

**CEDAR KEY SPECIAL WATER  
AND SEWER DISTRICT**

**AUDIT REPORT**

**SEPTEMBER 30, 2010**

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**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

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## Independent Auditors' Report

Board of Commissioners  
Cedar Key Special Water and Sewer District  
Cedar Key, Florida

We have audited the accompanying basic financial statements of the Cedar Key Special Water and Sewer District (the "District") as of and for the fiscal year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District'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 District as of September 30, 2010, and the changes in its financial position and its cash flows 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 January 18, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners  
Cedar Key Special Water and Sewer District  
Cedar Key, Florida  
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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.

*Car, Riggs & Ingram LLC*

January 18, 2011  
Gainesville, Florida

## **Management's Discussion and Analysis**

This discussion and analysis of the Cedar Key Water & Sewer District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

The following are financial highlights for fiscal year 2010:

- The District's net assets decreased by approximately \$33,400.
- Total ending unrestricted net assets were approximately \$166,000.

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This annual report contains financial statements that report on the District, which is a proprietary fund-enterprise fund that provides the community with adequate water and wastewater treatment facilities. Enterprise funds are used to account for activities in a manner similar to private-sector business enterprises and use the accrual basis of accounting.

The first financial statement is the Statement of Net Assets. This statement includes all of the District's assets and liabilities using the accrual basis of accounting. All of the current year transactions are recorded, regardless of when cash is received or paid. Net assets – the difference between assets and liabilities – can be used to measure the District's financial position.

The second financial statement is the Statement of Revenues, Expenses and Changes in Net Assets. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the District's financial health is improving or deteriorating. However, other non-financial factors must also be considered when assessing the overall health of the District.

The Statement of Cash Flows reports cash receipts and cash payments, and classifies the District's cash transactions in four categories: operating, noncapital financing, capital and related financing, or investing activities.

In these statements, all of the District's activities are considered to be business-type activities, which are generally financed in whole or in part by fees charged to external parties for goods or services. The District has no governmental activities.

## CONDENSED FINANCIAL INFORMATION

The following presents condensed data about net assets and changes in net assets.

|   | <b>Net Assets</b>   |                     |                    |                 |
|---|---------------------|---------------------|--------------------|-----------------|
|   | <u>2010</u>         | <u>2009</u>         | <u>Change</u>      | <u>% Change</u> |
| <b>Assets:</b>                                  |                     |                     |                    |                 |
| Non-Capital Assets                              | \$ 303,128          | \$ 246,970          | \$ 56,158          | 22.74           |
| Capital Assets                                  | <u>4,101,974</u>    | <u>4,171,822</u>    | <u>(69,848)</u>    | (1.67)          |
| Total Assets                                    | <u>4,405,102</u>    | <u>4,418,792</u>    | <u>(13,690)</u>    | (0.31)          |
| <b>Liabilities:</b>                             |                     |                     |                    |                 |
| Current Liabilities                             | 200,310             | 186,211             | 14,099             | 7.57            |
| Long-Term Liabilities                           | <u>349,659</u>      | <u>344,065</u>      | <u>5,594</u>       | 1.63            |
| Total Liabilities                               | <u>549,969</u>      | <u>530,276</u>      | <u>19,693</u>      | 3.71            |
| <b>Net Assets:</b>                              |                     |                     |                    |                 |
| Invested In Capital Assets, Net of Related Debt | 3,689,559           | 3,774,096           | (84,537)           | (2.24)          |
| Restricted                                      | -                   | -                   | -                  | -               |
| Unrestricted                                    | <u>165,574</u>      | <u>114,420</u>      | <u>51,154</u>      | 44.71           |
| Total Net Assets                                | <u>\$ 3,855,133</u> | <u>\$ 3,888,516</u> | <u>\$ (33,383)</u> | (0.86)          |

