

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

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

**SEPTEMBER 30, 2009**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

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**SEPTEMBER 30, 2009**

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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, 2009, 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, 2009, 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 June 15, 2010, 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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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 10, 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.

*Purvis, Gray and Company, LLP*

June 15, 2010  
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 11).

### HIGHLIGHTS

#### Financial Highlights

The net assets of the City exceeded its liabilities at the close of fiscal year 2009 by \$4,987,327 (net assets). Of this amount, \$1,118,718 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

General Fund revenues decreased by \$285,615 or 16.9% when compared to fiscal year 2008. General fund expenditures decreased by \$31,200 or 2.2% during this same period. The net change in fund balance in the General Fund showed a decrease of \$173,224 for fiscal year 2009.

The City's long-term debt as of September 30, 2009, amounted to \$8,689,878.

#### City Highlights

Personnel: The City Commission appointed a Police Chief who is implementing Community policing, especially in the downtown area.

Revenue Note: Through the CRA a \$9,200,000.00 revenue note was issued through Sun Trust Bank in fiscal year 2008 for projects approved in the CRA Plan.

Using CRA TIF funding and management, the City has seen the following projects completed in the 2008-2009 fiscal year:

#### Infrastructure

- Additional improvements to the historic Schlemmer Library building to reduce air conditioning costs and improve weatherproofing of the exterior.
- Issued a grant to restore the Historical Society's Museum, the Lutterloh Building
- Planned a water line to bring water hydrants to the Airport area of the island
- Installed solar safety lights around the school for arrival and dismissal
- Completed Phase One for road resurfacing throughout the City
- Purchased a fireboat for water rescue and waterside firefighting
- Completed a plan to use reclaimed water in the City Park for irrigation

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** *(Continued)*

### **Community Outreach**

- Is in year three of a three year grant to the School to fund an Art Teacher
- Made small grants to city festivals for publicity and amenities: the Old Florida Celebration of the Arts, Clamerica, and two smaller new festivals sponsored by the Chamber and publicity for the opening of the new fishing pier on Dock St.

### **Property Acquisition**

- Purchased a house on 2<sup>nd</sup> St. on two lots adjacent to City Property

### **Other Items**

- The City entered into a grant agreement with the Department of Environmental Protection for Cedar Key Erosion Control Project in the amount of \$224,000.
- The City made the final payment on three police department vehicles in the amount of \$29,904.
- The City purchased six fire hydrants for \$7,293.
- The City Commission took over the duties of the Citizen LPA Board.

### **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.

### **Government-wide Financial Statements**

The Government-wide financial statements (see pages 11 to 12) 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 12) 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Government-wide Financial Statements (Concluded)**

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. Additionally, the City has successfully partnered with a number of local, State and Federal partners to leverage City and Cedar Key CRA funds to accomplish a number of community needs.

**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 17 and 18) 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:

**Statement of Net Assets**  
**September 30, 2009**

**Governmental**  
**Activities**

	<b>Fiscal Year</b> <b>2009</b>	<b>Fiscal Year</b> <b>2008</b>
Current and Other Assets	\$ 6,074,852	\$ 7,997,712
Capital Assets	7,670,367	6,585,078
<b>Total Assets</b>	<b>13,745,219</b>	<b>14,582,790</b>
Current Liabilities	412,239	450,959
Non-current Liabilities	8,345,653	8,668,873
Total Liabilities	8,757,892	9,119,832
<b>Net Assets:</b>		
Investment in Capital Assets	3,006,957	3,507,591
Restricted	861,652	350,153
Unrestricted	1,118,718	1,605,214
<b>Total Net Assets</b>	<b>\$ 4,987,327</b>	<b>\$ 5,462,958</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**GOVERNMENT-WIDE STATEMENTS (Concluded)**

**Statement of Net Assets (Concluded)**

The largest portion of the City's net assets (60.3%) 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, 2009**

