

CITY OF FELLOSMERE, FLORIDA

**Basic Financial Statements
With
Independent Auditors' Report**

Year ended September 30, 2007

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
City of Fellsmere, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida (the City), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2008, 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* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fellsmere, Florida's basic financial statements. The combining nonmajor fund financial statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Fellsmere, Florida. The combining nonmajor fund financial statement and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Haire, Kmetz, Nuttall, Elwell & Co.

O'Haire, Kmetz, Nuttall, Elwell & Co., chartered
Certified Public Accountants

August 14, 2008

Management's Discussion and Analysis

The City of Fellsmere's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview in the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements beginning on page 13.

Highlights

Financial Highlights

- The assets of the City of Fellsmere exceed its liabilities at the close of the most recent fiscal year by \$13,347,255 (net assets). Of this amount, \$1,592,523 (unrestricted net assets) maybe used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,764,071.
- As of the close of the fiscal year ending September 30, 2007, the City of Fellsmere's governmental funds reported combined ending fund balances of \$1,853,800, a decrease of \$304,989 in comparison with the prior fiscal year. \$698,723 (37%) of this total amount is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$564,779 or 97% and expenditures increased by \$48,354 or 3%.
- The City's total debt increased by \$360,874 during the current fiscal year.

Government-wide financial statement

The government-wide financial statements are designed to provide readers with a broad overview of the City of Fellsmere's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Fellsmere's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and culture and recreation. The business-type activities of the City include water, wastewater and community development.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fellsmere, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories, governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Fellsmere maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, infrastructure fund and the little league grant fund, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Fellsmere adopts an annual appropriated budget for all governmental funds. Budgetary comparison statements have been provided for the general fund, infrastructure fund and the community redevelopment agency trust fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds. The City of Fellsmere maintains three proprietary funds, all of which are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, wastewater and community development.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water, wastewater and community development; all of which are considered to be major funds of the City.

The City of Fellsmere adopts an annual appropriated budget for each enterprise fund. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources that are held by the City as a trustee or agent for parties outside the City and cannot be used to support the City's own programs. For this reason fiduciary funds are not reflected in the government-wide financial statement. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund information can be found in Note 6 on page 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found on pages 22-34 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Fellsmere, assets exceeded liabilities by \$13,347,255 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (70%) reflects its investment in capital assets (e.g., land, buildings, other improvements, infrastructure improvements, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.



Statement of Net Assets
City of Fellsmere
September 30, 2007 and 2006

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other assets | \$ 1,853,800 | \$ 2,267,100 | \$ 2,778,170 | \$ 1,271,450 | \$ 4,631,970 | \$ 3,538,550 |
| Capital assets | 6,400,060 | 4,168,660 | 4,679,861 | 4,240,610 | 11,079,921 | 8,409,270 |
| Total Assets | 8,253,860 | 6,435,760 | 7,458,031 | 5,512,060 | 15,711,891 | 11,947,820 |
| Long-term liabilities | - | - | 1,668,500 | 1,727,285 | 1,668,500 | 1,727,285 |
| Other liabilities | 172,164 | 108,311 | 523,972 | 168,166 | 696,136 | 276,477 |
| Total Liabilities | 172,164 | 108,311 | 2,192,472 | 1,895,451 | 2,364,636 | 2,003,762 |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 6,400,060 | 4,168,660 | 2,952,575 | 2,456,539 | 9,352,635 | 6,625,199 |
| Restricted | 1,108,534 | 1,645,576 | 1,293,563 | 1,183,261 | 2,402,097 | 2,828,837 |
| Unrestricted | 573,102 | 513,213 | 1,019,421 | (23,191) | 1,592,523 | 490,022 |
| Total Net Assets | \$ 8,081,696 | \$ 6,327,449 | \$ 5,265,559 | \$ 3,616,609 | \$13,347,255 | \$ 9,944,058 |

An additional portion of the City's net assets (18%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,592,523) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its business-type activities.

There was a change (increase) of \$110,302 in restricted net assets reported in connection with the City's business-type activities. An increase of \$73,937 in renewal and replacement funds, an increase of \$20,145 in the bond sinking fund reserve, and an increase of \$16,220 for customer deposits.

The City's net assets increased by \$3,403,197 during the current fiscal year. The greatest portion of this was related to acquisition of Capital Assets.



Governmental Activities. Governmental activities increased the City's net assets by \$1,754,247, thereby accounting for 75% of the total growth in the net assets of the City. Key elements are as follows:

