

Cedar Key Water and Sewer  
District

Audit Report

September 30, 2013

# Cedar Key Water and Sewer District

## Table of Contents September 30, 2013

---

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	4
<b>Basic Financial Statements</b>	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards	16
<b>Additional Elements Required By the Rules of the Auditor General</b>	
Management Letter	17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	21
Schedule of Findings and Questioned Costs	23
District's Response to Auditor's Comments	--



Carr, Riggs & Ingram, LLC  
4010 N.W. 25th Place  
Gainesville, Florida 32606  
P.O. Box 13494  
Gainesville, Florida 32604

(352) 372-6300  
(352) 375-1583 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Cedar Key Water and Sewer District (the "District") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. 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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Caru, Riggs & Ingram, L.L.C.*

Gainesville, Florida  
February 14, 2014

# Cedar Key Water and Sewer District

## 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, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

The following are financial highlights for fiscal year 2013:

- The District's net position increased by \$501,697.
- Total ending unrestricted net position was \$192,255.

### **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 Position. 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 position – 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 Position. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net position during the fiscal year. Over time, the increases or decreases in net position 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.

Cedar Key Water and Sewer District  
Management's Discussion and Analysis

	2013	2012	Change	% Change
<b>Assets:</b>				
Non-capital assets	\$ 405,119	\$ 294,131	\$ 110,988	37.73
Capital assets	5,395,430	4,193,703	1,201,727	28.66
<b>Total assets</b>	<b>5,800,549</b>	<b>4,487,834</b>	<b>1,312,715</b>	<b>29.25</b>
<b>Liabilities:</b>				
Current liabilities	252,928	555,150	(302,222)	(54.44)
Long-term liabilities	1,297,190	183,950	1,113,240	605.19
<b>Total liabilities</b>	<b>1,550,118</b>	<b>739,100</b>	<b>811,018</b>	<b>109.73</b>
<b>Net position:</b>				
Net investment in capital assets	4,046,584	3,586,783	459,801	12.82
Restricted	11,592	-	11,592	-
Unrestricted	192,255	161,951	30,304	18.71
<b>Total net position</b>	<b>\$ 4,250,431</b>	<b>\$ 3,748,734</b>	<b>\$ 501,697</b>	<b>13.38</b>
<b>Revenues:</b>				
Operating revenues	\$ 781,263	\$ 717,024	\$ 64,239	8.96
Capital grants	551,200	-	551,200	-
Property taxes	169,084	167,471	1,613	0.96
Impact fees	1,920	-	1,920	-
Investment earnings	256	241	15	6.22
<b>Total revenues</b>	<b>1,503,723</b>	<b>884,736</b>	<b>618,987</b>	<b>69.96</b>
<b>Expenses:</b>				
Water/sewer services	756,951	709,096	47,855	6.75
Depreciation	230,228	222,772	7,456	3.35
Interest on long-term debt	14,847	12,518	2,329	18.61
Loss on disposal of capital assets	-	1,262	(1,262)	(100.00)
<b>Total expenses</b>	<b>1,002,026</b>	<b>945,648</b>	<b>56,378</b>	<b>5.96</b>
<b>Change in net position</b>	<b>501,697</b>	<b>(60,912)</b>	<b>562,609</b>	<b>923.64</b>
<b>Beginning net position</b>	<b>3,748,734</b>	<b>3,809,646</b>	<b>(60,912)</b>	<b>(1.60)</b>
<b>Ending net position</b>	<b>\$ 4,250,431</b>	<b>\$ 3,748,734</b>	<b>\$ 501,697</b>	<b>13.38</b>

Cedar Key Water and Sewer District  
Management's Discussion and Analysis

---

**OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Revenues were \$1,503,723, including recognition of capital grants of \$551,200, compared to expenses of \$1,002,026. This resulted in an increase in net position for the year of \$501,697.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District spent approximately \$1.4 million in the current year on a construction project in which the District will replace old water lines. It is anticipated that this project will cost approximately \$1,969,800 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 \$997,600 from a local bank for a short-term bridge loan that was paid off in the current year by USDA with a \$1,180,000 water revenue bond. 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 DISTRICT'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.

