

Cedar Key Water and Sewer District

Audit Report

September 30, 2016



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Cedar Key Water and Sewer District

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Cedar Key Water and Sewer District (the "District") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Car, Riggs & Ingram, L.L.C.

Gainesville, Florida
March 31, 2017

Cedar Key Water and Sewer District

Management's Discussion and Analysis

This discussion and analysis of the Cedar Key Water & Sewer District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

The following are financial highlights for fiscal year 2016:

- The District's net position increased by \$1,217.
- Total ending unrestricted net position was \$84,299

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

Cedar Key Water and Sewer District

Management's Discussion and Analysis

	2016	2015	Change	% Change
Assets:				
Non-capital assets	\$ 204,162	\$ 264,164	\$ (60,002)	(22.71)
Capital assets	5,551,939	5,593,537	(41,598)	(0.74)
Total assets	5,756,101	5,857,701	(101,600)	(1.73)
Liabilities:				
Current liabilities	94,242	181,271	\$ (87,029)	(48.01)
Long-term liabilities	1,157,332	1,173,120	(15,788)	(1.35)
Total liabilities	1,251,574	1,354,391	(102,817)	(7.59)
Net position:				
Net investment in capital assets	4,396,939	4,382,346	14,593	0.33
Restricted	23,289	16,707	\$ 6,582	39.40
Unrestricted	84,299	104,257	(19,958)	(19.14)
Total net position	\$ 4,504,527	\$ 4,503,310	\$ 1,217	0.03
Revenues:				
Operating revenues	\$ 778,032	\$ 741,699	\$ 36,333	4.90
Capital grants	212,949	288,820	(75,871)	-
Property taxes	175,327	169,297	6,030	3.56
Impact fees	1,680	1,440	240	16.67
Investment earnings	121	67	54	80.60
Total revenues	1,168,109	1,201,323	(33,214)	(2.76)
Expenses:				
Water/sewer services	866,117	769,159	96,958	12.61
Depreciation	267,926	272,604	(4,678)	(1.72)
Loss on Sale of Equipment	-	1,796	(1,796)	-
Interest on long-term debt	32,849	35,574	(2,725)	(7.66)
Total expenses	1,166,892	1,079,133	87,759	8.13
Change in net position	1,217	122,190	(120,973)	(99.00)
Beginning net position	4,503,310	4,381,120	122,190	2.79
Ending net position	\$ 4,504,527	\$ 4,503,310	\$ 1,217	0.03



Cedar Key Water and Sewer District

Management's Discussion and Analysis

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Revenues were \$1,168,109, including recognition of capital grants of \$212,949, compared to expenses of \$1,166,892. This resulted in an increase in net position for the year of \$1,217.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District spent approximately \$224,000 in the current year on construction projects. The District added an additional well and incurred engineering costs on a water system improvement project. Please refer to a note to the accompanying financial statements entitled *Capital Asset Activity* for more detailed information.

Debt Administration

The District did not incur any new debt during the year. Please refer to a note to the accompanying financial statements entitled *Long-term Liabilities* for more detailed information about the District's long-term debt activity.

ECONOMIC FACTORS

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Cedar Key Water and Sewer District

**Statement of Net Position
September 30, 2016**

Current assets

Cash	\$	55,574
Accounts receivable (net of allowance of \$15,000)		76,701
Due from other governments		750
Inventory		47,848

Total current assets		180,873
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Noncurrent assets

Restricted cash		23,289
Capital assets:		
Non-depreciable		308,760
Depreciable, net		5,243,179

Total noncurrent assets		5,575,228
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Total assets		5,756,101
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Current liabilities

Accounts payable and accrued liabilities		34,204
Unearned revenue		5,838
Interest payable		2,524
Customer deposits		17,627
Current portion of long-term liabilities		34,049

Total current liabilities		94,242
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Noncurrent liabilities

Bonds payable		1,141,000
Compensated absences		16,332

Total noncurrent liabilities		1,157,332
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Total liabilities		1,251,574
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Net position

Net investment in capital assets		4,396,939
Restricted for debt service		14,706
Restricted for construction		8,583
Unrestricted		84,299

Total net position	\$	4,504,527
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See accompanying notes.