**Changes in Net Assets
City of Fellsmere
Years Ended September 30, 2007 and 2006**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 91,287 | \$ 111,372 | \$ 2,296,727 | \$ 1,138,103 | \$ 2,388,014 | \$ 1,249,475 |
| Operating grants and contributions | 57,889 | 215,717 | - | - | 57,889 | 215,717 |
| Capital grants and contributions | 1,500,000 | 112,500 | 250,000 | - | 1,750,000 | 112,500 |
| General Revenues: | | | | | | |
| Property taxes | 540,924 | 378,277 | - | - | 540,924 | 378,277 |
| Other taxes | 1,447,857 | 1,550,881 | - | - | 1,447,857 | 1,550,881 |
| Intergovernmental | 124,643 | 133,244 | - | - | 124,643 | 133,244 |
| Foreclosure on lien | - | 60,167 | - | - | - | 60,167 |
| Other | 136,312 | 208,016 | 415,868 | 154,592 | 552,180 | 362,608 |
| Total Revenues | 3,898,912 | 2,770,174 | 2,962,595 | 1,292,695 | 6,861,507 | 4,062,869 |
| Expenses: | | | | | | |
| General government | 821,235 | 767,182 | - | - | 821,235 | 767,182 |
| Public safety | 638,063 | 764,560 | 637,675 | 269,053 | 1,275,738 | 1,033,613 |
| Physical environment | - | - | 629,605 | 680,284 | 629,605 | 680,284 |
| Transportation | 603,649 | 670,912 | - | - | 603,649 | 670,912 |
| Culture and recreation | 185,283 | 165,270 | - | - | 185,283 | 165,270 |
| Total Expenses | 2,248,230 | 2,367,924 | 1,267,280 | 949,337 | 3,515,510 | 3,317,261 |
| Increase in Net Assets before transfers | | | | | | |
| | 1,650,682 | 402,250 | 1,695,315 | 343,358 | 3,345,997 | 745,608 |
| Transfers, net | 103,565 | 90,750 | (103,565) | (90,750) | - | - |
| Change in net assets | 1,754,247 | 493,000 | 1,591,750 | 252,608 | 3,345,997 | 745,608 |
| Net Assets, beginning | 6,327,449 | 5,834,449 | 3,616,609 | 3,253,758 | 9,944,058 | 9,088,207 |
| Capital contributions | - | - | 57,200 | 110,243 | 57,200 | 110,243 |
| Net Assets, ending | \$ 8,081,696 | \$ 6,327,449 | \$ 5,265,559 | \$ 3,616,609 | \$13,347,255 | \$ 9,944,058 |

- Property taxes increased by \$162,647 (43%) during the year. Most of this increase is the result of increased property values.
- Intergovernmental revenues decreased by \$8,601 (6%) during the year.



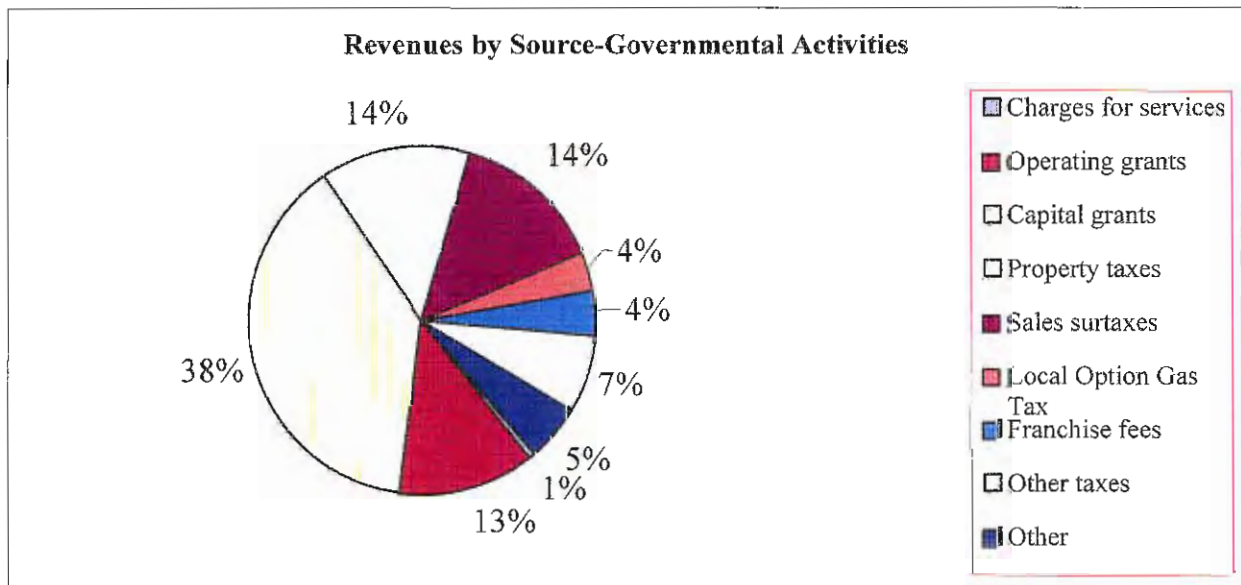
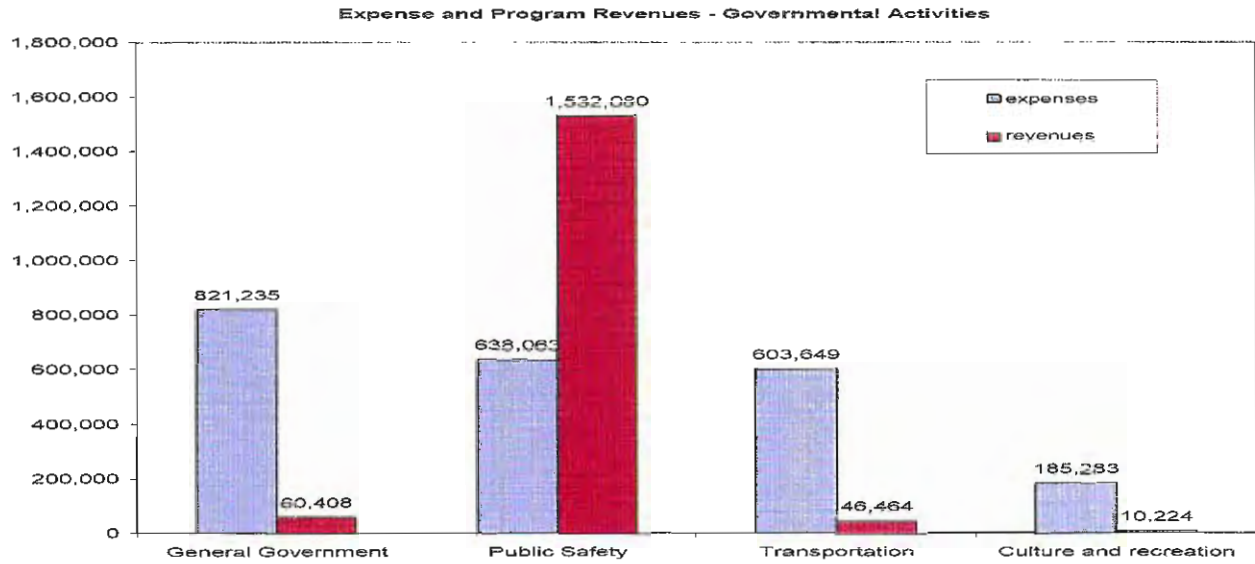