<u>Description</u>	<b>Total Government Activities</b>	
	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Charges for Services	\$ 436,702	\$ 424,634
Grants and Contributions	71,151	286,370
Property Taxes	1,680,535	1,720,887
Franchise Fees	47,155	44,262
Local Option Fuel Tax	11,053	12,172
Utility Tax	30,132	81,031
State Shared Revenues	133,496	154,641
Interest	152,511	157,703
Miscellaneous	6,292	6,233
<b>Total Revenues</b>	<b>\$ 2,569,027</b>	<b>\$ 2,887,933</b>

**Statement of Activities**  
**Year Ending September 30, 2009**

<u>Description</u>	<b>Total Government Activities</b>	
	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b>2009</b>	<b>2008</b>
<b>Expenses:</b>		
General Government	\$ 500,080	\$ 478,982
Public Safety	569,489	568,015
Physical Environment	464,639	297,749
Transportation	86,281	60,082
Economic Environment	862,742	395,741

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**Statement of Activities**  
**Year Ending September 30, 2009**  
(Concluded)

<u>Description</u>	<b>Total Government Activities</b>	
	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b>2009</b>	<b>2008</b>
Culture and Recreation	\$ 211,780	\$ 148,780
Interest	349,647	377,378
<b>Total Expenses</b>	<b>3,044,658</b>	<b>2,326,737</b>
<b>Change in Net Assets</b>	(475,631)	561,196
Net Assets, Beginning of Year	5,462,958	4,901,762
Net Assets, End of Year	<b>\$ 4,987,327</b>	<b>\$ 5,462,958</b>

**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.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Continued)*

**Normal Impacts (Concluded)**

Expenses (Concluded)

*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 taxes decreased based on decreases in taxable value. The City increased its millage rate to 3.1355 mills, for fiscal year 2009.

Most categories of Governmental Fund revenues decreased from the prior year, with an overall decrease of 11.0%.

Expenses

Governmental Fund expenditures decreased by \$1,080,399 or 19.5%.

**THE CITY FUNDS**

As of year-end, the Governmental Funds (as presented on the balance sheet) reported a fund balance of \$6,006,838, which is a 23.7 % decrease over the previous year (\$7,876,753).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

As of year-end, the City had \$7,670,367 invested in a variety of capital assets, as reflected in the following schedule:

<u>Description</u>	<b>Capital Assets</b>	
	<b>Total Government</b>	
	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2008</b>
Land	\$ 2,919,175	\$ 2,919,175
Buildings and Improvements	1,495,280	1,310,723
Machinery and Equipment	1,316,277	1,219,747
Infrastructure	2,650,017	1,852,000
Construction in Progress	441,949	153,851
Accumulated Depreciation	(1,152,331)	(870,418)
<b>Capital Assets Net of Depreciation</b>	<b>\$ 7,670,367</b>	<b>\$ 6,585,078</b>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail on page 24 of the notes:

<u>Description</u>	<b>Change in Capital Assets</b>	
	<b>Total Government</b>	
	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2008</b>
Beginning Balance	\$ 6,585,078	\$ 5,929,646
Additions	1,421,928	901,448
Deletions	(37,991)	3,904
Change in Accumulated Depreciation	(298,648)	(249,920)
<b>Ending Balance</b>	<b>\$ 7,670,367</b>	<b>\$ 6,585,078</b>

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 \$8,689,878 (\$8,655,000 - Redevelopment Revenue Note, \$14,176 – Vehicle Installment Loan and Compensated Absences \$20,702) as of September 30, 2009.

**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 federal 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, 2009**  
**CITY OF CEDAR KEY, FLORIDA**

