Fund (Florida League of Cities, Inc.). Effective October 1, 2001, the City adopted the Florida Municipal Pension Trust Fund's Section 401(a) Deferred Contribution Plan to replace the Northwestern Mutual Life Insurance Company Prototype Deferred Contribution Plan and Trust. The new plan is also administered by the Florida Municipal Pension Trust Fund. The plan provisions are the same, except that the minimum age requirement was removed. The plan provides retirement benefits to substantially all City employees. All benefits vest after ten years of credited service. To be eligible for the plan, employees must have completed one year of service. Contributions to the plan are discretionary, but are currently funded by the City at 10% of each eligible employee's compensation (excluding overtime pay). For the years ending September 30, 2007, 2006 and 2005, the amount of pension expense was \$17,903, \$10,434 and \$11,819, respectively. The City Commission has the authority to establish and amend the provisions of the plan. Additional information regarding the plan may be obtained at City Street, 2 Tower Center, East Brunswick, New Jersey, Attention: Account Management Team @ 23rd Floor.

During the year ended September 30, 2003, the City approved creation of a separate retirement plan for police officers who did not meet eligibility requirements to participate in the Defined Contribution Plan. Under this plan the City contributes \$2,000 to officer's own individual IRA on the officer's first year anniversary. For the years ending September 30, 2007, 2006 and 2005 contributions totaled \$10,000, \$10,000 and \$6,000, respectively.

Effective October 1, 2001, the City adopted the Florida Municipal Pension Trust Fund's Deferred Compensation Plan under Internal Revenue Code Section 457(b). The plan allows substantially all City employees to make pretax contributions to the plan, in accordance with the plan. The City does not make contributions to this plan.

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Insurance against losses are provided through the Florida League of Cities, Inc. for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Accidental Death and Dismemberment

NOTES TO FINANCIAL STATEMENTS
CITY OF CEDAR KEY, FLORIDA
(Concluded)

Note 6 - Risk Management (Concluded)

The City's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk. There was no significant reduction in insurance coverage in the current year and the amount of settlements did not exceed coverage for the past three years.

Note 7 - Legal Contingencies

The City is defending several claims arising during the normal course of business. The ultimate outcome of these matters cannot be determined at this time. However, the resolution of these matters should not have a material effect on the accompanying financial statements.

Note 8 - Other Disclosures

The special revenue fund reported total expenditures in excess of total appropriations of \$488,589. This resulted from loan proceeds, which were received and expended in fiscal year 2006-2007, but were not amended into the approved 2006-2007 budget.

Note 9 - Financial Reporting Reclassification

Effective as of October 1, 2006, the CRA special revenue fund was established. Previously, the CRA activity was reported in the City's general fund. As of October 1, 2006, \$664,431 in fund balance was moved from the general fund to establish the CRA special revenue fund.

Note 10 - Subsequent Event

On December 20, 2007, the City issued the \$9,200,000 Cedar Key Redevelopment Agency, Redevelopment Revenue Notes, Series 2007. The note proceeds will be used to retire existing outstanding loans and fund various capital improvements and land purchases. The tax increment revenues derived from the redevelopment area are pledged for the payment of principal and interest due on the 2007 revenue notes. Interest at the rate of 3.95% is paid semi-annually on each April 15, and October 15 beginning April 15, 2008. Principal is payable on April 15 each year beginning April 15, 2008, until final maturity on April 15, 2027.

OTHER INFORMATION

**SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY**

Grantor/Pass-Through Agency Program Title	CSFA Number	Contract Number	Program Award	Expenditures
Environmental Protection Agency: Florida Department of Environmental Protection FRDAP Grant for Cemetery Point Project	37.017	F5127	200,000	\$ 186,715
Environmental Protection Agency: Florida Recreation Development Assistance Program FRDAP Grant for City Park Project Phase I	37.017	F5317	200,000	97,203
Environmental Protection Agency: Florida Recreation Development Assistance Program FRDAP Grant for City Park Project Phase II	37.017	F7095	200,000	200,000
Environmental Protection Agency: Florida Recreation Development Assistance Program Feasibility Study (Beach Sand)	37.065	H5LV1	79,671	79,671
Florida Fish and Wildlife Conservation Commission Florida Boating Improvement Program Boat Ramp Grant	77.006	FWC-6071	133,500	<u>10,260</u>
Total Expenditures of State Awards				<u><u>\$ 573,849</u></u>

Note to the Schedule of Expenditures of State Financial Assistance

Basis of Presentation

The accompanying schedule of expenditures of state financial assistance is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.550, *Rules of the Auditor General, Local Governmental Entity Audits*.

**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**

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

We have audited the financial statements of the governmental activities and each major fund of the City of Cedar Key, Florida (the City) as of and for the year ended September 30, 2007, and have issued our report thereon dated August 26, 2008. 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

**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
(Concluded)**

Internal Control Over Financial Reporting (Concluded)

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

Our consideration of the internal over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain other matters that we have reported to management of the City in a separate letter dated August 26, 2008.

