

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2018, and the related notes to the financial statements which collectively comprise the City'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.

Auditors' Responsibility

Our responsibility is to express opinions 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 City'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 City'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 opinions.

Certified Public Accountants

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

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of September 30, 2018, and the respective changes in financial position, and the budgetary comparison for the general fund and the major special revenue fund 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 and required supplementary information, as listed in the table of contents, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report 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, 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* in considering the City's internal control over financial reporting and compliance.

Purvis, Gray and Company, LLP

April 8, 2019
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 Cedar Key Community Redevelopment Agency's (CKCRA) 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 government-wide assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2018 by \$2,893,699 (net position). Of this amount, \$11,648 is restricted for specific purposes (restricted net position), and \$2,568,997 is net investment in capital assets. The City's total net position increased by \$215,731 during fiscal year 2018.

General Fund revenues for 2018 decreased by \$601,507 or 26.1% when compared to fiscal year 2017. General Fund expenditures decreased by \$13,506 or .80% during this same period. The net change in fund balance in the General Fund showed a decrease of \$26,491 for fiscal year 2018.

Long-term liabilities as of September 30, 2018, amounted to \$5,693,667.

City and CKCRA Highlights

Revenue Note: Through the CKCRA, a \$9,200,000 revenue note was issued through SunTrust Bank in fiscal year 2008 for projects approved in the CKCRA Plan.

The City has seen the following projects started or completed in the 2017-2018 fiscal year:

Community Outreach

- Continued support of the Old Florida Celebration of the Arts, and Seafood Festival through the Public Works, Fire, and Police Departments.
- Held annual Hurricane Awareness Prep Day and Hazardous Waste Day.
- Fire Department held annual Fire Prevention class at the local school for grades Pre-K through Second Grade.
- Continued support and funding for summer youth program.

MANAGEMENT’S DISCUSSION AND ANALYSIS *(Continued)*

HIGHLIGHTS (Concluded)

Property Acquisition/Improvements

- Continued leasing Creswell House to the Chamber of Commerce to operate the Cedar Key Welcome Center and Chamber of Commerce office.

Other Items

- Sponsored a 5-week summer youth program for children ages 5 to 17.

Overview of the Financial Statements

The financial statements 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 and 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 Position (the “Unrestricted Net Position”) is designed to be similar to bottom line results for the City and its governmental activities. This statement 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 Governmental Activities reflect the City’s basic services, including general government, fire, public services, building services, police, garbage, recreation, and CKCRA 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 CKCRA funds to accomplish a number of community needs.

Fund Financial Statements

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

The Government’s Major Funds (see pages 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. The statement of net position reports these infrastructure assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE STATEMENTS

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Statement of Net Position
September 30, 2018

Governmental Activities

	Fiscal Year 2018	Fiscal Year 2017
Assets		
Current and Other Assets	\$ 867,698	\$ 890,329
Capital Assets	<u>7,902,748</u>	<u>8,048,466</u>
Total Assets	<u>8,770,446</u>	<u>8,938,795</u>
 Deferred Outflows of Resources		
Pension Related	<u>124,300</u>	<u>171,465</u>
Liabilities		
Current Liabilities	945,401	851,341
Non-current Liabilities	<u>4,929,260</u>	<u>5,505,407</u>
Total Liabilities	<u>5,874,661</u>	<u>6,356,748</u>
 Deferred Inflows of Resources		
Advance Collections	10,957	8,009
Pension Related	<u>115,429</u>	<u>67,535</u>
Total Deferred Inflows of Resources	<u>126,386</u>	<u>75,544</u>
 Net Position		
Net Investment in Capital Assets	2,568,997	2,291,928
Restricted	11,648	11,648
Unrestricted	<u>313,054</u>	<u>374,392</u>
Total Net Position	<u>\$ 2,893,699</u>	<u>\$ 2,677,968</u>

The majority of the City's net position is reflected as net investment in capital assets (e.g. land, buildings, infrastructure, 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 Position 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. At September 30, 2018, the unrestricted net position had a balance of \$313,054.

Current Year Impacts

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE STATEMENTS (Continued)

Current Year Impacts (Concluded)

Statement of Activities
Year Ending September 30, 2018

Description	Total	
	Government Activities	
	Fiscal Year 2018	Fiscal Year 2017
Revenues		
Charges for Services	\$ 562,128	\$ 612,875
Operating Grants and Contributions	36,911	320,895
Capital Grants and Contributions	48,999	304,391
Property Taxes	1,247,926	1,246,047
Franchise Fees	50,786	49,774
Utility Tax	51,128	46,772
Local Option Fuel Tax	7,187	4,950
State Shared Revenues	134,186	129,473
Interest	450	272
Miscellaneous	100,553	49,552
Total Revenues	<u>2,240,254</u>	<u>2,765,001</u>
Expenses		
General Government	534,175	470,453
Public Safety	544,524	608,318
Physical Environment	266,113	245,904
Transportation	168,734	169,350
Economic Environment	18,439	18,438
Culture and Recreation	284,313	282,900
Interest	208,225	231,225
Total Expenses	<u>2,024,523</u>	<u>2,026,588</u>
Change in Net Position	215,731	738,413
Net Position, Beginning of Year	<u>2,677,968</u>	<u>1,939,555</u>
Net Position, End of Year	<u>\$ 2,893,699</u>	<u>\$ 2,677,968</u>

Governmental activities increased the City's net position by \$215,731.