	<b>Governmental Activities</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 1,192,597
Accounts Receivable (Net of Allowance for Uncollectibles of \$4,897)	18,685
Due from Other Governments	26,126
<b>Total Current Assets</b>	<b>1,237,408</b>
<b>Restricted Assets</b>	
Cash and Investments	4,837,444
<b>Capital Assets</b>	
Land	2,919,175
Buildings and Improvements	1,495,280
Machinery and Equipment	1,316,277
Infrastructure	2,650,017
Construction in Progress	441,949
(Accumulated Depreciation)	(1,152,331)
<b>Total Capital Assets</b>	<b>7,670,367</b>
<b>Total Assets</b>	<b>13,745,219</b>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	61,016
Garbage Deposits	6,998
Installment Loan	4,225
Redevelopment Revenue Note	340,000
<b>Total Current Liabilities</b>	<b>412,239</b>
<b>Noncurrent Liabilities</b>	
Installment Loan, Long-term	9,951
Redevelopment Revenue Note, Long-term	8,315,000
Compensated Absences	20,702
<b>Total Noncurrent Liabilities</b>	<b>8,345,653</b>
<b>Total Liabilities</b>	<b>8,757,892</b>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,006,957
Restricted for:	
Capital Projects	823,230
Transportation	38,422
Unrestricted	1,118,718
<b>Total Net Assets</b>	<b>\$ 4,987,327</b>

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

**STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2009**  
**CITY OF CEDAR KEY, FLORIDA**

<b>Functions/Programs</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Change in Net Assets</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Governmental Activities</b>				
General Government	\$ 500,080	\$ 37,199	\$ 0	\$ (462,881)
Public Safety	569,489	70,512	8,600	(490,377)
Physical Environment	464,639	223,087	62,551	(179,001)
Transportation	86,281	0	0	(86,281)
Economic Environment	862,742	6,551	0	(856,191)
Culture and Recreation	211,780	99,353	0	(112,427)
Interest Charges	349,647	0	0	(349,647)
<b>Total Governmental Activities</b>	<b>\$ 3,044,658</b>	<b>\$ 436,702</b>	<b>\$ 71,151</b>	<b>(2,536,805)</b>
<b>General Revenues</b>				
Property Taxes				1,680,535
Franchise Fees				47,155
Local Option Fuel Tax				11,053
Utility Tax				30,132
Sales Tax and Other State Shared Revenues				133,496
Interest Earnings				152,511
Miscellaneous				6,292
<b>Total General Revenues</b>				<b>2,061,174</b>
<b>Change in Net Assets</b>				<b>(475,631)</b>
<b>Net Assets, Beginning of Year</b>				<b>5,462,958</b>
<b>Net Assets, End of Year</b>				<b>\$ 4,987,327</b>

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009  
CITY OF CEDAR KEY, FLORIDA**

	<b>Major Funds</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>CRA Special Revenue</b>	
<b>Assets</b>			
Cash and Investments	\$ 1,017,803	\$ 5,012,238	\$ 6,030,041
Accounts Receivable (Net of Allowance for Uncollectibles of \$4,897)	18,685	0	18,685
Due from Other Governments	26,126	0	26,126
<b>Total Assets</b>	<u>1,062,614</u>	<u>5,012,238</u>	<u>6,074,852</u>
<b>Liabilities</b>			
Accounts Payable	30,154	30,862	61,016
Garbage Deposits	6,998	0	6,998
<b>Total Liabilities</b>	<u>37,152</u>	<u>30,862</u>	<u>68,014</u>
<b>Fund Equity</b>			
Fund Balance:			
Reserved - Community Redevelopment	0	4,981,376	4,981,376
Reserved - Transportation	38,422	0	38,422
Designated - Capital Improvement	110,704	0	110,704
Designated - Library Fund	8,449	0	8,449
Designated for Fire Department	24,409	0	24,409
Designated for Marina Project	288,460	0	288,460
Unreserved and Undesignated	555,018	0	555,018
<b>Total Fund Equity</b>	<u>1,025,462</u>	<u>4,981,376</u>	<u>6,006,838</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 1,062,614</u>	<u>\$ 5,012,238</u>	<u>\$ 6,074,852</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, 2009  
CITY OF CEDAR KEY, FLORIDA**