### Change In Net Assets

|                                    |                     |                     |                    |         |
|------------------------------------|---------------------|---------------------|--------------------|---------|
| <b>Revenues:</b>                   |                     |                     |                    |         |
| Operating Revenues                 | \$ 760,980          | \$ 728,876          | \$ 32,104          | 4.40    |
| Property Taxes                     | 169,761             | 171,917             | (2,156)            | (1.25)  |
| Contributions from Cedar Key CRA   | -                   | 194,100             | (194,100)          | -       |
| Impact Fees                        | 1,920               | 1,920               | -                  | -       |
| Investment Earnings                | <u>377</u>          | <u>10,597</u>       | <u>(10,220)</u>    | (96.44) |
| Total Revenues                     | <u>933,038</u>      | <u>1,107,410</u>    | <u>(174,372)</u>   | (15.75) |
| <b>Expenses:</b>                   |                     |                     |                    |         |
| Water/Sewer Services               | 740,512             | 765,405             | (24,893)           | (3.25)  |
| Depreciation                       | 213,769             | 207,603             | 6,166              | 2.97    |
| Interest on Long-term Debt         | 11,249              | 18,315              | (7,066)            | (38.58) |
| Loss on Disposal of Capital Assets | <u>891</u>          | <u>-</u>            | <u>891</u>         | -       |
| Total Expenses                     | <u>966,421</u>      | <u>991,323</u>      | <u>(24,902)</u>    | (2.51)  |
| Change In Net Assets               | (33,383)            | 116,087             | (149,470)          | 128.76  |
| Beginning Net Assets               | 3,888,516           | 3,772,429           | 116,087            | 3.08    |
| Ending Net Assets                  | <u>\$ 3,855,133</u> | <u>\$ 3,888,516</u> | <u>\$ (33,383)</u> | (0.86)  |

## OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Revenues were \$933,038 compared to expenses of \$966,421. This resulted in a loss for the year of \$33,383. Because of this, net assets decreased by same.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The District spent approximately \$115,000 for a new automated meter system and \$545 on a survey for a construction project in which the District will replace old water lines. It is anticipated that this project will cost approximately \$3,000,000 and will be funded with a federal grant and new loan proceeds. Please refer to a note to the accompanying financial statements entitled *Capital Asset Activity* for more detailed information.

### **Debt Administration**

The District borrowed an additional \$115,000 for a new automated meter system. Please refer to a note to the accompanying financial statements entitled *Long-term Liabilities* for more detailed information about the District's long-term debt activity.

## **ECONOMIC FACTORS**

We are not currently aware of any conditions that are expected to have a significant effect on the District's financial position or results of operations.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District at Post Office Box 309, Cedar Key, Florida 32625.

**Statement of Net Assets**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

|  |                            |
|--|----------------------------|
| <u>CURRENT ASSETS</u>                              |                            |
| Cash   | \$ 212,309                 |
| Accounts Receivable (Net of Allowance of \$11,000) | 79,986                     |
| Inventory  | 10,833                     |
|  | <hr/>                      |
| TOTAL CURRENT ASSETS                               | 303,128                    |
| <u>NONCURRENT ASSETS</u>                           |                            |
| Capital Assets:                                    |                            |
| Non-Depreciable                                    | 125,741                    |
| Depreciable, Net                                   | 3,976,233                  |
|  | <hr/>                      |
| TOTAL NONCURRENT ASSETS                            | 4,101,974                  |
| TOTAL ASSETS                                       | <hr/> 4,405,102            |
| <u>CURRENT LIABILITIES</u>                         |                            |
| Accounts Payable and Accrued Liabilities           | 27,285                     |
| Due to Other Governments                           | 27,594                     |
| Unearned Revenue                                   | 6,030                      |
| Compensated Absences                               | 13,580                     |
| Customer Deposits                                  | 47,895                     |
| Current Portion of Notes Payable                   | 77,926                     |
|  | <hr/>                      |
| TOTAL CURRENT LIABILITIES                          | 200,310                    |
| <u>NONCURRENT LIABILITIES</u>                      |                            |
| Notes Payable                                      | 334,489                    |
| Compensated Absences                               | 15,170                     |
|  | <hr/>                      |
| TOTAL NONCURRENT LIABILITIES                       | 349,659                    |
| TOTAL LIABILITIES                                  | <hr/> 549,969              |
| <u>NET ASSETS</u>                                  |                            |
| Invested in Capital Assets, Net of Related Debt    | 3,689,559                  |
| Unrestricted                                       | 165,574                    |
|  | <hr/>                      |
| TOTAL NET ASSETS                                   | <u><u>\$ 3,855,133</u></u> |

The accompanying "Notes to Financial Statements"  
form an integral part of this statement.