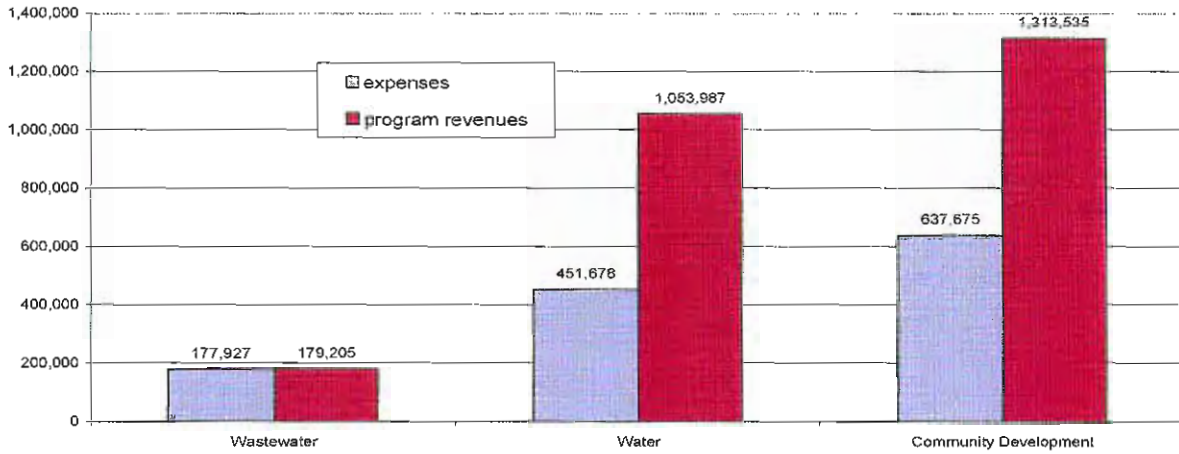
Figure 1

For the most part, increases in expenses closely paralleled inflation and growth in the demand for City services.

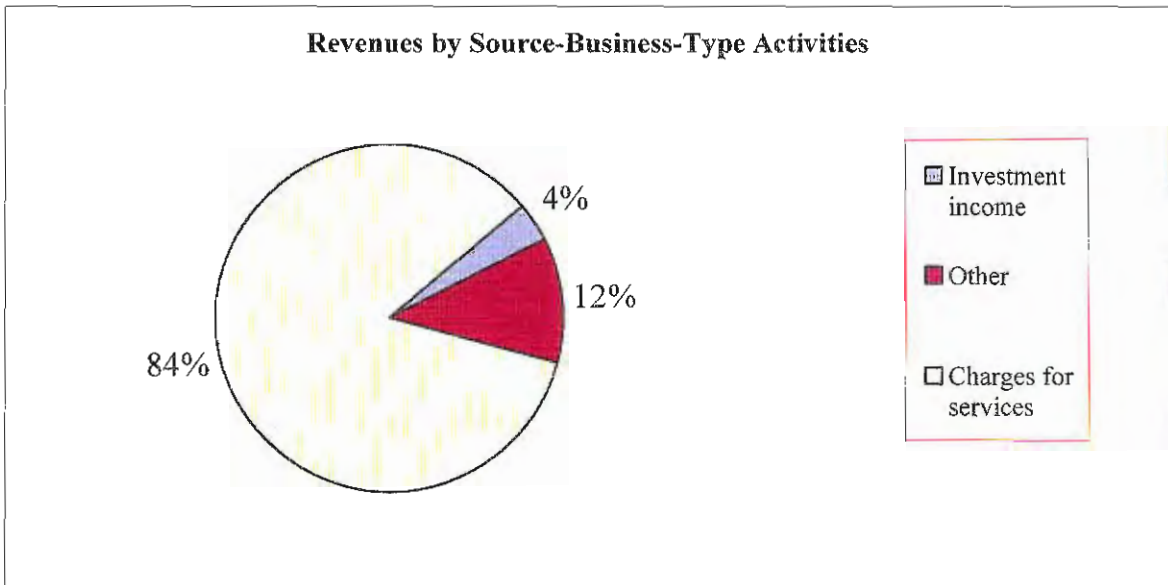
Business-type activities. Business-type activities increased the City's net assets by \$1,648,950, accounting for 48% of the total growth in net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by \$1,158,624 (100%). The Water and Wastewater funds accounted for a significant portion of this increase as a result of the growth within the City.

Expense and Program Revenues - Business-type Activities



Revenues by Source-Business-Type Activities



Financial Analysis of the Governments' Funds

As noted earlier, the City of Fellsmere uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.