Cedar Key Water and Sewer District

**Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2016**

Operating revenues	
Charges for services	\$ 760,144
Other operating revenues	17,888
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Total operating revenues	778,032
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Operating expenses	
Personal services	357,355
Operating expenses	508,762
Depreciation	267,926
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Total operating expenses	1,134,043
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Operating loss	(356,011)
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Nonoperating revenues (expenses)	
Taxes	175,327
Impact fees	1,680
Interest revenue	121
Interest expense	(32,849)
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Total nonoperating revenues (expenses)	144,279
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Loss before capital contributions	(211,732)
Capital contributions - grants	212,949
<hr/>	
Change in net position	1,217
Net position, October 1, 2015	4,503,310
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Net position, September 30, 2016	\$ 4,504,527
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See accompanying notes.

Cedar Key Water and Sewer District

Statement of Cash Flows
Year ended September 30, 2016

Cash flows from operating activities	
Receipts from customers	\$ 756,516
Payments to suppliers	(586,442)
Payments to employees	(250,275)
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Net cash used by operating activities	(80,201)
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Cash flows from noncapital financing activities	
Taxes received	175,327
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Cash flows from capital and related financing activities	
Capital grants	268,193
Payments on debt	(56,191)
Payments of interest	(32,877)
Acquisition of capital assets	(281,572)
Impact fees received	1,680
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Net cash used by capital and related financing activities	(100,767)
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Cash flows from investing activities	
Interest received	121
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Net change in cash	(5,520)
Cash – October 1, 2015	84,383
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Cash – September 30, 2016	\$ 78,863
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Reconciliation of operating loss to net cash used	
by operating activities	
Operating Loss	\$ (356,011)
Depreciation	267,926
Changes in assets and liabilities:	
Prepaid insurance	11,755
Due from other governments	(750)
Accounts receivable	(16,415)
Inventory	4,648
Accounts payable and accrued liabilities	16,924
Unearned revenue	(2,500)
Customer deposits	(1,851)
Compensated absences	(3,927)
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Net cash used by operating activities	\$ (80,201)
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See accompanying notes.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The District is a special-purpose local government operating pursuant to Chapter 98-473, Laws of Florida, to provide the community with adequate water and wastewater treatment facilities.

The District uses the criteria established in GASB Statement No. 14, as amended, to define the reporting entity and identify component units. Component units are entities for which the District is considered to be financially accountable or entities that would be misleading to exclude. There is no other entity reported as a component unit within the District’s reporting entity.

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

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

Cash

The District’s cash consists of legally authorized demand deposits. The institutions in which such deposits are kept are certified as Qualified Public Depositories under the Florida Public Deposits Act. Therefore, the total bank balances on deposit at September 30, 2016 are insured or collateralized pursuant to Chapter 280, Florida Statutes.

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

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Capital Assets

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

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

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

Plant and equipment	5-40 Years
Vehicles	3-5 Years
Other equipment and sewer machinery	5-30 Years

Inventory

Inventory is valued at cost (first-in, first-out).

Compensated Absences

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

Restricted Net Position

In the accompanying statement of net position, *restricted net position* is subject to restrictions beyond the District’s control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation. It is the practice of the District to utilize restricted assets before unrestricted assets.

Use of Estimates

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

Cedar Key Water and Sewer District

Notes to Financial Statements

NOTE 2 – PROPERTY TAXES

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

Lien date	January 1
Levy date	October 1
Discount periods	November - February
No discount period	March
Delinquent date	April 1

NOTE 3 – CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended September 30, 2016 follows:

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated:				
Land	\$ 125,196	\$ -	\$ -	\$ 125,196
Construction in progress	353,071	224,150	393,657	183,564
Total capital assets not being depreciated	478,267	224,150	393,657	308,760
Capital assets being depreciated:				
Vehicles	110,495	-	-	110,495
Plant & equipment	9,401,039	393,657	-	9,794,696
Other equipment	122,201	2,178	-	124,379
Sewer machinery	161,453	-	-	161,453
Total capital assets being depreciated	9,795,188	395,835	-	10,191,023
Less accumulated depreciation for:				
Vehicles	100,742	2,952	-	103,694
Plant & equipment	4,322,425	257,620	-	4,580,045
Other equipment	106,260	4,613	-	110,873
Sewer machinery	150,491	2,741	-	153,232
Total accumulated depreciation	4,679,918	267,926	-	4,947,844
Total capital assets being depreciated, net	5,115,270	127,909	-	5,243,179
Capital assets, net	\$ 5,593,537	\$ 352,059	\$ 393,657	\$ 5,551,939