**Statement of Revenues, Expenses and Changes in Net Assets  
For the Fiscal Year Ended September 30, 2010  
Cedar Key Special Water and Sewer District**

|   |                            |
|---|----------------------------|
| <u>OPERATING REVENUES</u>               |                            |
| Charges for Services                    | \$ 734,280                 |
| Other Operating Revenues                | <u>26,700</u>              |
| TOTAL OPERATING REVENUES                | <u>760,980</u>             |
| <u>OPERATING EXPENSES</u>               |                            |
| Personal Services                       | 380,122                    |
| Operating Expenses                      | 360,390                    |
| Depreciation                            | <u>213,769</u>             |
| TOTAL OPERATING EXPENSES                | <u>954,281</u>             |
| OPERATING LOSS                          | <u>(193,301)</u>           |
| <u>NONOPERATING REVENUES (EXPENSES)</u> |                            |
| Taxes                                   | 169,761                    |
| Impact Fees                             | 1,920                      |
| Interest Revenue                        | 377                        |
| Interest Expense                        | (11,249)                   |
| Loss on Disposal of Capital Assets      | <u>(891)</u>               |
| TOTAL NONOPERATING REVENUES (EXPENSES)  | <u>159,918</u>             |
| NET LOSS                                | (33,383)                   |
| NET ASSETS, October 1, 2009             | <u>3,888,516</u>           |
| NET ASSETS, September 30, 2010          | <u><u>\$ 3,855,133</u></u> |

The accompanying "Notes to Financial Statements"  
form an integral part of this statement.

**Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2010**  
**Cedar Key Special Water and Sewer District**

|   |                          |
|---|--------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u>                     |                          |
| Receipts from Customers   | \$ 746,663               |
| Payments to Suppliers   | (454,457)                |
| Payments to Employees   | <u>(280,210)</u>         |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                       | <u>11,996</u>            |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>          |                          |
| Taxes Received  | <u>169,761</u>           |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> |                          |
| Payments on Long-Term Debt                                      | (100,641)                |
| Payments of Interest  | (12,283)                 |
| Proceeds from Debt  | 115,330                  |
| Acquisition of Capital Assets                                   | (144,812)                |
| Impact Fees Received  | <u>1,920</u>             |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES       | <u>(140,486)</u>         |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>                     |                          |
| Interest Received   | <u>377</u>               |
| NET CHANGE IN CASH  | 41,648                   |
| CASH – OCTOBER 1, 2009  | <u>170,661</u>           |
| CASH – SEPTEMBER 30, 2010                                       | <u><u>\$ 212,309</u></u> |
| <u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED</u>    |                          |
| <u>BY OPERATING ACTIVITIES</u>                                  |                          |
| Operating Loss  | \$ (193,301)             |
| Depreciation  | 213,769                  |
| Changes in Assets and Liabilities:                              |                          |
| Accounts Receivable   | (29,369)                 |
| Due from Other Governments                                      | 14,859                   |
| Accounts Payable and Accrued Expenses                           | (18,839)                 |
| Due to Other Governments  | 27,594                   |
| Deferred Revenue  | (1,857)                  |
| Deposits  | 2,050                    |
| Compensated Absences  | <u>(2,910)</u>           |
| Net Cash Provided by Operating Activities                       | <u><u>\$ 11,996</u></u>  |

The accompanying "Notes to Financial Statements"  
form an integral part of this statement.

**Notes to Financial Statements**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Cedar Key Special Water and Sewer District (the “District”) conform to generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The District is a special-purpose local government established pursuant to Chapter 63-1569, Laws of Florida, to provide the community with adequate water and wastewater treatment facilities.