As of the end of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$1,681,636, a decrease of \$477,158 in comparison with the prior year. An amount of \$695,636 constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed or is legally restricted for a variety of uses.

The general fund is the main operating fund of the City. At the end of the most recent fiscal year, unreserved, undesignated fund balance of the general fund was \$564,779, while the total fund balance reached \$585,064. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 33% of total general fund expenditures, while total fund balance represents 34% of that same amount. The fund balance of the City's general fund increased by \$61,056 during the current fiscal year

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statement but in more detail.

Unrestricted net assets of the City's water, wastewater and community development enterprise funds amounted to \$1,019,424. The total for unrestricted net assets for each of these funds was \$33,536, \$976,651 and \$9,578, respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City of Fellsmere's business-type activities.

General Fund Budgetary Highlights

During the year the City did not amend its annual budget and ended the most recent fiscal year with \$138,707 less actual revenue than was budgeted. The actual expenditures were some \$443,016 less than the budgeted amount.

Capital Assets and Debt Administration

Capital Assets. The City of Fellsmere's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$9,352,635 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 41%. This represents a 53% increase for governmental activities and a 20% decrease for business-type activities.

Major capital asset events during the most recent fiscal year included the following:

- Various vehicles and equipment were purchased for \$156,238.
- A variety of projects were begun during the fiscal year ended 2007. Construction in progress at the end of the current fiscal year was \$362,747.
- New connections for the water system for the most recent fiscal year were \$258,361.
- New connections for the wastewater system for the most recent fiscal year were \$57,200.
- Improvements, road and drainage additions amounted to \$2,533,754.

Capital Assets, Net of Depreciation
City of Fellsmere
Years Ended September 30, 2007 and 2006

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-----------------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land | \$ 252,371 | \$ 252,371 | \$ 10,357 | \$ 10,357 | \$ 262,728 | \$ 262,728 |
| Buildings | 566,170 | 618,832 | 758,317 | 521,545 | 1,324,487 | 1,140,377 |
| Improvements other than buildings | 918,666 | 1,087,847 | 3,651,156 | 3,682,867 | 4,569,822 | 4,770,714 |
| Machinery and equipment | 335,753 | 314,126 | 30,447 | 25,841 | 366,200 | 339,967 |
| Infrastructure | 4,193,937 | 1,777,563 | - | - | 4,193,937 | 1,777,563 |
| Construction in progress | 133,163 | 117,921 | 229,584 | - | 362,747 | 117,921 |
| Total | \$ 6,400,060 | \$ 4,168,660 | \$ 4,679,861 | \$ 4,240,610 | \$11,079,921 | \$ 8,409,270 |

Additional information on the City's capital assets can be found in Note 5 on pages 30 and 31 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Fellsmere had total outstanding debt of \$1,727,286, of this amount \$214,286 comprises a note backed by a secondary pledge of water system revenues and \$1,513,000 debt for revenue bonds secured by a primary pledge of water system revenues.

Outstanding Debt-Revenue Bond and Note Payables
City of Fellsmere
Years Ended September 30, 2007 and 2006

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------|-------------------------|-------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Note payable | \$ - | \$ - | \$ 214,286 | \$ 241,071 | \$ 214,286 | \$ 241,071 |
| Revenue bond | - | - | 1,513,000 | 1,543,000 | 1,513,000 | 1,543,000 |
| Total | \$ - | \$ - | \$ 1,727,286 | \$ 1,784,071 | \$ 1,727,286 | \$ 1,784,071 |

The City's total debt decreased by \$56,785 during the current fiscal year. The key factor in this decrease was the scheduled payment for debt service within the water fund. The City has no other long-term debt.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates and fees that will be charged for the business-type activities. One of these factors is the economy.

Fellsmere's local economy consists largely of agriculture, retail and service industries. The Indian River County unemployment rate in 2007 was 4.3%, up from 3.8% the previous year. The effects of the housing slump, the financial market's meltdown, the State's tax reform and the lack of growth within the County have all combined as the perfect storm to cripple the area economy and negatively affect the unemployment rate.

During the most recently completed fiscal year, unreserved, undesignated fund balance in the general fund increased to \$564,779. The City has appropriated \$161,000 of this amount for spending in the 2008 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise ad valorem taxes during the 2008 fiscal year.

Both the water and wastewater rates were raised by 3.09% for the 2008 fiscal year budget. This rate was established by the Florida Public Service Commission to annually adjust for the effects of inflation for water and wastewater operations.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to the City Finance Department, City of Fellsmere, 21 S. Cypress Street, Fellsmere, Florida 32948-6714.