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.

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE STATEMENTS *(Concluded)*

Normal Impacts *(Concluded)*

Revenues *(Concluded)*

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 and 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).

GOVERNMENTAL FUNDS

Revenues

The City’s property tax revenues increased by \$1,879 during fiscal year 2018. The City decreased its millage rate to 5.319 mills for fiscal year 2018. The CRA property tax revenues increased by \$726 during fiscal year 2018.

Several revenue sources of the General Fund decreased from the prior year, with an overall decrease of 26.1%. The most significant increase resulted from grant revenues in the current year.

Expenditures

General Fund expenditures decreased by \$13,506 or .80%.

As of year-end, the Governmental Funds (as presented on the balance sheet) reported a fund balance of \$824,666, which is a 3.11% decrease over the previous year \$851,157.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the City had \$7,902,748 invested in a variety of capital assets, as reflected in the following schedule:

Capital Assets

<u>Description</u>	Total Government	
	Fiscal Year	Fiscal Year
	2018	2017
Land	\$ 2,940,962	\$ 2,940,962
Buildings and Improvements	1,719,990	1,672,997
Machinery and Equipment	1,465,931	1,366,245
Infrastructure	6,064,775	6,021,330
Accumulated Depreciation	(4,288,910)	(3,953,068)
Capital Assets Net of Depreciation	<u><u>\$ 7,902,748</u></u>	<u><u>\$ 8,048,466</u></u>

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

Change in Capital Assets

<u>Description</u>	Total Government	
	Fiscal Year	Fiscal Year
	2018	2017
Beginning Balance	\$ 8,048,466	\$ 8,138,652
Additions	222,968	280,853
Deletions	(9)	(8,851)
Depreciation Expense	(368,677)	(362,188)
Ending Balance	<u><u>\$ 7,902,748</u></u>	<u><u>\$ 8,048,466</u></u>

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

Debt Outstanding

There was outstanding debt in the amount of \$5,333,751 for the Redevelopment Revenue Note as of September 30, 2018.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

ECONOMIC FACTORS *(Concluded)*

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, Florida 32625, telephone: (352) 543-5132.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2018
CITY OF CEDAR KEY, FLORIDA

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 779,614
Prepaid Insurance	18,917
Accounts Receivable (Net of Allowance for Uncollectibles of \$1,452)	23,039
Due from Other Governments	41,575
Other Receivable	4,553
Total Current Assets	867,698
Capital Assets	
Land	2,940,962
Buildings and Improvements	1,719,990
Machinery and Equipment	1,465,931
Infrastructure	6,064,775
(Accumulated Depreciation)	(4,288,910)
Total Capital Assets	7,902,748
Total Assets	8,770,446
Deferred Outflows of Resources	
Pension Related	124,300
Liabilities	
Current Liabilities	
Accounts Payable and Accrued Expenses	30,674
Deposits	1,400
Redevelopment Revenue Note Interest Payable (See Note 4)	148,920
Redevelopment Revenue Note (See Note 4)	743,751
Compensated Absences	20,656
Total Current Liabilities	945,401
Noncurrent Liabilities	
Redevelopment Revenue Note, Noncurrent (See Note 4)	4,590,000
Compensated Absences	8,625
Net Pension Liability	330,635
Total Noncurrent Liabilities	4,929,260
Total Liabilities	5,874,661
Deferred Inflows of Resources	
Advance Collections	10,957
Pension Related	115,429
Total Deferred Inflows of Resources	126,386
Net Position	
Net Investment in Capital Assets	2,568,997
Restricted for:	
Capital Projects	11,648
Unrestricted	313,054
Total Net Position	\$ 2,893,699

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

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2018
CITY OF CEDAR KEY, FLORIDA

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General Government	\$ 534,175	\$ 8,482	\$ 5,006	\$ 0	\$ (520,687)
Public Safety	544,524	139,556	13,290	48,999	(342,679)
Physical Environment	266,113	236,279	13,500	0	(16,334)
Transportation	168,734	0	0	0	(168,734)
Economic Environment	18,439	0	0	0	(18,439)
Culture and Recreation	284,313	177,811	5,115	0	(101,387)
Interest Charges	208,225	0	0	0	(208,225)
Total Governmental Activities	\$ 2,024,523	\$ 562,128	\$ 36,911	\$ 48,999	(1,376,485)
General Revenues					
Property Taxes					1,247,926
Franchise Fees					50,786
Utility Tax					51,128
Local Option Fuel Tax					7,187
Sales Tax and Other State Shared Revenues					134,186
Interest Earnings					450
Miscellaneous					100,553
Total General Revenues					1,592,216
Change in Net Position					215,731
Net Position, Beginning of Year					2,677,968
Net Position, End of Year					\$ 2,893,699