<b>Fund Balance, Statement of Revenues, Expenditures, and Changes in Fund Balances</b>	\$ 6,006,838
 <b>Amounts Reported in the Statement of Net Assets are Different Because:</b>	
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.	7,670,367
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(8,689,878)</u>
<b>Total Net Assets, Statement of Net Assets</b>	<u><u>\$ 4,987,327</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, 2009  
CITY OF CEDAR KEY, FLORIDA**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>CRA Special Revenue Fund</u>	
<b>Revenues</b>			
Taxes	\$ 838,742	\$ 1,011,554	\$ 1,850,296
Licenses and Permits	28,848	0	28,848
Intergovernmental Revenues	131,453	0	131,453
Charges for Services	388,510	0	388,510
Fines and Forfeitures	7,902	0	7,902
Rent	0	3,215	3,215
Miscellaneous	9,966	148,837	158,803
<b>Total Revenues</b>	<u>1,405,421</u>	<u>1,163,606</u>	<u>2,569,027</u>
<b>Expenditures</b>			
Current:			
General Government	478,721	0	478,721
Public Safety	444,314	1,358	445,672
Physical Environment	251,201	213,438	464,639
Transportation	44,901	0	44,901
Economic Environment	0	846,258	846,258
Culture and Recreation	90,109	15,791	105,900
Capital Outlay	81,273	1,306,107	1,387,380
Debt Service	4,764	678,473	683,237
<b>(Total Expenditures)</b>	<u>(1,395,283)</u>	<u>(3,061,425)</u>	<u>(4,456,708)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>10,138</u>	<u>(1,897,819)</u>	<u>(1,887,681)</u>
<b>Other Financing Sources (Uses)</b>			
Loan Proceeds	17,766	0	17,766
Transfers (to) from Other Funds	(201,128)	201,128	0
<b>Total Other Financing Sources (Uses)</b>	<u>(183,362)</u>	<u>201,128</u>	<u>17,766</u>
<b>Net Change in Fund Balances</b>	(173,224)	(1,696,691)	(1,869,915)
<b>Fund Balances, Beginning of Year</b>	<u>1,198,686</u>	<u>6,678,067</u>	<u>7,876,753</u>
<b>Fund Balances, End of Year</b>	<u>\$ 1,025,462</u>	<u>\$ 4,981,376</u>	<u>\$ 6,006,838</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, 2009  
CITY OF CEDAR KEY, FLORIDA**

**Net Change in Fund Balances - Statement of Revenues, Expenditures,  
and Changes in Fund Balance** \$ (1,869,915)

**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 purchases, less net book value of disposals exceeds depreciation expense.

Capital Purchases	\$ 1,387,380	
Net Book Value of Disposals	(3,443)	
Depreciation Expense	<u>(298,648)</u>	1,085,289

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.

Installment Loan Proceeds	(17,766)	
Principal Repayments	333,590	
Compensated Absences	<u>(6,829)</u>	<u>308,995</u>