City of Fellsmere, Florida
Statement of Net Assets

September 30, 2007

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 801,816 | \$ 1,297,086 | \$ 2,098,902 |
| Accounts receivable | - | 176,662 | 176,662 |
| Restricted cash and cash equivalents | 717,221 | 1,293,563 | 2,010,784 |
| Due from other governmental units | 296,625 | - | 296,625 |
| Due from other entities | 28,326 | - | 28,326 |
| Prepaid expenses | 9,812 | - | 9,812 |
| Inventory | - | 10,859 | 10,859 |
| Capital assets, net of accumulated depreciation | 6,400,060 | 4,679,861 | 11,079,921 |
| Total Assets | 8,253,860 | 7,458,031 | 15,711,891 |
| Liabilities | | | |
| Accounts payable | 58,022 | 178,934 | 236,956 |
| Wages payable | 26,614 | - | 26,614 |
| Other liabilities | 87,528 | 208,122 | 295,650 |
| Customer and other deposits | - | 73,848 | 73,848 |
| Accrued interest on revenue bond and note | - | 4,282 | 4,282 |
| Noncurrent liabilities: | | | |
| Due within one year: | | | |
| Note payable | - | 26,786 | 26,786 |
| Revenue bond payable | - | 32,000 | 32,000 |
| Due in more than one year: | | | |
| Note payable | - | 187,500 | 187,500 |
| Revenue bond payable | - | 1,481,000 | 1,481,000 |
| Total Liabilities | 172,164 | 2,192,472 | 2,364,636 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 6,400,060 | 2,952,575 | 9,352,635 |
| Restricted: | | | |
| Revenue bond debt service | - | 316,092 | 316,092 |
| Renewal and replacement | - | 905,623 | 905,623 |
| Other restrictions | 1,108,534 | 71,848 | 1,180,382 |
| Total restricted | 1,108,534 | 1,293,563 | 2,402,097 |
| Unrestricted | 573,102 | 1,019,421 | 1,592,523 |
| Total Net Assets | \$ 8,081,696 | \$ 5,265,559 | \$ 13,347,255 |

See accompanying notes to the financial statements.



City of Fellsmere, Florida
Statement of Activities
Year ended September 30, 2007

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|-------------------------|--|--|--|---------------------------------|------------------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- type Activities | Total |
| Functions/Programs | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 682,480 | \$ 5,000 | \$ - | \$ (622,072) | \$ - | \$ (622,072) |
| Public safety | 638,063 | 1,425 | - | (605,983) | - | (605,983) |
| Transportation | 863,561 | 46,464 | 1,500,000 | 682,903 | - | 682,903 |
| Culture and recreation | 64,126 | 5,000 | - | (53,902) | - | (53,902) |
| Total Governmental Activities | 2,248,230 | 57,889 | 1,500,000 | (599,054) | - | (599,054) |
| Business-type Activities | | | | | | |
| Public water system | 451,678 | - | 250,000 | - | 602,309 | 602,309 |
| Community development | 637,675 | - | - | - | 675,860 | 675,860 |
| Wastewater system | 177,927 | - | - | - | 1,278 | 1,278 |
| Total Business-type Activities | 1,267,280 | - | 250,000 | - | 1,279,447 | 1,279,447 |
| Total | \$ 3,515,510 | \$ 57,889 | \$ 1,750,000 | (599,054) | 1,279,447 | 680,393 |

General Revenues:

| | | | | | | |
|--|--|--|--|---------------------|---------------------|----------------------|
| Taxes: | | | | | | |
| Property taxes | | | | 540,924 | - | 540,924 |
| Discretionary sales surtax | | | | 552,261 | - | 552,261 |
| Local option gas tax | | | | 146,867 | - | 146,867 |
| Franchise fees | | | | 159,569 | - | 159,569 |
| Utility taxes | | | | 190,564 | - | 190,564 |
| Communications service tax | | | | 90,648 | - | 90,648 |
| Half-cent sales tax | | | | 307,948 | - | 307,948 |
| Unrestricted investment earnings | | | | 96,710 | 97,708 | 194,418 |
| Intergovernmental | | | | 124,643 | - | 124,643 |
| Miscellaneous | | | | 39,602 | 318,160 | 357,762 |
| Contributed capital from developer | | | | - | 57,200 | 57,200 |
| Transfers, net | | | | 103,565 | (103,565) | - |
| Total General Revenues, Special Items and Transfers | | | | 2,353,301 | 369,503 | 2,722,804 |
| Change in Net Assets | | | | 1,754,247 | 1,648,950 | 3,403,197 |
| Net Assets, beginning | | | | 6,327,449 | 3,616,609 | 9,944,058 |
| Net Assets, ending | | | | \$ 8,081,696 | \$ 5,265,559 | \$ 13,347,255 |

See accompanying notes to the financial statements.

City of Fellsmere, Florida
Balance Sheet - Governmental Funds

September 30, 2007

| | General Fund | Infrastructure Special Revenue Fund | CDBG Hazard Mitigation Fund | Community Redevelopment Agency | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 650,362 | \$ - | \$ 19,200 | \$ - | \$ 132,254 | \$ 801,816 |
| Restricted cash and cash equivalents | - | 440,655 | - | 82,737 | 193,829 | 717,221 |
| Due from other governmental units | 44,262 | 45,107 | - | - | 207,256 | 296,625 |
| Due from other entities | 28,326 | - | - | - | - | 28,326 |
| Prepaid expenses | 9,812 | - | - | - | - | 9,812 |
| Total Assets | \$ 732,762 | \$ 485,762 | \$ 19,200 | \$ 82,737 | \$ 533,339 | \$ 1,853,800 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 33,556 | \$ - | \$ 19,200 | \$ 3,956 | \$ 1,310 | \$ 58,022 |
| Wages payable | 26,614 | - | - | - | - | 26,614 |
| Compensated absences | 87,528 | - | - | - | - | 87,528 |
| Total Liabilities | 147,698 | - | 19,200 | 3,956 | 1,310 | 172,164 |
| Fund Balances | | | | | | |
| Designated for infrastructure projects | - | 485,762 | - | - | - | 485,762 |
| Designated for transportation expenditures | - | - | - | - | 401,085 | 401,085 |
| Designated for community redevelopment | - | - | - | 78,781 | - | 78,781 |
| Designated for Brookside Cemetery | 20,285 | - | - | - | - | 20,285 |
| Unreserved, undesignated | 564,779 | - | - | - | 130,944 | 695,723 |
| Total Fund Balances | 585,064 | 485,762 | - | 78,781 | 532,029 | 1,681,636 |
| Total Liabilities and Fund Balances | \$ 732,762 | \$ 485,762 | \$ 19,200 | \$ 82,737 | \$ 533,339 | \$ 1,853,800 |

See accompanying notes to the financial statements.