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018
CITY OF CEDAR KEY, FLORIDA**

	Major Funds		Total Governmental Funds
	General Fund	CKCRA Special Revenue	
Assets			
Cash	\$ 779,613	\$ 1	\$ 779,614
Prepaid Insurance	18,917	0	18,917
Accounts Receivable (Net of Allowance for Uncollectibles of \$1,452)	23,039	0	23,039
Due from Other Governments	41,575	0	41,575
Other Receivable	4,553	0	4,553
Total Assets	867,697	1	867,698
Liabilities			
Accounts Payable and Accrued Expenses	30,674	0	30,674
Redevelopment Revenue Note Interest Payable	0	1	1
Deposits	1,400	0	1,400
Total Liabilities	32,074	1	32,075
Deferred Inflows of Resources			
Advance Collections	10,957	0	10,957
Total Deferred Inflows of Resources	10,957	0	10,957
Fund Balances			
Nonspendable:			
Prepaid Expenses	18,917	0	18,917
Restricted for:			
Capital Projects	11,648	0	11,648
Unassigned	794,101	0	794,101
Total Fund Balances	824,666	0	824,666
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 867,697	\$ 1	\$ 867,698

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018
CITY OF CEDAR KEY, FLORIDA**

Fund Balance - Total Governmental Funds		\$ 824,666
Amounts Reported for Governmental Activities in the Statement of Net Position 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.		7,902,749
Certain pension related amounts are being deferred and amortized over a period of years or are being deferred as contributions to the plan made after the measurement date:		
Deferred Outflows Related to Pensions	\$ 124,300	
Deferred Inflows Related to Pensions	<u>(115,429)</u>	8,871
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Long-term liabilities at year-end consist of:		
Redevelopment Revenue Note	(5,333,751)	
Accrued Compensated Absences	(29,281)	
Net Pension Liability	<u>(330,635)</u>	(5,693,667)
Accrued interest on note payable from current financial resources is not reported as a fund liability of the governmental fund.		<u>(148,920)</u>
Net Position of Governmental Activities		<u><u>\$ 2,893,699</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, 2018
CITY OF CEDAR KEY, FLORIDA**

	Major Funds		Total Governmental Funds
	General Fund	CKCRA Special Revenue Fund	
Revenues			
Taxes	\$ 843,792	\$ 540,678	\$ 1,384,470
Licenses and Permits	92,297	0	92,297
Intergovernmental Revenues	73,557	0	73,557
Charges for Services	503,741	0	503,741
Fines and Forfeitures	11,651	0	11,651
Rent	19,753	0	19,753
Miscellaneous	154,785	0	154,785
Total Revenues	1,699,576	540,678	2,240,254
Expenditures			
Current:			
General Government	522,860	0	522,860
Public Safety	511,969	0	511,969
Physical Environment	266,113	0	266,113
Transportation	20,802	0	20,802
Culture and Recreation	130,722	0	130,722
Capital Outlay	222,969	0	222,969
Debt Service	0	591,310	591,310
(Total Expenditures)	(1,675,435)	(591,310)	(2,266,745)
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,141	(50,632)	(26,491)
Other Financing Sources (Uses)			
Transfers (to) from Other Funds	(50,632)	50,632	0
Total Other Financing Sources (Uses)	(50,632)	50,632	0
Net Change in Fund Balances	(26,491)	0	(26,491)
Fund Balances, Beginning of Year	851,157	0	851,157
Fund Balances, End of Year	\$ 824,666	\$ 0	\$ 824,666

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, 2018
CITY OF CEDAR KEY, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds	\$	(26,491)
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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	\$ 222,969		
Depreciation Expense	(368,678)		
(Loss) on Disposal of Capital Assets	<u>(9)</u>		(145,718)

The changes in the net pension liability and pension related deferred outflows and inflows or resources result in an adjustment to pension expense in the statement of activities, but not in the governmental funds.		(1,140)
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Principal Repayments	422,787		
Compensated Absences	5,995		
Interest Payable	<u>(39,702)</u>		<u>389,080</u>

