

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2010

**FINANCIAL STATEMENTS
AND
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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, 2010, 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, 2010, 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 29, 2011, 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 9, is not a required part of the basic financial statements, but is supplementary information. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 29, 2011
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 and Community Redevelopment Agency's (CRA) 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 2010 by \$4,460,754 (net assets). Of this amount, \$846,893 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

General Fund revenues for 2010 decreased by \$130,080 or 9.3% when compared to fiscal year 2009. General Fund expenditures decreased by \$23,861 or 1.7% during this same period. The net change in fund balance in the General Fund showed a decrease of \$136,480 for fiscal year 2010.

The City's long-term debt as of September 30, 2010, amounted to \$8,349,935.

City & CRA Highlights

Personnel: The City Commission has 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 Tax Increment Financing (TIF) funding and management, the City has seen the following projects started or completed in the 2009-2010 fiscal year:

Infrastructure

- Additional improvements to the historic Schlemmer Library building to reduce heating and cooling costs and improve weatherproofing of the exterior.
- Completed the restoration of the Historical Society's Museum, the Lutterloh Building.
- Installed a water main to bring fire hydrants to the Airport area of the island.
- Completed Phase One Streets and Utilities program.
- Began Phase Two Streets and Utilities program.
- Awarded a FWC Boating Improvement Grant of \$559,000 to construct a new Gulf side boat ramp.
- Awarded a USDA-RD Grant to construct a boat ramp at the unimproved Anchor Hole boat launch facility.
- Completed improvements to the reclaimed water system in the City Park and Marina areas 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/Improvements

- Renovated the Creswell House on 2nd Street and leased it to the Chamber of Commerce to operate the Cedar Key Welcome Center and Chamber of Commerce office.

Other Items

- The City purchased one new police department vehicle (Ford F-150 pick up).
- 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 10 to 11) 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, franchise fees, garbage fees, gas taxes, and sales taxes, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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:

Statement of Net Assets
September 30, 2010

Governmental
Activities

	Fiscal Year 2010	Fiscal Year 2009
Current and Other Assets	\$ 5,725,108	\$ 6,074,852
Capital Assets	<u>7,667,635</u>	<u>7,670,367</u>
Total Assets	<u>13,392,743</u>	<u>13,745,219</u>
Current Liabilities	941,626	412,239
Non-current Liabilities	<u>7,990,363</u>	<u>8,345,653</u>
Total Liabilities	<u>8,931,989</u>	<u>8,757,892</u>
Net Assets:		
Investment in Capital Assets	2,355,115	3,006,957
Restricted	1,258,746	861,652
Unrestricted	<u>846,893</u>	<u>1,118,718</u>
Total Net Assets	<u>\$ 4,460,754</u>	<u>\$ 4,987,327</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE STATEMENTS (Concluded)

Statement of Net Assets (Concluded)

The largest portion of the City's net assets (57.3%) 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, 2010

<u>Description</u>	Total Government Activities	
	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2009</u>
Revenues:		
Charges for Services	\$ 414,095	\$ 436,702
Grants and Contributions	126,076	71,151
Property Taxes	1,265,410	1,680,535
Franchise Fees	51,491	47,155
Local Option Fuel Tax	12,326	11,053
Utility Tax	0	30,132
State Shared Revenues	132,549	133,496
Interest	70,462	152,511
Miscellaneous	11,232	6,292
Total Revenues	<u>\$ 2,083,641</u>	<u>\$ 2,569,027</u>
Expenses:		
General Government	\$ 450,063	\$ 500,080
Public Safety	622,215	569,489
Physical Environment	570,407	464,639
Transportation	104,432	86,281
Economic Environment	274,176	862,742
Culture and Recreation	252,791	211,780
Interest	336,130	349,647
Total Expenses	<u>\$ 2,610,214</u>	<u>\$ 3,044,658</u>
Change in Net Assets	\$ (526,573)	\$ (475,631)
Net Assets, Beginning of Year	4,987,327	5,462,958
Net Assets, End of Year	<u>\$ 4,460,754</u>	<u>\$ 4,987,327</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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.

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 maintained its millage rate at 3.1355 mills, for fiscal year 2010.

Most categories of Governmental Fund revenues decreased from the prior year, with an overall decrease of 18.9%.