City of Fellsmere, Florida

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Year ended September 30, 2007

| | | |
|--|--------------------|---------------------|
| Fund Balances-Total Governmental Funds | | \$ 1,681,636 |
| Amounts reported for governmental activities in the statement of net assets is different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | |
| Governmental capital assets | \$ 9,548,452 | |
| Less accumulated depreciation | <u>(3,148,392)</u> | |
| Net governmental capital assets | | 6,400,060 |
| Net Assets of Governmental Activities | | \$ 8,081,696 |

See accompanying notes to the financial statements.



City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

Year ended September 30, 2007

| | General Fund | Infrastructure Special Revenue Fund | CDBG Hazard Mitigation Fund | Community Redevelopment Agency | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------|---|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 540,924 | \$ - | \$ - | \$ - | \$ - | \$ 540,924 |
| Discretionary sales surtax | - | 552,261 | - | - | - | 552,261 |
| Local option gas tax | - | - | - | - | 146,867 | 146,867 |
| Franchise fees | 159,569 | - | - | - | - | 159,569 |
| Utility taxes | 190,564 | - | - | - | - | 190,564 |
| Communications service tax | 90,648 | - | - | - | - | 90,648 |
| Intergovernmental | 484,055 | - | 1,500,000 | - | 6,425 | 1,990,480 |
| Charges for services | 20,820 | - | - | - | - | 20,820 |
| Fines and forfeitures | 28,436 | - | - | - | - | 28,436 |
| Miscellaneous | 93,847 | 44,721 | - | 34,726 | 5,050 | 178,344 |
| Total Revenues | 1,608,863 | 596,982 | 1,500,000 | 34,726 | 158,342 | 3,898,913 |
| Expenditures | | | | | | |
| Current operating: | | | | | | |
| General government | 622,656 | 678 | - | 15,064 | 17,183 | 655,581 |
| Public safety | 600,771 | - | - | - | 210 | 600,981 |
| Transportation | 431,415 | - | - | - | 49,778 | 481,193 |
| Culture and recreation | 44,402 | - | - | - | - | 44,402 |
| Capital outlay | - | 144,083 | 2,454,115 | - | 99,276 | 2,697,474 |
| Total Expenditures | 1,699,244 | 144,761 | 2,454,115 | 15,064 | 166,447 | 4,479,631 |
| Excess (deficit) of Revenues over Expenditures | (90,381) | 452,221 | (954,115) | 19,662 | (8,105) | (580,718) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 210,556 | 79,366 | 954,115 | 59,119 | 99,276 | 1,402,432 |
| Transfers out | (59,119) | (1,192,518) | - | - | (47,230) | (1,298,867) |
| Net Other Financing Sources (Uses) | 151,437 | (1,113,152) | 954,115 | 59,119 | 52,046 | 103,565 |
| Net Changes in Fund Balances | 61,056 | (660,931) | - | 78,781 | 43,941 | (477,153) |
| Fund Balance (Deficit), beginning of year | 524,008 | 1,146,693 | - | - | 488,088 | 2,158,789 |
| Fund Balance, end of year | \$ 585,064 | \$ 485,762 | \$ - | \$ 78,781 | \$ 532,029 | \$ 1,681,636 |

See accompanying notes to the financial statements.



City of Fellsmere, Florida

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities

Year ended September 30, 2007

| | |
|---|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (477,153) |
|---|---------------------|

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 depreciated over their estimated useful lives

| | | |
|---------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 2,697,473 | |
| Less current year depreciation | <u>(466,073)</u> | |
| | | 2,231,400 |

| | |
|--|---------------------|
| Change in Net Assets of Governmental Activities | \$ 1,754,247 |
|--|---------------------|

See accompanying notes to the financial statements.



City of Fellsmere, Florida

Statement of Net Assets - Business-type Activities - Enterprise Funds

September 30, 2007

| | Public Water System | Community Development | Wastewater System | Total |
|--|------------------------|--------------------------|----------------------|---------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 102,536 | \$ 962,028 | \$ 232,522 | \$ 1,297,086 |
| Accounts receivable | 44,666 | 124,793 | 7,203 | 176,662 |
| Inventory | 10,859 | - | - | 10,859 |
| Total Current Assets | 158,061 | 1,086,821 | 239,725 | 1,484,607 |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 1,205,291 | - | 88,272 | 1,293,563 |
| Capital assets, net of accumulated depreciation | 3,600,874 | 344 | 1,078,643 | 4,679,861 |
| Total Noncurrent Assets | 4,806,165 | 344 | 1,166,915 | 5,973,424 |
| Total Assets | 4,964,226 | 1,087,165 | 1,406,640 | 7,458,031 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued expenses | 62,935 | 104,500 | 11,499 | 178,934 |
| Customer and other deposits | 57,308 | 2,000 | 14,540 | 73,848 |
| Other liabilities | - | 4,014 | 204,108 | 208,122 |
| Accrued interest on revenue bond and note | 4,282 | - | - | 4,282 |
| Long-term liabilities due within one year: | | | | |
| Note payable | 26,786 | - | - | 26,786 |
| Revenue bond payable | 32,000 | - | - | 32,000 |
| Total Current Liabilities | 183,311 | 110,514 | 230,147 | 523,972 |
| Noncurrent Liabilities | | | | |
| Note payable | 187,500 | - | - | 187,500 |
| Revenue bond payable | 1,481,000 | - | - | 1,481,000 |
| Total Noncurrent Liabilities | 1,668,500 | - | - | 1,668,500 |
| Total Liabilities | 1,851,811 | 110,514 | 230,147 | 2,192,472 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 1,873,588 | 344 | 1,078,643 | 2,952,575 |
| Restricted: | | | | |
| Revenue bond debt service | 316,092 | - | - | 316,092 |
| Renewal and replacement | 831,891 | - | 73,732 | 905,623 |
| Other restrictions | 57,308 | - | 14,540 | 71,848 |
| Total restricted | 1,205,291 | - | 88,272 | 1,293,563 |
| Unrestricted | 33,536 | 976,307 | 9,578 | 1,019,421 |
| Total Net Assets | \$ 3,112,415 | \$ 976,651 | \$ 1,176,493 | \$ 5,265,559 |