Change in Net Position of Governmental Activities	\$	<u>215,731</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, 2018
CITY OF CEDAR KEY, FLORIDA**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 806,136	\$ 806,136	\$ 843,792	\$ 37,656
Licenses and Permits	100,055	100,055	92,297	(7,758)
Intergovernmental Revenues	191,182	466,683	73,557	(393,126)
Charges for Services	501,999	501,999	503,741	1,742
Fines and Forfeitures	11,500	11,500	11,651	151
Rent	19,594	19,594	19,753	159
Miscellaneous	76,122	154,072	154,785	713
Total Revenues	<u>1,706,588</u>	<u>2,060,039</u>	<u>1,699,576</u>	<u>(360,463)</u>
Expenditures				
Current:				
General Government	706,512	901,871	629,164	272,707
Public Safety	604,019	660,255	565,843	94,412
Physical Environment	234,725	251,041	266,113	(15,072)
Transportation	21,600	24,600	20,802	3,798
Culture and Recreation	192,829	275,369	193,513	81,856
Reserve for Contingencies	425,000	425,000	0	425,000
(Total Expenditures)	<u>(2,184,685)</u>	<u>(2,538,136)</u>	<u>(1,675,435)</u>	<u>862,701</u>
Excess of Revenues Over Expenditures	<u>(478,097)</u>	<u>(478,097)</u>	<u>24,141</u>	<u>502,238</u>
Other Financing (Uses)				
Transfers to Other Fund	(50,632)	(50,632)	(50,632)	0
Total Other Financing (Uses)	<u>(50,632)</u>	<u>(50,632)</u>	<u>(50,632)</u>	<u>0</u>
Net Change in Fund Balance	<u>(528,729)</u>	<u>(528,729)</u>	<u>(26,491)</u>	<u>502,238</u>
Fund Balance, Beginning of Year	<u>528,729</u>	<u>528,729</u>	<u>851,157</u>	<u>322,428</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 824,666</u>	<u>\$ 824,666</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 - CKCRA
FOR THE YEAR ENDED SEPTEMBER 30, 2018
CITY OF CEDAR KEY, FLORIDA**

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Taxes	\$ 540,304	\$ 540,304	\$ 540,678	\$ 374
Total Revenues	<u>540,304</u>	<u>540,304</u>	<u>540,678</u>	<u>374</u>
Expenditures				
Debt Service	590,936	590,936	591,310	(374)
(Total Expenditures)	<u>(590,936)</u>	<u>(590,936)</u>	<u>(591,310)</u>	<u>(374)</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(50,632)</u>	<u>(50,632)</u>	<u>(50,632)</u>	<u>0</u>
Other Financing Sources (Uses)				
Transfers from Other Fund	50,632	50,632	50,632	0
Total Other Financing Sources (Uses)	<u>50,632</u>	<u>50,632</u>	<u>50,632</u>	<u>0</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance, Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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.

Government-wide and Fund Financial Statements

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

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees charged to external parties. The City has no business-type activities.

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*.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Concluded)

The City reports the following major governmental funds:

- **General Fund**—the primary operating fund, used to account for and report all activities except those accounted for and reported in another fund.
- **CKCRA Fund**—to account for activities from specific revenue sources collected by the CKCRA and used for specific purposes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide 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). 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 government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of related liability, rather than as expenditure.

Fund Financial Statements

Governmental Fund 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.

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)

Fund Financial Statements (Concluded)

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 fund liabilities.

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

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.

Fund Balance

Fund balance is reported in five components: nonspendable, restricted, committed, assigned, and unassigned:

- **Nonspendable**—This component of fund balance consists of amounts that cannot be spent because: a) they are not expected to be converted to cash; or b) they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.
- **Restricted**—This component of fund balance consists of amounts that are constrained either: a) externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments); or b) by law through constitutional provisions or enabling legislation.
- **Committed**—This component of fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (e.g., ordinance or resolution) of the organization's governing authority (the City Council). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (e.g., ordinance or resolution) employed to constrain those amounts.
- **Assigned**—This component of fund balance consists of amounts that are constrained by a less-than-formal action of the organization's governing authority, or by an individual or body to whom the governing authority has delegated this responsibility. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund.
- **Unassigned**—This classification is used for: a) deficit unrestricted fund balances in any governmental fund; or b) fund balances within the general fund that are not restricted, committed or assigned.

Use of Restricted and Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is generally the practice of the City to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any governmental fund, it is the City's practice to use committed resources first, then assigned, and then unassigned as needed.

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

Note 1 - Summary of Significant Accounting Policies (Concluded)

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks, storm water drainage and similar items), are reported in the government-wide financial statements. Capital assets include items of a nonconsumable nature with a value of at least \$1,000 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:

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

As required by GASB, the City has added infrastructure assets that were constructed after October 1, 2003. The City has not reported infrastructure assets that were constructed prior to October 1, 2003.

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period and will not be recognized as an inflow or resources (revenue) until that future time. Deferred outflow of resources represent the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that future time.

Advance Collections—Monies received but not considered revenue until a future time period.

Unavailable Revenues—Unavailable revenues are revenues which are measurable, but not available because they have not been received within the City's period of availability. These revenues are deferred and recorded as deferred inflows of resources in the governmental funds financial statements.

Pension Related—the difference between expected and actual experience with regard to economic or demographic factors and changes to assumptions in the measurement of total pension liability, and the difference between expected and actual earnings on pension plan investments, are reported as deferred inflows or outflows of resources, to be recognized in expense as disclosed in Note 7. Contributions made subsequent to the measurement date, but prior to the reporting date, are reported as deferred outflows of resources.