Expenses

Governmental Fund expenditures decreased by \$1,509,283 or 33.9%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

THE CITY FUNDS

As of year-end, the Governmental Funds (as presented on the balance sheet) reported a fund balance of \$5,143,054, which is a 14.4 % decrease over the previous year (\$6,006,838).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the City had \$7,667,635 invested in a variety of capital assets, as reflected in the following schedule:

<u>Description</u>	Capital Assets	
	Total Government	
	Fiscal Year 2010	Fiscal Year 2009
Land	\$ 2,919,175	\$ 2,919,175
Buildings and Improvements	1,563,918	1,495,280
Machinery and Equipment	1,201,960	1,316,277
Infrastructure	2,802,894	2,650,017
Construction in Progress	637,582	441,949
Accumulated Depreciation	(1,457,894)	(1,152,331)
Capital Assets Net of Depreciation	\$ 7,667,635	\$ 7,670,367

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 2010	Fiscal Year 2009
Beginning Balance	\$ 7,670,367	\$ 6,585,078
Additions	328,659	1,421,928
Deletions	0	(37,991)
Change in Accumulated Depreciation	(331,391)	(298,648)
Ending Balance	\$ 7,667,635	\$ 7,670,367

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 \$8,349,935 (\$8,315,000 - Redevelopment Revenue Note, \$9,951 - Vehicle Installment Loan and Compensated Absences \$24,984) as of September 30, 2010.

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, 2010
CITY OF CEDAR KEY, FLORIDA**

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash	\$ 1,032,344
Accounts Receivable (Net of Allowance for Uncollectibles of \$4,897)	19,151
Due from Other Governments	99,475
Total Current Assets	<u>1,150,970</u>
Restricted Assets	
Cash and Investments	<u>4,574,138</u>
Capital Assets	
Land	2,919,175
Buildings and Improvements	1,563,918
Machinery and Equipment	1,201,960
Infrastructure	2,802,894
Construction in Progress	637,582
(Accumulated Depreciation)	(1,457,894)
Total Capital Assets	<u>7,667,635</u>
Total Assets	<u>13,392,743</u>
Liabilities	
Current Liabilities	
Accounts Payable	417,833
Accrued Interest Payable	164,221
Installment Loan	4,572
Redevelopment Revenue Note	355,000
Total Current Liabilities	<u>941,626</u>
Noncurrent Liabilities	
Installment Loan, Long-term	5,379
Redevelopment Revenue Note, Long-term	7,960,000
Compensated Absences	24,984
Total Noncurrent Liabilities	<u>7,990,363</u>
Total Liabilities	<u>8,931,989</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,355,115
Restricted for:	
Capital Projects	1,230,771
Transportation	27,975
Unrestricted	846,893
Total Net Assets	<u>\$ 4,460,754</u>

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

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2010
CITY OF CEDAR KEY, FLORIDA

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General Government	\$ 450,063	\$ 30,567	\$ 11,039	\$ 0	\$ (408,457)
Public Safety	622,215	72,457	5,600	65,723	(478,435)
Physical Environment	570,407	210,705	0	0	(359,702)
Transportation	104,432	0	0	0	(104,432)
Economic Environment	274,176	6,393	0	0	(267,783)
Culture and Recreation	252,791	93,973	0	43,714	(115,104)
Interest Charges	336,130	0	0	0	(336,130)
Total Governmental Activities	\$ 2,610,214	\$ 414,095	\$ 16,639	\$ 109,437	(2,070,043)

General Revenues

Property Taxes	1,265,410
Franchise Fees	51,491
Local Option Fuel Tax	12,326
Sales Tax and Other State Shared Revenues	132,549
Interest Earnings	70,462
Miscellaneous	11,232
Total General Revenues	1,543,470
Change in Net Assets	(526,573)
Net Assets, Beginning of Year	4,987,327
Net Assets, End of Year	\$ 4,460,754

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010
CITY OF CEDAR KEY, FLORIDA**

	Major Funds		Total Governmental Funds
	General Fund	CRA Special Revenue	
Assets			
Cash and Investments	\$ 844,565	\$ 4,761,917	\$ 5,606,482
Accounts Receivable (Net of Allowance for Uncollectibles of \$4,897)	19,151	0	19,151
Due from Other Governments	99,475	0	99,475
Total Assets	<u>963,191</u>	<u>4,761,917</u>	<u>5,725,108</u>
Liabilities			
Accounts Payable	74,209	343,624	417,833
Accrued Interest Payable	0	164,221	164,221
Total Liabilities	<u>74,209</u>	<u>507,845</u>	<u>582,054</u>
Fund Equity			
Fund Balance:			
Reserved - Community Redevelopment	0	4,254,072	4,254,072
Reserved - Transportation	27,974	0	27,974
Designated - Capital Improvement	59,392	0	59,392
Designated - Library Fund	3,098	0	3,098
Designated for Fire Department	8,062	0	8,062
Designated for Marina Project	292,694	0	292,694
Unreserved and Undesignated	497,762	0	497,762
Total Fund Equity	<u>888,982</u>	<u>4,254,072</u>	<u>5,143,054</u>
Total Liabilities and Fund Equity	<u>\$ 963,191</u>	<u>\$ 4,761,917</u>	<u>\$ 5,725,108</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, 2010
CITY OF CEDAR KEY, FLORIDA**