The District uses the criteria established in GASB Statement No. 14 to define the reporting entity and identify component units. Component units are entities for which the District is considered to be financially accountable. There are no other entities to consider for inclusion as a component unit within the District’s reporting entity.

**Basis of Presentation**

The financial transactions of the District are reported as a proprietary fund type – Enterprise Fund. Enterprise Funds are used to account for activities in a manner similar to private-sector business enterprises.

The District’s operating revenues result from exchange transactions. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

**Measurement Focus and Basis of Accounting**

The District utilizes the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

**Application of FASB Pronouncements**

The District applies all applicable GASB pronouncements. Additionally, the District applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Cash**

The District’s cash consists of legally authorized demand deposits. The institutions in which such deposits are kept are certified as Qualified Public Depositories under the Florida Public Deposits Act. Therefore, the total bank balances on deposit at September 30, 2010 are insured or collateralized pursuant to Chapter 280, Florida Statutes.

For purposes of the statement of cash flows, the District considers only highly liquid investments with original maturities of less than three months to be cash equivalents.

**Notes to Financial Statements**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Investments

The District invests excess public funds pursuant to the guidelines established in Section 218.415, Florida Statutes. Accordingly, the District is authorized to invest excess public funds in the following instruments: the Local Government Surplus Funds Trust Fund; Securities and Exchange Commission registered money market funds with the highest credit quality rating; savings accounts and certificates of deposit in qualified public depositories; and direct obligations of the U.S. Treasury.

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

For qualifying constructed assets, interest costs are capitalized, net of interest revenue earned on debt proceeds, from the time of borrowing until the completion of the project.

Depreciation has been provided over the estimated useful lives of the capital assets using the straight line method. The estimated useful lives are as follows:

|                                     |            |
|-------------------------------------|------------|
| Plant and Equipment                 | 5-40 Years |
| Vehicles                            | 3-5 Years  |
| Other Equipment and Sewer Machinery | 5-30 Years |

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market.

Compensated Absences

The District's policy is to allow limited vesting of employee vacation and sick pay. A liability for compensated absences is accrued when incurred in the District's financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

**Notes to Financial Statements**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

**NOTE 2 – PROPERTY TAXES**

The Levy County Tax Collector bills and collects property taxes for the District. Details of the District's property tax calendar are presented below:

|                    |                     |
|--------------------|---------------------|
| Lien Date          | January 1           |
| Levy Date          | October 1           |
| Discount Periods   | November - February |
| No Discount Period | March               |
| Delinquent Date    | April 1             |

**NOTE 3 – CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended September 30, 2010 follows:

|   | Balance<br>October 1,<br>2009 | <u>Increases</u>   | <u>Decreases</u> | Balance<br>September 30,<br>2010 |
|---|-------------------------------|--------------------|------------------|----------------------------------|
| Capital Assets Not Being Depreciated:       |                               |                    |                  |                                  |
| Land  | \$ 125,196                    | \$ -               | \$ -             | \$ 125,196                       |
| Construction in Progress                    | -                             | 545                | -                | 545                              |
| Total Capital Assets Not Being Depreciated  | <u>125,196</u>                | <u>545</u>         | <u>-</u>         | <u>125,741</u>                   |
| Capital Assets Being Depreciated:           |                               |                    |                  |                                  |
| Vehicles                                    | 184,234                       | -                  | -                | 184,234                          |
| Plant & Equipment                           | 6,997,439                     | 134,440            | -                | 7,131,879                        |
| Other Equipment                             | 159,344                       | 9,827              | 2,970            | 166,201                          |
| Sewer Machinery                             | 152,755                       | -                  | -                | 152,755                          |
| Total Capital Assets Being Depreciated      | <u>7,493,772</u>              | <u>144,267</u>     | <u>2,970</u>     | <u>7,635,069</u>                 |
| Less Accumulated Depreciation for:          |                               |                    |                  |                                  |
| Vehicles                                    | 176,528                       | 2,569              | -                | 179,097                          |
| Plant & Equipment                           | 3,045,777                     | 191,484            | -                | 3,237,261                        |
| Other Equipment                             | 93,492                        | 15,395             | 2,079            | 106,808                          |
| Sewer Machinery                             | 131,349                       | 4,321              | -                | 135,670                          |
| Total Accumulated Depreciation              | <u>3,447,146</u>              | <u>213,769</u>     | <u>2,079</u>     | <u>3,658,836</u>                 |
| Total Capital Assets Being Depreciated, Net | <u>4,046,626</u>              | <u>(69,502)</u>    | <u>891</u>       | <u>3,976,233</u>                 |
| Capital Assets, Net                         | <u>\$ 4,171,822</u>           | <u>\$ (68,957)</u> | <u>\$ 891</u>    | <u>\$ 4,101,974</u>              |