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 2018.

Compensated Absences

The City accrues accumulated unpaid vacation when incurred. The liability is reported on the statement of net position.

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

Note 2 - Stewardship, Compliance, and Accountability

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 budget and final budget are 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 state-wide. 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, 2018, was 5.319 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.

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.

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

Note 3 - Cash

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. Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledged level. The pledging level may range from 25% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. In the event of default by a qualified public depository, all claims for public deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Therefore, all cash deposits held by the bank are fully insured and collateralized.

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

Note 4 - Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance 10/1/2017	Increases	Transfers	(Decreases)	Ending Balance 9/30/2018
Capital Assets Not Being Depreciated:					
Land	\$ 2,940,962	\$ 0	\$ 0	\$ 0	\$ 2,940,962
Total Not Being Depreciated	2,940,962	0	0	0	2,940,962
Capital Assets Being Depreciated:					
Buildings	1,672,997	46,993	0	0	1,719,990
Machinery and Equipment	1,366,245	120,960	0	(21,274)	1,465,931
Infrastructure	6,021,330	55,015	0	(11,570)	6,064,775
Total Being Depreciated	9,060,572	222,968	0	(32,844)	9,250,696
Total Before Depreciation	12,001,534	222,968	0	(32,844)	12,191,658
Less Accumulated Depreciation for:					
Buildings	(637,871)	(57,279)	0	0	(695,150)
Machinery and Equipment	(1,155,445)	(44,865)	0	21,265	(1,179,045)
Infrastructure	(2,159,752)	(266,533)	0	11,570	(2,414,715)
Total Accumulated Depreciation	(3,953,068)	(368,677)	0	32,835	(4,288,910)
Total Being Depreciated, Net	5,107,504	(145,709)	0	(9)	4,961,786
Fixed Assets, Cost Less Depreciation	\$ 8,048,466	\$ (145,709)	\$ 0	\$ (9)	\$ 7,902,748

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

Note 4 - Capital Assets (Concluded)

Depreciation expense was charged to functions as follows:

General Government	\$ 17,311
Public Safety	31,405
Transportation	147,932
Economic Environment	18,438
Culture/Recreation	<u>153,591</u>
Total Depreciation Expense	<u>\$ 368,677</u>

Note 5 - Long-term Debt

The CKCRA 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 pay off 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 and to pay debt service.

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

The CKCRA Redevelopment Revenue Note is secured solely by the 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. Neither the City nor the CKCRA shall ever be required to levy ad valorem taxes to pay the principal or interest on the Redevelopment Revenue Note. The holder of the Redevelopment Revenue Note shall not be entitled to payment of the Note from any funds of the CKCRA except from Tax Increment Revenues described above.

Interest expense recorded during 2018 on long-term debt totaled \$208,225, 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</u> <u>September 30,</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Amount</u>
2019	\$ 743,751	\$ 210,683
2020	500,000	181,305
2021	520,000	161,555
2022	540,000	141,015
2023	560,000	119,685
2024-2028	<u>2,470,000</u>	<u>248,850</u>
Total	<u>\$ 5,333,751</u>	<u>\$ 1,063,093</u>

Unpaid principal due on the CKCRA Redevelopment Revenue Note at September 30, 2018, was \$263,751. Interest due on the CKCRA Redevelopment Revenue Note at September 30, 2018, was \$148,920. On January 9, 2019, the CKCRA paid this outstanding principal and interest that was due at September 30, 2018.

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

Note 5 - Long-term Debt (Concluded)

The following tabulation summarizes the changes in the long-term debt during the year ended September 30, 2018:

	Beginning			Ending	Due Within
	Balance	Increases	(Decreases)	Balance	One Year
Compensated Absences	\$ 35,276	\$ 23,608	\$ 29,603	\$ 29,281	\$ 20,656
\$9.2 Million Redevelopment Revenue Note	5,756,538	0	422,787	5,333,751	743,751
Net Pension Liability	424,554	0	93,919	330,635	0
Total	\$ 6,216,368	\$ 23,608	\$ 546,309	\$ 5,693,667	\$ 764,407

Note 6 - Pledged Revenue

The City has pledged the Tax Increment Revenues established under ordinance No. 338 enacted 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 100% of such Tax Increment Revenues that are payable through 2027. Principal and interest paid for the current year was \$591,310, and Tax Increment Revenues totaled \$540,678 for the year.

Note 7 - Employee Retirement Plan

During the year ended September 30, 1993, the City established a defined contribution plan to provide pension benefits for its employees who were not police officers. 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. This 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 year ended September 30, 2018, the amount of pension expense was \$0. The City used \$21,184 in the forfeiture account of the plan to make current year contributions for employees. 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 qualified 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.

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

Note 7 - Employee Retirement Plan (Continued)

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.