Fund Balance, Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 5,143,054
 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.	7,667,635
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(8,349,935)</u>
Total Net Assets, Statement of Net Assets	<u><u>\$ 4,460,754</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, 2010
CITY OF CEDAR KEY, FLORIDA**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>CRA Special Revenue Fund</u>	
Revenues			
Taxes	\$ 679,167	\$ 730,094	\$ 1,409,261
Licenses and Permits	20,127	0	20,127
Intergovernmental Revenues	186,551	0	186,551
Charges for Services	373,386	0	373,386
Fines and Forfeitures	7,918	0	7,918
Rent	0	4,704	4,704
Miscellaneous	8,192	73,502	81,694
Total Revenues	<u>1,275,341</u>	<u>808,300</u>	<u>2,083,641</u>
Expenditures			
Current:			
General Government	430,689	0	430,689
Public Safety	498,579	0	498,579
Physical Environment	207,482	362,925	570,407
Transportation	30,304	13,663	43,967
Economic Environment	0	257,411	257,411
Culture and Recreation	124,094	13,264	137,358
Capital Outlay	75,077	253,582	328,659
Debt Service	5,197	675,158	680,355
(Total Expenditures)	<u>(1,371,422)</u>	<u>(1,576,003)</u>	<u>(2,947,425)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(96,081)</u>	<u>(767,703)</u>	<u>(863,784)</u>
Other Financing Sources (Uses)			
Transfers (to) from Other Funds	(40,399)	40,399	0
Total Other Financing Sources (Uses)	<u>(40,399)</u>	<u>40,399</u>	<u>0</u>
Net Change in Fund Balances	(136,480)	(727,304)	(863,784)
Fund Balances, Beginning of Year	<u>1,025,462</u>	<u>4,981,376</u>	<u>6,006,838</u>
Fund Balances, End of Year	<u>\$ 888,982</u>	<u>\$ 4,254,072</u>	<u>\$ 5,143,054</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, 2010
CITY OF CEDAR KEY, FLORIDA**

Net Change in Fund Balances - Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ (863,784)
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**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	\$ 328,659	
Depreciation Expense	<u>(331,391)</u>	(2,732)

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.

Principal Repayments	344,225	
Compensated Absences	<u>(4,282)</u>	<u>339,943</u>

Change in Net Assets on Statement of Activities	\$ <u><u>(526,573)</u></u>
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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, 2010
CITY OF CEDAR KEY, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 670,791	\$ 670,791	\$ 679,167	\$ 8,376
Licenses and Permits	30,000	30,000	20,127	(9,873)
Intergovernmental Revenues	58,110	58,110	186,551	128,441
Charges for Services	375,898	375,898	373,386	(2,512)
Fines and Forfeitures	8,500	8,500	7,918	(582)
Miscellaneous	3,520	3,520	8,192	4,672
Total Revenues	<u>1,146,819</u>	<u>1,146,819</u>	<u>1,275,341</u>	<u>128,522</u>
Expenditures				
Current:				
General Government	476,108	476,108	430,689	45,419
Public Safety	512,619	512,619	573,656	(61,037)
Physical Environment	216,500	216,500	207,482	9,018
Transportation	32,000	32,000	30,304	1,696
Culture and Recreation	68,650	68,650	124,094	(55,444)
Debt Service	5,197	5,197	5,197	0
Reserve For Contingencies	45,000	45,000	0	45,000
(Total Expenditures)	<u>(1,356,074)</u>	<u>(1,356,074)</u>	<u>(1,371,422)</u>	<u>(15,348)</u>
Excess of Revenues Over Expenditures	<u>(209,255)</u>	<u>(209,255)</u>	<u>(96,081)</u>	<u>113,174</u>
Other Financing Sources (Uses)				
Transfers to Other Fund	(48,771)	(48,771)	(40,399)	8,372
Total Other Financing Sources (Uses)	<u>(48,771)</u>	<u>(48,771)</u>	<u>(40,399)</u>	<u>8,372</u>
Net Change in Fund Balance	(258,026)	(258,026)	(136,480)	121,546
Fund Balance, Beginning of Year	<u>258,026</u>	<u>258,026</u>	<u>1,025,462</u>	<u>767,436</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 888,982</u>	<u>\$ 888,982</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, 2010
CITY OF CEDAR KEY, FLORIDA**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes	\$ 731,134	\$ 731,134	\$ 730,094	\$ (1,040)
Rent	0	0	4,704	4,704
Miscellaneous	0	4,749	73,502	68,753
Total Revenues	<u>731,134</u>	<u>735,883</u>	<u>808,300</u>	<u>72,417</u>
Expenditures				
Current:				
Physical Environment	0	0	362,925	(362,925)
Transportation	175,000	67,500	209,296	(141,796)
Economic Environment	214,787	362,409	315,360	47,049
Culture and Recreation	46,876	12,254	13,264	(1,010)
Debt Service	507,907	507,907	675,158	(167,251)
Reserve for Contingency	22,770	26,519	0	26,519
(Total Expenditures)	<u>(967,340)</u>	<u>(976,589)</u>	<u>(1,576,003)</u>	<u>(599,414)</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(236,206)</u>	<u>(240,706)</u>	<u>(767,703)</u>	<u>(526,997)</u>
Other Financing Sources (Uses)				
Transfers from Other Fund	48,706	48,706	40,399	(8,307)
Total Other Financing Sources (Uses)	<u>48,706</u>	<u>48,706</u>	<u>40,399</u>	<u>(8,307)</u>
Net Change in Fund Balance	(187,500)	(192,000)	(727,304)	(535,304)
Fund Balance, Beginning of Year	<u>187,500</u>	<u>192,000</u>	<u>4,981,376</u>	<u>4,789,376</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,254,072</u>	<u>\$ 4,254,072</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:

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

Depreciation expense was charged to functions as follows:

General Government	\$ 15,092
Public Safety	123,636
Transportation	60,465
Economic Environment	16,765
Culture/Recreation	115,433
Total Depreciation Expense	<u>\$ 331,391</u>

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 2010.

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. Budget appropriations may not be legally exceeded on a total fund basis.

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, 2010, 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 a money market account with a local bank.

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

Note 3 - Restricted Assets

Restricted assets of \$4,574,138 in the statement of net assets represent cash and investment balances at September 30, 2010, 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:

	Beginning Balance 10/1/2009	Increases	Transfers	(Decreases)	Ending Balance 9/30/2010
Capital Assets Not Being Depreciated:					
Land	\$ 2,919,175	\$ 0	\$ 0	\$ 0	\$ 2,919,175
Construction in Progress:					
Infrastructure	441,949	195,633	0	0	637,582
Total Not Being Depreciated	<u>3,361,124</u>	<u>195,633</u>	<u>0</u>	<u>0</u>	<u>3,556,757</u>
Capital Assets Being Depreciated:					
Buildings	1,495,280	56,550	12,088	0	1,563,918
Machinery and Equipment	1,316,277	76,476	(164,965)	(25,828)	1,201,960
Infrastructure	2,650,017	0	152,877	0	2,802,894
Total Being Depreciated	<u>5,461,574</u>	<u>133,026</u>	<u>0</u>	<u>(25,828)</u>	<u>5,568,772</u>
Total Before Depreciation	<u>8,822,698</u>	<u>328,659</u>	<u>0</u>	<u>(25,828)</u>	<u>9,125,529</u>
Less Accumulated Depreciation for:					
Buildings	(148,401)	(54,367)	(5,102)	0	(207,870)
Machinery and Equipment	(725,067)	(135,078)	66,370	25,828	(767,947)
Infrastructure	(278,863)	(141,946)	(61,268)	0	(482,077)
Total Accumulated Depreciation	<u>(1,152,331)</u>	<u>(331,391)</u>	<u>0</u>	<u>25,828</u>	<u>(1,457,894)</u>
Total Being Depreciated, Net	<u>4,309,243</u>	<u>(198,365)</u>	<u>0</u>	<u>0</u>	<u>4,110,878</u>
Fixed Assets, Cost Less Depreciation	<u><u>\$ 7,670,367</u></u>	<u><u>\$ (2,732)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,667,635</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 2010 on long-term debt totaled \$336,130, 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>
2011	\$ 359,572	\$ 322,056
2012	374,948	307,362
2013	380,431	292,303
2014	395,000	276,994
2015	410,000	261,095
2016-2020	2,315,000	1,043,294
2021-2025	2,805,000	539,076
2026-2027	1,285,000	51,251
Total	<u>\$ 8,324,951</u>	<u>\$ 3,093,431</u>

The following tabulation summarizes the changes in the City's long-term debt during the year ended September 30, 2010:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Compensated Absences	\$ 20,702	\$ 4,282	\$ 0	\$ 24,984
9.2 Million Redevelopment Revenue Note	8,655,000	0	(340,000)	8,315,000
Vehicle Installment Loan	14,176	0	(4,225)	9,951
Total	<u>\$ 8,689,878</u>	<u>\$ 4,282</u>	<u>\$ (344,225)</u>	<u>\$ 8,349,935</u>

Only the net change in the accumulated value of compensated absences is shown for the current fiscal year.