## Cedar Key Water and Sewer District

## Statement of Net Position

<i>September 30,</i>	2013
<b>Current assets</b>	
Cash	\$ 202,536
Due from other governments	111,748
Accounts receivable (net of allowance of \$12,000)	59,696
Inventory	19,547
<b>Total current assets</b>	<b>393,527</b>
<b>Noncurrent assets</b>	
Restricted cash	11,592
Capital assets:	
Non-depreciable	1,555,844
Depreciable, net	3,839,586
<b>Total noncurrent assets</b>	<b>5,407,022</b>
<b>Total assets</b>	<b>5,800,549</b>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	26,164
Construction payable	111,748
Unearned revenue	8,223
Interest payable	2,578
Customer deposits	15,550
Current portion of long-term liabilities	88,665
<b>Total current liabilities</b>	<b>252,928</b>
<b>Noncurrent liabilities</b>	
Notes payable	99,481
Bonds payable	1,180,000
Compensated absences	17,709
<b>Total noncurrent liabilities</b>	<b>1,297,190</b>
<b>Total liabilities</b>	<b>1,550,118</b>
<b>Net position</b>	
Net investment in capital assets	4,046,584
Restricted for debt service	8,532
Restricted for construction	3,060
Unrestricted	192,255
<b>Total net position</b>	<b>\$ 4,250,431</b>

See accompanying notes.

Cedar Key Water and Sewer District

Statement of Revenues, Expenses and Changes in Net Position

<i>Year ended September 30,</i>	2013
<b>Operating revenues</b>	
Charges for services	\$ 743,361
Other operating revenues	37,902
<hr/>	
Total operating revenues	781,263
<hr/>	
<b>Operating expenses</b>	
Personal services	337,510
Operating expenses	419,441
Depreciation	230,228
<hr/>	
Total operating expenses	987,179
<hr/>	
<b>Operating loss</b>	(205,916)
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Taxes	169,084
Impact fees	1,920
Interest revenue	256
Interest expense	(14,847)
<hr/>	
Total nonoperating revenues (expenses)	156,413
<hr/>	
<b>Loss before capital contributions</b>	(49,503)
<hr/>	
Capital contributions - grants	551,200
<hr/>	
<b>Change in net position</b>	501,697
<hr/>	
<b>Net position, October 1, 2012</b>	3,748,734
<hr/>	
<b>Net position, September 30, 2013</b>	<b>\$ 4,250,431</b>

See accompanying notes.

## Cedar Key Water and Sewer District

## Statement of Cash Flows

<i>Year ended September 30,</i>	2013
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 770,438
Payments to suppliers	(654,037)
Payments to employees	(231,657)
<hr/>	
Net cash used by operating activities	(115,256)
<hr/>	
<b>Cash flows from noncapital financing activities</b>	
Taxes received	169,084
<hr/>	
<b>Cash flows from capital and related financing activities</b>	
Capital grants	551,200
Payments on debt	(1,435,674)
Payments of interest	(12,269)
Acquisition of capital assets	(1,320,207)
Impact fees received	1,920
Proceeds from debt	2,177,600
<hr/>	
Net cash used by capital and related financing activities	(37,430)
<hr/>	
<b>Cash flows from investing activities</b>	
Interest received	256
<hr/>	
<b>Net change in cash</b>	16,654
<b>Cash – October 1, 2012</b>	197,474
<hr/>	
<b>Cash – September 30, 2013</b>	<b>\$ 214,128</b>
<hr/>	
<b>Reconciliation of operating loss to net cash used by operating activities</b>	
Operating loss	\$ (205,916)
Depreciation	230,228
Changes in assets and liabilities:	
Due from other governments	(111,748)
Accounts receivable	26,128
Inventory	(8,714)
Accounts payable and accrued liabilities	17,443
Due to other governments	(29,538)
Unearned revenue	163
Customer deposits	(37,116)
Compensated absences	3,814
<hr/>	
Net cash used by operating activities	\$ (115,256)
<hr/>	
Capital assets acquired via construction payable	\$ 111,748
<hr/>	

See accompanying notes.