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any state-administered retirement system in paying the costs of health insurance.

Essentially all full-time police officers of the City are eligible to enroll as members of the State-administered FRS. Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer defined-benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' web site (www.dms.myflorida.com).

The City's pension expense for the FRS and HIS plans totaled \$26,025 for the fiscal year ended September 30, 2018.

FRS Pension Plan

Plan Description. The FRS Pension Plan (the Plan) is a cost-sharing multiple-employer qualified defined benefit pension plan, with a DROP available for eligible employees. The general classes of membership applicable to the City are as follows:

- *Regular Class*—Members of the FRS who do not qualify for membership in the other classes.
- *Special Risk Class*—Members who are employed in special risk careers, such as law enforcement or fire rescue, and meet the criteria to qualify for this class.

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

Note 7 - Employee Retirement Plan (Continued)

FRS Pension Plan (Continued)

Plan Description. (Concluded)

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of the Plan may include up to four years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

The following chart shows the percentage value for each year of service credit earned:

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

Note 7 - Employee Retirement Plan (Continued)

FRS Pension Plan (Continued)

Benefits Provided. (Concluded)

Class, Initial Enrollment, and Retirement Age/Years of Service	Percent Value
<i>Regular Class Members Initially Enrolled Before July 1, 2011:</i>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<i>Regular Class Members Initially Enrolled on or After July 1, 2011:</i>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<i>Elected Officers</i>	3.00
<i>Senior Management Service Class</i>	2.00
<i>Special Risk Regular</i>	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates for FRS during the City's 2017-18 fiscal year were as follows:

Class	Year Ended June 30, 2018 Percent of Gross Salary		Year Ended June 30, 2019 Percent of Gross Salary	
	Employee	Employer (1)	Employee	Employer (1)
Regular	3.00	6.20	3.00	6.54
Elected Officers	3.00	43.78	3.00	46.98
Senior Management Service	3.00	20.99	3.00	22.34
Special Risk Regular	3.00	21.55	3.00	22.78
DROP	0.00	11.60	0.00	12.37
Re-employed Retiree	(2)	(2)	(2)	(2)

(1) These rates include the normal cost and unfunded actuarial liability contributions but do not include the contribution for the Retiree Health Insurance Subsidy of 1.66% and the fee of 0.06% for administration of the FRS Investment Plan and provision of educational tools for both plans.

(2) Contribution rates are dependent upon retirement class in which reemployed.

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

Note 7 - Employee Retirement Plan (Continued)

FRS Pension Plan (Continued)

Contributions. (Concluded)

The City's contributions (employer) to the FRS Plan totaled \$22,127 for the fiscal year ended September 30, 2018. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2018, the City reported a liability of \$270,436 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportionate share of the net pension liability was based on the City's 2017-2018 fiscal year contributions of all participating members. At June 30, 2018, the City's proportion was .000897846%, which was a decrease of .000309457 from its proportion measured as of June 30, 2017.

For the year ended September 30, 2018, the City recognized pension expense of \$23,714 related to the Plan. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer Contributions after Measurement Date	\$ 4,781	\$ 0
Difference Between Expected and Actual		
Experience	22,910	832
Changes of Assumptions	88,365	0
Changes in Proportion and Difference Between City's Contributions and Proportionate Share of Contributions	0	76,635
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	20,894
Total	<u>\$ 116,056</u>	<u>\$ 98,361</u>

The deferred outflows of resources related to pensions, totaling \$4,781, resulting from the City's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2019	\$ 11,906
2020	7,388
2021	(9,379)
2022	4,042
2023	840
Thereafter	(1,883)
Total	<u>\$ 12,914</u>

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

Note 7 - Employee Retirement Plan (Continued)

FRS Pension Plan (Continued)

Actuarial Assumptions. The total pension liability in the July 1, 2018, actuarial valuation, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary Increases	3.25% Average, Including Inflation
Investment Rate of Return	7.00% Net of Pension Plan Investment Expense, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale BB.

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Annual Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Geometric Return</u>	<u>Standard Deviation</u>
Cash	1%	2.9%	2.9%	1.8%
Fixed Income	18%	4.4%	4.3%	4.0%
Global Equity	54%	7.6%	6.3%	17.0%
Real Estate (Property)	11%	6.6%	6.0%	11.3 %
Private Equity	10%	10.7%	7.8%	26.5%
Strategic Investments	6%	6.0%	5.7%	8.6%
Total	<u>100%</u>			
Assumed Inflation – Mean		2.6%		1.9%

(1) As Outlined in the FRS Pension Plan's Investment Policy

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate was 7.10% in the July 1, 2017, valuation.

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

Note 7 - Employee Retirement Plan (Continued)

FRS Pension Plan (Concluded)

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

FRS – City of Cedar Key:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
City's Proportionate Share of the Net Pension Liability	\$ 493,557	\$ 270,436	\$ 85,121

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The Florida Legislature established and amends the contribution requirements and benefit terms of the HIS program. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance.