**Change in Net Assets on Statement of Activities** \$ (475,631)

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, 2009  
CITY OF CEDAR KEY, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 807,159	\$ 807,159	\$ 838,742	\$ 31,583
Licenses and Permits	25,000	25,000	28,848	3,848
Intergovernmental Revenues	63,430	63,430	131,453	68,023
Charges for Services	391,256	391,256	388,510	(2,746)
Fines and Forfeitures	16,000	16,000	7,902	(8,098)
Miscellaneous	3,520	3,520	9,966	6,446
<b>Total Revenues</b>	<u>1,306,365</u>	<u>1,306,365</u>	<u>1,405,421</u>	<u>99,056</u>
<b>Expenditures</b>				
Current:				
General Government	600,556	600,556	499,514	101,042
Public Safety	550,613	550,613	486,442	64,171
Physical Environment	256,000	256,000	252,618	3,382
Transportation	0	0	47,051	(47,051)
Culture and Recreation	134,288	134,288	104,894	29,394
Debt Service	0	0	4,764	(4,764)
<b>(Total Expenditures)</b>	<u>(1,541,457)</u>	<u>(1,541,457)</u>	<u>(1,395,283)</u>	<u>146,174</u>
<b>Excess of Revenues Over Expenditures</b>	<u>(235,092)</u>	<u>(235,092)</u>	<u>10,138</u>	<u>245,230</u>
<b>Other Financing Sources (Uses)</b>				
Loan Proceeds	0	0	17,766	17,766
Transfers to Other Fund	(69,808)	(69,808)	(201,128)	(131,320)
<b>Total Other Financing Sources (Uses)</b>	<u>(69,808)</u>	<u>(69,808)</u>	<u>(183,362)</u>	<u>(113,554)</u>
<b>Net Change in Fund Balance</b>	(304,900)	(304,900)	(173,224)	131,676
<b>Fund Balance, Beginning of Year</b>	<u>304,900</u>	<u>304,900</u>	<u>1,198,686</u>	<u>893,786</u>
<b>Fund Balance, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,025,462</u>	<u>\$ 1,025,462</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, 2009  
CITY OF CEDAR KEY, FLORIDA**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
<b>Revenues</b>				
Taxes	\$ 1,081,795	\$ 1,081,795	\$ 1,011,554	\$ (70,241)
Rent	0	0	3,215	3,215
Miscellaneous	0	0	148,837	148,837
<b>Total Revenues</b>	<u>1,081,795</u>	<u>1,081,795</u>	<u>1,163,606</u>	<u>81,811</u>
<b>Expenditures</b>				
Current:				
Public Safety	17,180	17,180	64,262	(47,082)
Physical Environment	0	0	213,438	(213,438)
Transportation	321,805	321,805	1,081,515	(759,710)
Economic Environment	431,251	439,651	954,689	(515,038)
Culture and Recreation	127,463	136,213	69,048	67,165
Debt Service	684,907	684,907	678,473	6,434
Reserve for Contingency	95,270	78,120	0	78,120
<b>(Total Expenditures)</b>	<u>(1,677,876)</u>	<u>(1,677,876)</u>	<u>(3,061,425)</u>	<u>(1,383,549)</u>
<b>(Deficiency) of Revenues (Under)</b>				
<b>Expenditures</b>	<u>(596,081)</u>	<u>(596,081)</u>	<u>(1,897,819)</u>	<u>(1,301,738)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Fund	38,400	38,400	201,128	162,728
<b>Total Other Financing Sources (Uses)</b>	<u>38,400</u>	<u>38,400</u>	<u>201,128</u>	<u>162,728</u>
<b>Net Change in Fund Balance</b>	(557,681)	(557,681)	(1,696,691)	(1,139,010)
<b>Fund Balance, Beginning of Year</b>	<u>557,681</u>	<u>557,681</u>	<u>6,678,067</u>	<u>6,120,386</u>
<b>Fund Balance, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,981,376</u>	<u>\$ 4,981,376</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 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). The effect of interfund activity has been eliminated from these statements.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to generally use restricted resources first, and then unrestricted resources, as they are needed for their intended purposes; however, this decision is frequently made on a case-by-case basis based upon facts and circumstances.

**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.

**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)**

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 another 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.

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.

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

**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:

<b>Assets</b>	<b>Years</b>
Buildings and Improvements	20-50
Equipment	5-10
Infrastructure	50

Depreciation expense was charged to functions as follows:

General Government	\$ 14,530
Public Safety	120,374
Transportation	41,380
Economic Environment	16,484
Culture/Recreation	<u>105,880</u>
<b>Total Depreciation Expense</b>	<b><u>\$ 298,648</u></b>

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

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

**Capital Assets (Concluded)**

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.

**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 2009.

**Compensated Absences**

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

**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 statements 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, 2009, was 3.1355 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.

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.

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

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

**Property Taxes (Concluded)**

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 that 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 and Investments**

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.

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 invests in three certificates of deposit with a local bank.

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

**Note 3 - Restricted Assets**

Restricted assets of \$4,837,444 in the statement of net assets represent cash and investment balances at September 30, 2009, related to the issuance of a \$9,200,000 Redevelopment Revenue Note, Series 2007. These restricted assets will be used to fund various capital projects.