The City's response to the findings identified in our audit is described in the accompanying management's response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Commission, management, and the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

August 26, 2008
Gainesville, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE FLORIDA
DEPARTMENT OF FINANCIAL SERVICES, *STATE
PROJECTS COMPLIANCE SUPPLEMENT***

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

Compliance

We have audited the compliance of the City of Cedar Key, Florida (the City) with the types of compliance requirements described in the Florida Department of Financial Services, *State Projects Compliance Supplement*, that is applicable to each of its major state projects for the year ended September 30, 2007. The City's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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; Chapter 69I-5, *Rules of the Florida Department of Financial Services* and Chapter 10.550, *Rules of the Auditor General*. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City'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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended September 30, 2007.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE FLORIDA
DEPARTMENT OF FINANCIAL SERVICES, STATE
PROJECTS COMPLIANCE SUPPLEMENT
(Concluded)**

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended solely for the information and use of the City Commission, management, the Florida Auditor General, and specific legislative or regulatory bodies, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

August 26, 2008
Gainesville, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA**

PART A - SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the City of Cedar Key, Florida.
2. A significant deficiency in internal control was disclosed by the audit. The significant deficiency was not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Cedar Key, Florida were disclosed during the audit.
4. No significant deficiencies relating to internal control and compliance over major state financial assistance projects were disclosed.
5. The auditors' report on compliance for the major state financial assistance projects for Cedar Key, Florida expresses an unqualified opinion.
6. No audit findings were disclosed relative to the major state financial assistance projects for Cedar Key, Florida.
7. The projects tested as major state projects were as follows:
 - **State Projects**
 - State of Florida Department of Environmental Protection:
 - ▶ Florida Recreation Development Assistance Program CSFA No. 37.017
8. The threshold for distinguishing Type A and Type B projects was \$300,000 for major state financial assistance projects.
9. Low-risk auditee as that term is defined in OMB Circular A-133 does not apply.

PART B - FINDINGS - FINANCIAL STATEMENTS

Number Finding

2007-1 Separation of Duties

Condition: Because of a limited number of available personnel, it was not always possible to adequately segregate certain incompatible duties so that no one employee has access to both the physical assets and the related accounting records, or to all phases of a transaction.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF CEDAR KEY, FLORIDA
(Concluded)**

PART B - FINDINGS - FINANCIAL STATEMENTS (Concluded)

Number Finding

2007-1 Separation of Duties (Concluded)

Criteria: Separation of incompatible duties provides increased assurance that errors or irregularities will not go undetected for long periods of time.

Effect: Lack of proper separation of incompatible duties could result in errors and irregularities that go undetected for extended periods of time.

Recommendation: We recommend that incompatible duties be separated among employees where practicable.

PART C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

1. Not applicable.

PART D - FINDINGS AND QUESTIONED COSTS - MAJOR STATE FINANCIAL ASSISTANCE PROJECTS

1. No matters were reported.

PART E - OTHER ISSUES

1. No summary schedule of prior audit findings is required because there were no prior audit findings related to federal programs or state projects.
2. No corrective action plan is required because there were no findings required to be reported under the Federal or Florida Single Audit Acts.

MANAGEMENT LETTER

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

We have audited the financial statements of the City of Cedar Key, Florida (the City) as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated August 26, 2008.

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 report on compliance and internal control over financial reporting, report on compliance and internal control over compliance applicable to each major state project, and the schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated August 26, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and, unless otherwise required to be reported in the report on compliance and internal controls, this letter is required to include the following information:

- Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Prior Year Finding and Recommendation:

- **Prior Year Finding and Recommendation**

- ▶ **Fixed Asset Inventory**

Currently the City does not conduct an annual physical inventory of fixed assets.

We recommend that the City perform an annual physical inventory of fixed assets.

- 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 City complied with Section 218.415, Florida Statutes.

Certified Public Accountants

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Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

MANAGEMENT LETTER
(Continued)

- Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., *Rules of the Auditor General*, requires, based upon professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial affect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial affect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we have the following finding:
 - During our audit we noted that the last minutes available for our review were related to the November 6, 2007, City Commission meeting. Our audit began on April 28, 2008. We recommend that the City keep its minutes on a current basis.
- Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City was established in 1923 under a Charter in accordance with Laws of Florida 9698. The City includes the Cedar Key Redevelopment Agency as a component unit. The Redevelopment Agency is reported as a special revenue fund in the accompanying financial statements.
- 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(s) met. In connection with our audit, we determined that the City, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Honorable Mayor-Commissioner and
Board of Commissioners
City of Cedar Key
Cedar Key, Florida

MANAGEMENT LETTER
(Concluded)

- Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the City'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 same.

This management letter is intended solely for the information and use of the City Commission, management and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

August 26, 2008
Gainesville, Florida

City of Cedar Key

The Island City

Phone (352) 543-5132 • Fax (352) 543-5560 • P.O. Box 339 • Cedar Key, Florida 32625

October 15, 2008

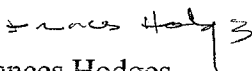
State of Florida
Auditor General's Office
Local Government Audits/342
Claude Pepper Building, Room 401
111 West Madison Street
Tallahassee, Florida 32399 - 1450

Gentlemen:

Our auditors, Purvis Gray & Company have prepared our Audit Report for the fiscal year 2006/2007.

We respectfully concur with their recommendations and are in the processing of solving the major problem of minutes not being completed on time. We are located on a small island and it is very difficult to find anyone that is interested and/or capable of doing the job.

Sincerely,


Frances Hodges
City Clerk