**Notes to Financial Statements**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

**NOTE 4 – LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended September 30, 2010:

| <u>Description</u>   | Balance<br>October 1,<br><u>2009</u> | <u>Increases</u>         | <u>Decreases</u>         | Balance<br>September 30,<br><u>2010</u> | Due Within<br><u>One Year</u> |
|----------------------|--------------------------------------|--------------------------|--------------------------|---|-------------------------------|
| Notes Payable        | \$ 397,726                           | \$ 115,330               | \$ 100,641               | \$ 412,415                              | \$ 77,926                     |
| Compensated Absences | 31,660                               | 13,740                   | 16,650                   | 28,750                                  | 13,580                        |
| <b>Total</b>         | <b><u>\$ 429,386</u></b>             | <b><u>\$ 129,070</u></b> | <b><u>\$ 117,291</u></b> | <b><u>\$ 441,165</u></b>                | <b><u>\$ 91,506</u></b>       |

**Notes Payable**

|  |                          |
|--|--------------------------|
| 3.85% note payable to bank, \$2,850 payable monthly including interest | \$ 110,425               |
| 4.22% note payable to bank, \$4,953 payable monthly including interest | <u>301,990</u>           |
| <b>Total Notes Payable</b>   | <b><u>\$ 412,415</u></b> |

Aggregate maturities of notes payable are as follows:

| Year Ending<br>September 30, | Principal                | Interest                | Total                    |
|------------------------------|--------------------------|-------------------------|--------------------------|
| 2011                         | \$ 77,926                | \$ 15,712               | \$ 93,638                |
| 2012                         | 81,162                   | 12,476                  | 93,638                   |
| 2013                         | 84,591                   | 9,046                   | 93,637                   |
| 2014                         | 69,273                   | 5,670                   | 74,943                   |
| 2015                         | 56,280                   | 3,157                   | 59,437                   |
| 2016-2020                    | <u>43,183</u>            | <u>765</u>              | <u>43,948</u>            |
| <b>Total</b>                 | <b><u>\$ 412,415</u></b> | <b><u>\$ 46,826</u></b> | <b><u>\$ 459,241</u></b> |

**NOTE 5 – DEFINED CONTRIBUTION PLAN**

The District provides pension benefits for all of its full-time employees through the Florida Municipal Pension Trust Fund, a defined contribution plan which is administered by the Florida League of Cities. The Plan was established by the Board of Commissioners, and any amendments can only be made by majority vote of the Board. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are able to participate from the date of employment. The District contributes an amount equal to 10% of the employee's regular salary each quarter for the first 10 years of service and 15% for all years thereafter. Employee contributions are voluntary. The District's contributions for each employee (and interest allocated to the employee's account) are fully vested after ten years of continuous service. The District's contributions for employees who leave employment

**Notes to Financial Statements**  
**September 30, 2010**  
**Cedar Key Special Water and Sewer District**

**NOTE 5 – DEFINED CONTRIBUTION PLAN**

before ten years of service are used to reduce the District's current-period contribution requirement.

The District's contributions to the plan were approximately \$28,000. Employees contributed approximately \$8,700.