**Note 4 - Capital Assets**

Capital asset activity for the year is as follows:

	<b>Beginning Balance 10/1/2008</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balance 9/30/2009</b>
Capital Assets Not Being Depreciated:				
Land	\$ 2,919,175	\$ 0	\$ 0	\$ 2,919,175
Construction in Progress:				
Infrastructure	153,851	322,646	(34,548)	441,949
Total Not Being Depreciated	<u>3,073,026</u>	<u>322,646</u>	<u>(34,548)</u>	<u>3,361,124</u>
Capital Assets Being Depreciated:				
Buildings	1,310,723	184,557	0	1,495,280
Machinery and Equipment	1,219,747	116,708	(20,178)	1,316,277
Infrastructure	1,852,000	798,017	0	2,650,017
Total Being Depreciated	<u>4,382,470</u>	<u>1,099,282</u>	<u>(20,178)</u>	<u>5,461,574</u>
Total Before Depreciation	<u>7,455,496</u>	<u>1,421,928</u>	<u>(54,726)</u>	<u>8,822,698</u>
Less Accumulated Depreciation for:				
Buildings	(105,232)	(43,169)	0	(148,401)
Machinery and Equipment	(597,538)	(144,264)	16,735	(725,067)
Infrastructure	(167,648)	(111,215)	0	(278,863)
Total Accumulated Depreciation	<u>(870,418)</u>	<u>(298,648)</u>	<u>16,735</u>	<u>(1,152,331)</u>
Total Being Depreciated, Net	<u>3,512,052</u>	<u>800,634</u>	<u>(3,443)</u>	<u>4,309,243</u>
<b>Fixed Assets, Cost Less Depreciation</b>	<u><u>\$ 6,585,078</u></u>	<u><u>\$ 1,123,280</u></u>	<u><u>\$ (37,991)</u></u>	<u><u>\$ 7,670,367</u></u>

**Note 5 - Long-term Debt**

The City and the Cedar Key Redevelopment Agency authorized the issuance of a \$9,200,000 Redevelopment Revenue Note, Series 2007, dated December 20, 2007. The proceeds from the note were used to payoff existing outstanding loans of approximately \$2,315,420, issuance costs of \$55,000 and the balance of funds will be used for various capital projects.

Payment of principal and interest at 3.95% is due semiannually on April 15 and October 15, through April 15, 2027.

The Note is secured by a pledge of Tax Increment Revenues derived from the Redevelopment Area established under Ordinance No. 338 enacted by the City on October 10, 2000, as provided by Section 163.387, Florida Statutes.

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

**Note 5 - Long-term Debt (Concluded)**

On November 13, 2008, the City entered into an installment loan agreement to purchase a vehicle. The terms of the agreement require forty eight monthly payments of \$433.12, which includes interest at 7.93%.

Interest expense during 2009 on long-term debt totaled \$349,648, none of which was capitalized.

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

<u>Year Ending September 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2010	\$ 344,225	\$ 336,131
2011	359,573	322,056
2012	374,948	307,362
2013	380,430	292,303
2014	395,000	276,934
2015-2019	2,225,000	1,132,959
2020-2024	2,700,000	647,740
2025-2027	<u>1,890,000</u>	<u>113,957</u>
<b>Total</b>	<u>\$ 8,669,176</u>	<u>\$ 3,429,442</u>

The following tabulation summarizes the changes in the City's long-term debt during the year ended September 30, 2009:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Compensated Absences	\$ 13,873	\$ 6,829	\$ 0	\$ 20,702
9.2 Million Redevelopment Revenue Note	8,985,000	0	(330,000)	8,655,000
Vehicle Installment Loan	<u>0</u>	<u>17,766</u>	<u>(3,590)</u>	<u>14,176</u>
<b>Total</b>	<u>\$ 8,998,873</u>	<u>\$ 24,595</u>	<u>\$ (333,590)</u>	<u>\$ 8,689,878</u>

**Note 6 - Pledged Revenue**

The City has pledged the Tax Increment Revenues established under ordinance No. 338 enacted by the City on October 10, 2000, to repay the \$9,200,000 Redevelopment Revenue Note, Series 2007. Annual principal and interest on the note is expected to require approximately 70% of such Tax Increment Revenues and are payable through 2027. Principal and interest paid for the current year was \$678,473, and Tax Increment Revenues totaled \$1,011,554 for the year.