# Cedar Key Water and Sewer District

## Notes to Financial Statements

---

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

The accounting policies of the Cedar Key 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 operating pursuant to Chapter 98-473, 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, as amended, to define the reporting entity and identify component units. Component units are entities for which the District is considered to be financially accountable or entities that would be misleading to exclude. There is no other entity reported 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.

#### **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, 2013 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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 cost (first-in, first-out).

***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.

Cedar Key Water and Sewer District

Notes to Financial Statements

**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, 2013 follows:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
<b>Capital assets not being depreciated:</b>				
Land	\$ 125,196	\$ -	\$ -	\$ 125,196
Construction in progress	24,811	1,405,837	-	1,430,648
<b>Total capital assets not being depreciated</b>	<b>150,007</b>	<b>1,405,837</b>	<b>-</b>	<b>1,555,844</b>
<b>Capital assets being depreciated:</b>				
Vehicles	134,998	5,500	-	140,498
Plant & equipment	7,633,465	15,712	-	7,649,177
Other equipment	110,406	4,906	-	115,312
Sewer machinery	163,464	-	-	163,464
<b>Total capital assets being depreciated</b>	<b>8,042,333</b>	<b>26,118</b>	<b>-</b>	<b>8,068,451</b>
<b>Less accumulated depreciation for:</b>				
Vehicles	134,999	183	-	135,182
Plant & equipment	3,638,589	215,292	-	3,853,881
Other equipment	80,955	11,933	-	92,888
Sewer machinery	144,094	2,820	-	146,914
<b>Total accumulated depreciation</b>	<b>3,998,637</b>	<b>230,228</b>	<b>-</b>	<b>4,228,865</b>
<b>Total capital assets being depreciated, net</b>	<b>4,043,696</b>	<b>(204,110)</b>	<b>-</b>	<b>3,839,586</b>
<b>Capital assets, net</b>	<b>\$ 4,193,703</b>	<b>\$ 1,201,727</b>	<b>\$ -</b>	<b>\$ 5,395,430</b>

Cedar Key Water and Sewer District

Notes to Financial Statements

**NOTE 4 – SHORT-TERM DEBT**

The following is a summary of changes in short-term debt for the year ended September 30, 2013:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
<u>Note payable</u>	\$ 353,500	\$ 997,600	\$ 1,351,100	\$ -

The October 1, 2012 balance of \$353,500 was due to a bank. This balance was paid in full on May 15, 2013. The new proceeds of \$997,600 was a bridge loan to fund construction in process. This note was payable to a bank and was paid off during the current fiscal year.

**NOTE 5 – LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended September 30, 2013:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013	Due Within One Year
Notes payable	\$ 253,420	\$ -	\$ 84,574	\$ 168,846	\$ 69,365
Bonds payable	-	1,180,000	-	1,180,000	-
Compensated absences	33,195	20,737	16,923	37,009	19,300
<u>Total</u>	\$ 286,615	\$ 1,200,737	\$ 101,497	\$ 1,385,855	\$ 88,665

**Notes Payable**

3.85% note payable to bank, \$2,850 payable monthly including interest	\$ 15,438
4.22% note payable to bank, \$4,953 payable monthly including interest	153,408
<u>Total notes payable</u>	\$ 168,846

**Bonds Payable**

\$1,180,000 water revenue bonds (Series 2012); due in installments, beginning September 1, 2015, of \$12,000 to \$50,000 through September 1, 2052; interest at 2.75%; to finance improvements to the water system	\$ 1,180,000
<u>Total</u>	\$ 1,180,000

Cedar Key Water and Sewer District

Notes to Financial Statements

**NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)**

Aggregate maturities of long-term debt are as follows:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 69,365	\$ 38,120	\$ 107,485
2015	68,280	35,607	103,887
2016	56,201	32,885	89,086
2017	14,000	31,763	45,763
2018	15,000	31,378	46,378
2019-2023	90,000	150,150	240,150
2024-2028	115,000	136,400	251,400
2029-2033	142,000	119,185	261,185
2034-2038	170,000	98,038	268,038
2039-2043	195,000	73,288	268,288
2044-2048	220,000	45,100	265,100
2049-2053	194,000	13,475	207,475
<b>Total</b>	<b>\$ 1,348,846</b>	<b>\$ 805,389</b>	<b>\$ 2,154,235</b>

**NOTE 6 – 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 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 \$28,250. Employees contributed approximately \$1,800.