See accompanying notes to the financial statements.

City of Fellsmere, Florida
Statement of Revenues, Expenses and Changes
in Fund Net Assets - Business-type Activities - Enterprise Funds

Year ended September 30, 2007

| | Public Water System | Community Development | Wastewater System | Total |
|---|---------------------|-----------------------|---------------------|---------------------|
| Operating Revenues | | | | |
| Charges for services | \$ 803,987 | \$ - | \$ 179,205 | \$ 983,192 |
| Building permits, licenses and fees | - | 1,313,535 | - | 1,313,535 |
| State grant | 250,000 | - | - | 250,000 |
| Miscellaneous | 3,904 | 313,905 | 351 | 318,160 |
| Total Operating Revenues | 1,057,891 | 1,627,440 | 179,556 | 2,864,887 |
| Operating Expenses | | | | |
| Personnel services | 40,392 | 103,461 | - | 143,853 |
| Materials, supplies, services and other | 236,264 | 533,491 | 155,621 | 925,376 |
| Depreciation | 95,021 | 723 | 22,306 | 118,050 |
| Total Operating Expenses | 371,677 | 637,675 | 177,927 | 1,187,279 |
| Operating Income | 686,214 | 989,765 | 1,629 | 1,677,608 |
| Nonoperating Revenues (Expenses) | | | | |
| Interest income | 60,103 | 31,018 | 6,587 | 97,708 |
| Interest expense | (80,001) | - | - | (80,001) |
| Total Nonoperating Revenues (Expenses) | (19,898) | 31,018 | 6,587 | 17,707 |
| Income Before Transfers | 666,316 | 1,020,783 | 8,216 | 1,695,315 |
| Transfers In | - | - | 139,127 | 139,127 |
| Transfers Out | (168,466) | (45,126) | (29,100) | (242,692) |
| Total transfers, net | (168,466) | (45,126) | 110,027 | (103,565) |
| Change in Net Assets | 497,850 | 975,657 | 118,243 | 1,591,750 |
| Net Assets , beginning of year | 2,614,565 | 994 | 1,001,050 | 3,616,609 |
| Contributed Capital | - | - | 57,200 | 57,200 |
| Net Assets, end of year | \$ 3,112,415 | \$ 976,651 | \$ 1,176,493 | \$ 5,265,559 |

See accompanying notes to the financial statements.



City of Fellsmere, Florida
Statement of Cash Flows - Business-type Activities - Enterprise Funds
Year ended September 30, 2007

| | Public Water System | Community Development | Wastewater System | Total |
|---|---------------------|-----------------------|-------------------|---------------------|
| Cash Flows from Operating Activities: | | | | |
| Cash received from customers | \$ 811,876 | \$ 1,194,634 | \$ 179,846 | \$ 2,186,356 |
| Cash received from others | 253,904 | 313,905 | 351 | 568,160 |
| Cash payments to suppliers | (184,007) | (452,536) | 50,884 | (585,659) |
| Cash payments to employees | (40,849) | (103,999) | - | (144,848) |
| Net Cash Provided by Operating Activities | 840,924 | 952,004 | 231,081 | 2,024,009 |
| Cash Flows from Noncapital Financing Activities: | | | | |
| Net transfers out to General Fund | (168,466) | (45,126) | 110,027 | (103,565) |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Interest paid on debt | (80,569) | - | - | (80,569) |
| Construction and purchase of capital assets | (439,668) | - | (117,633) | (557,301) |
| Principal paid on debt | (56,785) | - | - | (56,785) |
| Net Cash Used for Capital and Related Financing Activities | (577,022) | - | (117,633) | (694,655) |
| Cash Flows from Investing Activities: | | | | |
| Interest income | 60,103 | 31,018 | 6,587 | 97,708 |
| Contributed capital | - | - | 57,200 | 57,200 |
| Net Cash Provided by Investing Activities | 60,103 | 31,018 | 63,787 | 154,908 |
| Net increase (decrease) in cash and cash equivalents | 155,539 | 937,896 | 287,262 | 1,380,697 |
| Cash and Cash Equivalents, beginning of year | 1,152,288 | 24,132 | 33,532 | 1,209,952 |
| Cash and Cash Equivalents, end of year | \$ 1,307,827 | \$ 962,028 | \$ 320,794 | \$ 2,590,649 |
| Classified as: | | | | |
| Cash and cash equivalents | \$ 102,536 | \$ 962,028 | \$ 232,522 | \$ 1,297,086 |
| Restricted cash and cash equivalents | 1,205,291 | - | 88,272 | 1,293,563 |
| Total | \$ 1,307,827 | \$ 962,028 | \$ 320,794 | \$ 2,590,649 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | | |
| Operating income (loss) | \$ 686,214 | \$ 989,765 | \$ 1,629 | \$ 1,677,608 |
| Adjustments to reconcile the operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 95,021 | 723 | 22,306 | 118,050 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | (4,160) | (118,901) | (3,530) | (126,591) |
| Inventory | 568 | - | - | 568 |
| Accounts payable and accrued expenses | 51,232 | 80,417 | 206,505 | 338,154 |
| Customer and other deposits | 12,049 | - | 4,171 | 16,220 |
| Net Cash Provided by Operating Activities | \$ 840,924 | \$ 952,004 | \$ 231,081 | \$ 2,024,009 |

See accompanying notes to the financial statements.