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

**Note 7 - 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, 2009, 2008, and 2007, the amount of pension expense was \$17,019, \$19,703, and \$17,903, 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 @ 23<sup>rd</sup> 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, 2009, 2008, and 2007 contributions totaled \$0, \$9,333, and \$10,000, respectively.

Effective January 1, 2009, the City Commission adopted Resolution No. 302 which provided that all police officers of the City shall become compulsory members of the Florida Retirement System (the System). The System was created by the Florida Legislature and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the State of Florida. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by calling (850) 488-5706.

The City's full-time police officers are eligible to participate in the System. Special risk employees who retire at or after age 55, with six years of creditable service; and all other employees who retire at or after age 62, with six years of creditable service; are entitled to a retirement benefit, payable monthly for life, equal to the product of: (1) average monthly compensation in the highest five years of creditable service; (2) creditable service during the appropriate period; and (3) the appropriate benefit percentage. Benefits are fully vested on reaching six years of service. Vested employees may retire after six years of creditable service and receive reduced retirement benefits. The System also provides death benefits, disability benefits, and cost-of-living adjustments. Benefits are established by Florida Statute.

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

**Note 7 - Retirement Plan (Concluded)**

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employers, such as the City, are required to contribute 9.85% of the compensation for regular members and 20.92% for special risk members. The City's contributions to the System for the year ended September 30, 2009, were \$26,866, equal to the required contributions for the year.

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 8 - 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

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 9 - Legal Contingency**

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

**Note 10 - Other Disclosures**

The special revenue fund reported total expenditures in excess of total appropriations of \$1,383,549. This resulted from revenue note proceeds, which were expended in fiscal year 2008-2009, but were not amended into the approved 2008-2009 budget of the CRA.

**Note 11 - Net Assets, Restricted**

The statement of net assets reports \$861,652 of restricted net assets, of which \$823,230 is restricted by enabling legislation.

## **OTHER INFORMATION**

**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, 2009, and have issued our report thereon dated June 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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

**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)**

■ **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.
- *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.

**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 matters that we have reported to management of the City in a separate letter dated June 15, 2010.

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 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*

June 15, 2010  
Gainesville, Florida

**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, 2009, and have issued our report thereon dated June 15, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report on internal control over financial reporting, and compliance and other matters. Disclosures in that report, which is dated June 15, 2010, 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 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 significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address 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**

During 2009, the City did not conduct a complete annual physical inventory of all tangible personal property.

We recommend that the City perform an annual physical inventory of all tangible personal property.

- 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.

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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. In connection with our audit, we have the following recommendation:
  - The City had not developed a written whistleblower policy. An effective policy creates an environment that deters dishonesty and maintains internal controls that provide reasonable assurance of detecting dishonest acts. The whistleblower process encourages employees to report any suspected improprieties to management, which would allow for prevention or investigation and resolution in a timely manner.

We recommend the City develop and implement a whistleblower policy for communicating and reporting known of suspected improprieties to management.

- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or 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*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) control deficiencies 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 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.
- 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, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.

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

**MANAGEMENT LETTER**  
*(Concluded)*

- Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, require that we apply 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.

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 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*

June 15, 2010  
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

June 15, 2010

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 2008/2009.

In response to their recommendations and concerns are as follows:


**Separation of Duties:** At this time, It is not economically feasible to segregate financial duties in our office. The constraints of a limited staff make it necessary that some of these functions be consolidated for purposes of utilizing personnel to the fullest extent.

**Fixed Asset Inventory:** We have placed a procedure in service for each department head to inventory their assets which will be compiled in the official inventory records.

**Written Whistle Policy:** It has been brought to the attention of the mayor and will be studied and implemented as soon as completed.

We respectfully concur with their recommendations and are attempting to bring them into compliance.

Sincerely,

  
Frances Hodges  
City Clerk