Benefits Provided. For the fiscal year ended September 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum HIS payment is \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under one of the State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS-participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the Plan fiscal years ended June 30, 2019 and 2018, the contribution rate was 1.66% of payroll pursuant to Section 112.363, Florida Statutes. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

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

Note 7 - Employee Retirement Plan (Continued)

HIS Pension Plan (Continued)

Contributions. (Concluded)

The City's contributions to the HIS Plan totaled \$2,758 for the fiscal year ended September 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2018, the City reported a net pension liability of \$60,199 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportionate share of the net pension liability was based on the City's 2017-2018 fiscal year contributions relative to the total 2017-2018 fiscal year contributions of all participating members. At June 30, 2018, the City's proportionate share was .000568768%, which was a decrease of .000061974 from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$2,312 related to the HIS Plan. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer Contributions after Measurement Date	\$ 591	\$ 0
Difference Between Expected and Actual		
Experience	922	102
Changes of Assumptions	6,695	6,365
Changes in Proportion and Difference between		
City Contributions and Proportionate Share of		
Contributions	0	10,601
Net Difference between Projected and Actual Earnings		
on Pension Plan Investments	36	0
Total	<u>\$ 8,244</u>	<u>\$ 17,068</u>

The deferred outflows of resources related to pensions, totaling \$591 resulting from City contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	Amount
2019	\$ (1,339)
2020	(1,342)
2021	(1,492)
2022	(1,770)
2023	(2,021)
Thereafter	(1,451)
Total	<u>\$ (9,415)</u>

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

Note 7 - Employee Retirement Plan (Concluded)

HIS Pension Plan (Concluded)

Actuarial Assumptions. The total pension liability for the HIS Pension Plan was determined by an actuarial valuation as of July 1, 2018. The following actuarial assumptions, applied to all periods included in the measurement, were used to determine the total pension liability:

Inflation	2.60%
Salary Increases	3.25% Average, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used to determine the total pension liability as of June 30, 2018, were based on certain results of an actuarial experience study of the FRS for the period July 1, 2008, through June 30, 2013.

Discount Rate. The discount rate used to measure the total pension liability was 3.87%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate was 3.58% in the July 1, 2017, valuation.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 3.87%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
City's Proportionate Share of the Net Pension Liability	\$ 68,563	\$ 60,199	\$ 53,227

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

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:

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

Note 8 - Risk Management (Concluded)

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

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 - Other Disclosures

The CKCRA Fund reported total expenditures of \$374 in excess of total appropriations. The budget of the CKCRA Fund was not amended for additional tax revenues received in excess of the original amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CEDAR KEY, FLORIDA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS

FLORIDA RETIREMENT SYSTEM PENSION PLAN

	September 30, 2018	September 30, 2017	September 30, 2016	September 30, 2015
City's Proportion of the FRS Net Pension Plan	0.000897846%	0.001207303%	0.001318839%	0.136447800%
City's Proportion Share of the FRS Net Pension Plan Liability	\$ 270,436	\$ 357,112	\$ 333,008	\$ 176,241
City's Covered-employee Payroll (for the Year Ended June 30)	\$ 189,096	\$ 201,943	\$ 206,485	\$ 218,747
City's Proportionate Share of the FRS Net Pension Liability as a Percentage of its Covered-employee Payroll	143.02%	176.84%	161.27%	80.57%
FRS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.26%	83.89%	84.88%	92.00%

Notes to the Schedule:

The amounts presented for the Net Pension Liability were determined using a measurement date of June 30.

The Covered-employee Payroll is for the fiscal year shown.

This schedule will build to 10 years as information becomes available.

HEALTH INSURANCE SUBSIDY PENSION PLAN

	September 30, 2018	September 30, 2017	September 30, 2016	September 30, 2015
City's Proportion of the HIS Net Pension Plan	0.000568768%	0.000630742%	0.000643953%	0.070611200%
City's Proportion Share of the HIS Net Pension Plan Liability	\$ 60,199	\$ 67,442	\$ 75,050	\$ 72,012
City's Covered-employee Payroll (FYE 6/30)	\$ 189,096	\$ 201,943	\$ 206,485	\$ 218,747
City's Proportionate Share of the HIS Net Pension Liability as a Percentage of its Covered-employee Payroll	31.84%	33.40%	36.35%	32.92%
HIS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	2.15%	1.64%	0.97%	0.50%

Notes to the Schedule:

The amounts presented for the Net Pension Liability were determined using a measurement date of June 30.

The Covered-employee Payroll is for the fiscal year shown.

This schedule will build to 10 years as information becomes available.