Cedar Key Water and Sewer District

Notes to Financial Statements

NOTE 4 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended September 30, 2016:

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016	Due Within One Year
Notes payable	\$ 43,191	\$ -	\$ 43,191	\$ -	\$ -
Bonds payable	1,168,000	-	13,000	1,155,000	14,000
Compensated absences	40,308	22,365	26,292	36,381	20,049
Total	\$ 1,251,499	\$ 22,365	\$ 82,483	\$ 1,191,381	\$ 34,049

Bonds Payable

\$1,180,000 water revenue bonds (Series 2013); due in installments, beginning September 1, 2015, of \$12,000 to \$50,000 through September 1, 2052; interest at 2.75%; to finance improvements to the water system

\$ 1,155,000

Aggregate maturities of long-term debt are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	\$ 14,000	\$ 31,763	\$ 45,763
2018	15,000	31,378	46,378
2019	16,000	30,965	46,965
2020	17,000	30,525	47,525
2021	18,000	30,058	48,058
2022-2026	105,000	142,313	247,313
2027-2031	130,000	126,500	256,500
2032-2036	160,000	106,975	266,975
2037-2041	185,000	83,600	268,600
2042-2046	210,000	56,788	266,788
2047-2051	235,000	26,538	261,538
2052	50,000	1,372	51,372
Total	\$ 1,155,000	\$ 698,775	\$ 1,853,775

Notes to Financial Statements

NOTE 5 – DEFINED CONTRIBUTION PLAN

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

The District's contributions to the plan were approximately \$30,995. Employees contributed approximately \$3,145.

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2017. The statements address:

- Certain pension issues;
- Other postemployment benefits (OPEB) plans;
- Tax abatement disclosures; and
- Blending certain component units.

The District is currently evaluating the effects that these statements will have on its 2017 financial statements.

NOTE 8 – SUBSEQUENT EVENTS

After the end of the fiscal year, on December 1, 2016, the District opened a line of credit with Drummond Community Bank. The line of credit bears interest at 3.00% and has a credit limit of \$100,000.

**Additional Elements Required by
the Rules of the
Auditor General**

MANAGEMENT LETTER

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

We have audited the financial statements of the Cedar Key Water and Sewer District (the "District"), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated March 31, 2017.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. These requirements of the Rules of the Auditor General are addressed in the schedule of findings that accompanies this letter.

Financial Condition

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

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

We did note an unfavorable trend in that the District has incurred repeated losses before capital contributions. This year's loss before capital grants was \$211,732. The Board should closely monitor its financial activities to reverse this unfavorable trend.

Annual Financial Report

As required by the Rules of the Auditor General, we determined that the 2015-2016 annual financial report was filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, and is in substantial agreement with the audit report for the fiscal year ended September 30, 2016.

Other Matters

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

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

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

Carly Riggs & Ingram, L.L.C.

Gainesville, Florida

March 31, 2017

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cedar Key Water and Sewer District (the "District"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2016-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Finding

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

Purpose of this Report

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

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

Gainesville, Florida
March 31, 2017



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INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

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

We have examined Cedar Key Water and Sewer District's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

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

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

Gainesville, Florida
March 31, 2017



Cedar Key Water and Sewer District

Schedule of Findings

2016-001 (Similar findings were reported in previous audit reports as items 2015-001 and 2014-001.)

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional errors or irregularities could exist and not be promptly detected. Our audit did not reveal any errors or irregularities; however we feel it is important that you are aware of this condition and that the Board provides ongoing oversight to help mitigate this control deficiency.

Cedar Key Water & Sewer District

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

March 31, 2017

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

Re: Response to 2016 Audit Finding

Dear Sir:

Carr, Riggs & Ingram has presented its finding included in the annual audit report for the year ending September 30, 2016. With respect to that finding, the District is pleased to provide its response as follows:

Item 2016-001 The Board is aware of our lack of segregation of employee responsibilities. This situation exists because the District Office is managed with two individual employees. We are aware of the internal control problems that could exist as a result of this finding and assign employee responsibilities to strengthen these controls wherever possible. It is not cost beneficial to hire additional employees to achieve the internal control procedures as described by our auditors.

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

Sincerely



John McPherson
General Manager