**ADDITIONAL ELEMENTS REQUIRED BY THE  
RULES OF THE AUDITOR GENERAL AND  
GOVERNMENT AUDITING STANDARDS**

## Management Letter

Board of Commissioners  
Cedar Key Special Water and Sewer District  
Cedar Key, Florida

We have audited the financial statements of the Cedar Key Special Water and Sewer District (the "District"), as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated January 18, 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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

### Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. In that regard, prior audit findings 09-1 and 09-2 are repeated in the accompanying Schedule of Findings as items 10-1 and 10-2.

### Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the District has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(7). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

### Annual Financial Report

As required by the Rules of the Auditor General, we determined that the 2009-2010 annual financial report was filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, and is in substantial agreement with the audit report for the fiscal year ended September 30, 2010.

Board of Commissioners  
Cedar Key Special Water and Sewer District  
Cedar Key, Florida  
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Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal any noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

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

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

*Carr, Riggs & Ingram LLC*

January 18, 2011  
Gainesville, Florida

Board of Commissioners  
Cedar Key Special Water and Sewer District  
Cedar Key, Florida

We have audited the financial statements of the Cedar Key Special Water and Sewer District (the "District") as of and for the year ended September 30, 2010, and have issued our report thereon dated January 18, 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.

### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 10-1 through 10-3 to be material weaknesses.

### Compliance and Other Matters

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

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

### **Communication with Those Charged with Governance**

Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements are management estimates of depreciation expense and accumulated depreciation.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. There are no particularly sensitive disclosures significantly affecting the financial statements.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Our audit did not reveal any such misstatements.

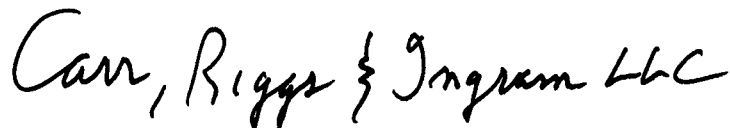
*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter.

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



January 18, 2011  
Gainesville, Florida

**Schedule of Findings**  
**For the Fiscal Year Ended September 30, 2010**  
**Cedar Key Special Water and Sewer District**

- 10-1 Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional errors or irregularities could exist and not be promptly detected.
  
- 10-2 Fixed assets are not being inventoried on an annual basis and records are not being maintained as required by the Department of Financial Services. Additionally, inventory items used in the Utility operation were not physically counted at year end. Procedures should be modified to ensure that an annual inventory is taken and that accurate property records are kept.
  
- 10-3 Our procedures revealed that customer deposit activity was not properly recorded in the general ledger system throughout the audit period. These errors were, however, detected and corrected during the District's year-end close out process.

**CEDAR KEY WATER & SEWER DISTRICT  
P.O. BOX 309/510 THIRD STREET  
CEDAR KEY, FLORIDA 32625  
352-543-5485/FAX# 352-543-6024**

January 25, 2011

Auditor General  
State of Florida  
P.O. Box 1735  
Tallahassee, Fl. 32302

Re: Response to 2010 audit findings

Dear Sir:

Carr, Riggs & Ingram has presented their findings included in the annual audit report for the year ending September 30, 2010. With respect to those findings, the District is pleased to provide our responses as follows:


Item 10-1 The Board is aware of our lack of segregation of employee responsibilities. This situation exists because the District is managed with two single employees. We are aware of the internal control problems that could exist as a result of this finding and assign employee responsibilities to strengthen these controls where ever possible. It is not cost beneficial to hire additional employees to achieve the internal control procedures as described by our auditors.

Item 10-2 Again, the board has directed our staff to develop procedures to insure that an annual inventory of fixed assets and operating supplies is taken. We are pleased to report that after the completion of audit field work, the District successfully implemented both inventory procedures.

Item 10-3 The District installed a new utility billing software during the current fiscal year. At year end, the District did not have all customer deposits entered and reconciled. It is anticipated that this process will be completed during the 2010-2011 fiscal year.

If we can offer any further information, please do not hesitate to contact our office.

Sincerely yours,



Dottie Haldeman  
District Chairperson