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Items previously reported as assets and liabilities;
- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

# Cedar Key Water and Sewer District

## Notes to Financial Statements

---

### **NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

The District is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

### **NOTE 8 – RISK MANAGEMENT**

The District is exposed to various risks of loss for which it carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three years.

## Supplementary Information

Cedar Key Water and Sewer District

Schedule of Expenditures of Federal Awards

Year ended September 30,

2013

	Federal CFDA Number	Contract Number	Expenditures
<b>Environmental Protection Agency</b>			
Passed through Florida Department of Environmental Protection:			
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW 380900	\$ 38,250
<b>United States Department of Agriculture</b>			
Water and Waste Disposal Systems for Rural Communities			
ARRA-Grant funds	10.760		512,950
ARRA-Loan funds	10.760		1,180,000
			1,692,950
Total expenditures of federal awards			\$ 1,731,200

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

In the accompanying schedule, expenditures represent allowable costs determined in accordance with generally accepted accounting principles, using the modified accrual basis of accounting.

**NOTE 2 – SUBRECIPIENTS**

The District did not provide federal or state awards to subrecipients.

Additional Elements Required  
by the Rules of the  
Auditor General



Carr, Riggs & Ingram, LLC  
4010 N.W. 25th Place  
Gainesville, Florida 32606  
P.O. Box 13494  
Gainesville, Florida 32604

(352) 372-6300  
(352) 375-1583 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## MANAGEMENT LETTER

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

We have audited the financial statements of the Cedar Key Water and Sewer District (the "District"), as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 14, 2014.

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. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. These requirements of the Rules of the Auditor General are addressed in the schedule of findings and questioned costs that accompanies this letter.

### 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 2012-2013 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, 2013.

## **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.

*Caru, Riggs & Ingram, L.L.C.*

Gainesville, Florida  
February 14, 2014

**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the 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, the financial statements of Cedar Key Water and Sewer District (the "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control 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 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 Finding**

The District's response to the finding identified in our audit is described in its accompanying letter of response. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Gainesville, Florida  
February 14, 2014

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

### **Report on Compliance for Each Major Federal Program**

We have audited Cedar Key Water and Sewer District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended September 30, 2013. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

### **Report on Internal Control Over Compliance**

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Gainesville, Florida  
February 14, 2014

Cedar Key Water and Sewer District

Schedule of Findings and Questioned Costs

---

**PART I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: UNMODIFIED

Internal control over financial reporting:  
Material weakness(es) identified?  yes  no

Significant deficiencies identified not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:  
Material weakness(es) identified?  yes  no

Significant deficiencies identified not considered to be material weakness(es)?  yes  no

Type of auditor’s report issued on compliance for major programs: UNMODIFIED

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

The District’s major programs was: CFDA No.  
Water and Waste Disposal Systems for Rural Communities 10.760

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

# Cedar Key Water and Sewer District

## Schedule of Findings and Questioned Costs

---

### **PART II – FINANCIAL STATEMENT FINDINGS**

2013-001 (Similar findings were reported in previous audit reports as items 12-1 and 11-1.)

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.

### **PART III – FEDERAL AWARD FINDINGS**

None.

# Cedar Key Water & Sewer District

*P.O. Box 309  
Cedar Key, FL 32625  
Phone: 352-543-5285  
Fax: 866-278-7502*

February 14, 2014

Carr, Riggs and Ingram, LLC  
P.O. Box 13494  
Gainesville Florida 32606

Re: Response to 2013 Audit Findings

Dear Sir:

Carr, Riggs & Ingram has presented its finding included in the annual audit report for the year ending September 30, 2013. With respect to that finding, the District is pleased to provide its response as follows:

Item 2013-001 The Board is aware of our lack of segregation of employee responsibilities. This situation exists because the District Office is managed with two individual 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 wherever possible. It is not cost beneficial to hire additional employees to achieve the internal control procedures as described by our auditors.

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

Sincerely

  
Dottie Halderman  
District Chairperson