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 \$675,158, and Tax Increment Revenues totaled \$730,094 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, 2010, 2009, and 2008, the amount of pension expense was \$13,551, \$17,019, and \$19,703, 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 at 23rd Floor.

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.

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 10.77% of the compensation for regular members and 23.25% for special risk members. The City's contributions to the System for the years ended September 30, 2010 and 2009, were \$45,105 and \$26,866, respectively, 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.

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

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 general fund reported total expenditures in excess of total appropriations of \$15,348. This resulted from the accrual of grant related expenditures not included in the budget. The special revenue fund reported total expenditures in excess of total appropriations of \$599,414. This resulted from revenue note proceeds received in a prior year, which were expended in fiscal year 2009-2010, but were not amended into the approved 2009-2010 budget of the CRA.

Note 11 - Net Assets, Restricted

The statement of net assets reports \$1,258,746 of restricted net assets, of which \$1,230,771 is restricted by enabling legislation.

Note 12- Commitments and Contingencies

Operating Lease

The City is leasing a telephone system under an operating lease from May 15, 2010 until May 14, 2014. Monthly lease payments are \$136.02 for 48 months and the City paid \$680.10 during the fiscal year ended September 30, 2010.

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

Note 12- Commitments and Contingencies (Concluded)

Operating Lease (Concluded)

At September 30, 2010, future lease payments are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2011	\$ 1,632
2012	1,632
2013	1,632
2014	1,141

Construction Commitment

The following is a major construction commitment and contract in progress as of September 30, 2010:

<u>Project</u>	<u>Contract Amount</u>	<u>Expended at September 30, 2010</u>
Water and Sewer Project	\$ 3,347,410	\$ 167,952

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, 2010, and have issued our report thereon dated June 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
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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 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 29, 2011.

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 29, 2011
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, 2010, and have issued our report thereon dated June 29, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report on internal control over financial reporting, and compliance and other matters. Disclosures in that report, which is dated June 29, 2011, 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. Prior year findings not addressed are reported below under the heading Prior Year Findings and Recommendations:

- **Prior Year Findings and Recommendations**

- ▶ **Fixed Asset Inventory**

During 2010, 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.

- ▶ **Whistle-blower Policy**

The City had not developed a written whistle-blower policy. An effective policy creates an environment that deters dishonesty and maintains internal controls that provide reasonable assurance of detecting dishonest acts. The whistle-blower 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 whistle-blower policy for communicating and reporting known of suspected improprieties to management.

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

MANAGEMENT LETTER
(Continued)

- 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.
- 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 recommendations:
 - **Credit Card Purchases**
A review of certain credit card purchases indicated that supporting documentation was not always attached to the credit card statement to support the purchase. In addition, no signature of approval was shown on the credit card statements. We recommend that all supporting documentation be attached to the check request before payment is authorized and that approval for payment be documented.
 - **Retiree Health Insurance**
Currently, the City's group health insurance plan does not provide for continued coverage to employees after their retirement from the City. Section 112.081, Florida Statutes, may require the City to offer this group health insurance to its retired employees. We recommend that the City seek a determination as to whether the provisions of Section 112.081, Florida Statutes, requires its group health insurance plan to offer coverage to its retired employees.
- 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 occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or 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, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that 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. 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 and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Purris, Gray and Company, LLP

June 29, 2011
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

July 21, 2011

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 2009/2010.

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 Asses Inventory: Currently our Fire Chief is completing the first portion of the City's inventory in the Fire Department. Upon full completion the Fire Chief will conduct training to the remaining department heads to complete an inventory for all departments.

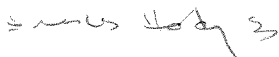
Written Whistle-blower Policy: A draft version of an employee handbook was presented to the commission on 7/19/11. The employee manual contains a written whistle-blower policy, which will take place once the final version is passed by the commission.

Credit Card Purchases: The Mayor has recently addressed this item in a memo to each department head.

Retiree Health Insurance: The City is seeking a determination from the City Attorney's office to correctly address this matter.

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

Sincerely,



Frances Hodges
City Clerk