CITY OF CEDAR KEY, FLORIDA
SCHEDULE OF THE CITY'S CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS

FLORIDA RETIREMENT SYSTEM PENSION PLAN

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 22,127	\$ 30,126	\$ 32,846	\$ 34,553
FRS Contribution in Relation to the Contractually Required Contribution	<u>(22,127)</u>	<u>(30,126)</u>	<u>(32,846)</u>	<u>(34,553)</u>
FRS Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-employee Payroll (for the Year Ended September 30)	\$ 169,064	\$ 196,395	\$ 206,485	\$ 218,747
FRS Contributions as a Percentage of Covered-employee Payroll	13.09%	15.34%	15.91%	15.80%

Notes to the Schedule:

The Covered-employee Payroll is for the fiscal year shown.

This schedule will build to 10 years as information becomes available.

HEALTH INSURANCE SUBSIDY PENSION PLAN

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 2,758	\$ 3,309	\$ 3,359	\$ 2,970
HIS Contribution in Relation to the Contractually Required Contribution	<u>(2,758)</u>	<u>(3,309)</u>	<u>(3,359)</u>	<u>(2,970)</u>
HIS Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-employee Payroll (FYE 9/30)	\$ 169,064	\$ 196,395	\$ 206,485	\$ 218,747
HIS Contributions as a Percentage of Covered-employee Payroll	1.63%	1.68%	1.63%	1.36%

Notes to the Schedule:

The Covered-employee Payroll is for the fiscal year shown.

This schedule will build to 10 years as information becomes available.

OTHER INFORMATION

**INDEPENDENT AUDITORS' 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, 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 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 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)**

Compliance and Other Matters

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

We noted certain matters that were reported to management of the City in a separate management letter dated April 8, 2019.

City's Response to Findings

The City's response to the findings in our audit are described in the accompanying Management's Response. The City'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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Purvis, Gray and Company, LLP

April 8, 2019
Gainesville, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

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

We have examined the City of Cedar Key, Florida's (the City) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2018, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of procedures selected depend on our judgement, including an assessment of the risk of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor, and City Commission members, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 8, 2019
Gainesville, Florida

Certified Public Accountants

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MANAGEMENT LETTER

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

Report on the Financial Statements

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, 2018, and have issued our report thereon dated April 8, 2019.

Auditors' Responsibility

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; and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants' Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated April 8, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Prior Year Findings and Recommendations

■ ML 2015-1 Cedar Key Community Redevelopment Agency (CKCRA)

The CKCRA owes long-term debt under a Redevelopment Revenue Note, Series 2007 to SunTrust Bank. Because of decreasing property values in the CKCRA district, the annual tax increment revenues generated within the CKCRA district have become insufficient to fully fund the semiannual debt service payments due under the Note. Unpaid principal due on the CKCRA Redevelopment Revenue Note at September 30, 2018, was \$263,751. Interest due on the CKCRA Redevelopment Revenue Note at September 30, 2018 was \$148,920. The CKCRA paid \$412,671 on January 9, 2019, to retire this outstanding principal and interest that was due. During the 2017-2018 fiscal year, the CKCRA budgeted and paid 100% of the tax increment revenues for debt service payments under the Note.

Certified Public Accountants

P.O. Box 141270 • 222 N.E 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144
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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)

Official Title and Legal Authority

Section 10.554(1)(i)4., *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 Community Redevelopment Agency as a component unit. The Cedar Key Community Redevelopment Agency is reported as a special revenue fund in the accompanying financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City of Cedar Key, Florida, or the Cedar Key Community Redevelopment Agency has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the Cedar Key Community Redevelopment Agency did meet one of the conditions described in Section 218.503(1), Florida Statutes. For an explanation of this situation see the section above on **Prior Year Findings and Recommendations**.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City of Cedar Key, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate noncompliance with 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

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

MANAGEMENT LETTER
(Concluded)

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, City Commissioners and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 8, 2019
Gainesville, Florida

City of Cedar Key

The Island City

Phone (352) 543-5132 • Fax (866) 674-2419 • P.O. Box 339 • Cedar Key, Florida 32625

MANAGEMENT RESPONSE LETTER

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

April 17, 2019

Gentlemen:

Our auditors, Purvis Gray & Company have prepared our Audit Report for the fiscal year 2017- 2018.

Our response to their recommendations and concerns are as follows:

Financial Condition:

Cedar Key Community Redevelopment Agency did meet one of the conditions described in Section 218.503(1), Florida Statutes.

ML 2015-1 Cedar Key Community Redevelopment Agency (CKCRA)

The City of Cedar Key CRA Board is aware of the continuing reduction in TIFF revenue and the effect the reduction is having on making payments on its debt service. The CRA Board Chairperson and the City Attorney have spoken with the note holder (SunTrust Bank) and will follow all required requirements up to and including notification to the State of Florida when full payments are not made to SunTrust Bank.

All available funds were sent to SunTrust Bank on January 9, 2019 in the amount of \$210,683.17 for interest from January 11, 2018- January 11, 2019 and in the amount of \$437,967.32 for a Bond Principal Payment.

Sincerely,



Heath Davis
City of Cedar Key, Mayor