Note 1 - Summary of Significant Accounting Policies

The City's financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB, upon assuming the standard-setting role (in June 1984) adopted the National Council on Governmental Accounting (NCGA) existing standards. In June 1999, GASB approved Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement, implemented in 2003, provides for significant changes in financial reporting. As part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, etc.). The other more significant of these accounting policies are described below.

Reporting Entity

The City of Fellsmere, Florida, (the City) located in Indian River County (the County), was incorporated in 1911. The City was created under the legal authority of Article VIII of the Florida Constitution, Florida Statutes' Chapter 165 and pursuant to the Laws of Florida 11480, Act of 1925. The City operates under a Council - manager form of government whereby the Mayor is elected from the five members of Council. The City provides the following services: General and Administrative Services, Public Safety-Police, Public Works-Streets, Culture and Recreation, Water and Wastewater Systems, and Community Development.

In evaluating how to define the government, for financial reporting purposes, the City has considered all potential component units. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organizations' resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. In applying the above criteria, management has determined that the Community Redevelopment Agency (CRA), which was created in November 2005, is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. Additionally, the CRA is governed by the five members of the City Council. For financial reporting purposes the CRA is reported as a blended component unit as if it were part of the City's operations. Separately audited financial statements for the Community Redevelopment Agency are not available.

Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. 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 to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by programs revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated automatically and certain indirect costs are included in program expenses reported for individual functions and activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 1 - Summary of Significant Accounting Policies (continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements described below.

Fund Financial Statements:

The financial transactions of the City are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds and account groups are reported by generic classification within the financial statements. The City uses the following types of funds:

Governmental Funds: The focus of Governmental Fund measurement is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City reports nine special revenue funds: Infrastructure Fund, FEMA Hurricane Fund, Local Option Gas Tax Fund, Community Development Block Grants Fund, Special Projects Fund, Senior League Fund, Community Development Block Grant Hazard Mitigation Fund, Growth Management Initiative Fund, Community Redevelopment Agency Fund and the Save Our Old School Fund.

Proprietary Funds: GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides guidance on business-type accounting and financial reporting to governmental entities that use proprietary fund accounting. This statement offers governmental entities the option of (a) following all applicable GASB pronouncements and those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 (unless those FASB pronouncements conflict with, or contradict, GASB pronouncements), or (b) following all applicable GASB and FASB pronouncements (unless those FASB pronouncements conflict with, or contradict, GASB pronouncements). The City elected the option to follow all applicable GASB and FASB pronouncements.

The focus of Proprietary Fund measurement is upon determination of net income, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the City:

Enterprise Funds - are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, building permits, licenses and fees. The City reports three enterprise funds: Public Water System Fund, Wastewater System Fund, and Community Development Fund.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Major and Non-Major Funds: The funds are further classified as major or non-major as follows:

Major Funds:

General Fund (as described above)

Infrastructure Special Revenue Fund – Accounts for revenues and expenditures of State infrastructure sales surtax revenues.

CDBG Hazard Mitigation Special Revenue Fund – To account for a CDBG grant for road and drainage improvements.

Community Redevelopment Agency Special Revenue Fund – To account for the activities of the Community Redevelopment Agency Trust Fund.

Public Water System Proprietary Fund – Accounts for the activities in providing water services to the public.

Wastewater System Proprietary Fund – Accounts for the activities in providing wastewater services to the public.

Community Development Proprietary Fund – Accounts for the revenues and expenses of the City's building department.

Non-Major Funds:

Local Option Gas Tax Special Revenue Fund – To account for revenues and expenditures of the gas tax revenues received by the City.

Community Development Block Grants Special Revenue Fund – To account for the receipts and disbursements of Community Development Block Grants for street paving.

Senior League Grant Special Revenue Fund – To account for FRDAP grants for senior league field improvements.

Special Projects Special Revenue Fund – To account for other small grants for community improvements.

Growth Management Initiative Grant Special Revenue Fund – To account for a growth management study grant.

FEMA Hurricane Special Revenue Fund – Accounts for revenues and expenditures of Federal Emergency Management Agency (FEMA) grants received for hurricane debris removal and repairs.

Save Our Old School Special Revenue Fund – To account for renovation and reconstruction of the old school building.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements (discussed below). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting (discussed below).

Modified Accrual – All Governmental Funds are accounted for using the modified accrual basis of accounting and the “current financial resources” measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., within 60 days of the end of the current fiscal period). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the “Susceptible to accrual” concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded. For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the “available” criteria.

Accrual – All Proprietary Funds are accounted for using the accrual basis of accounting and the “economic resources” measurement focus. Their revenues are recognized when they are earned and expenses when they are incurred.

Budgets and Budgetary Accounting

The following procedures are used to establish and maintain operating budgets of the City:

- The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing on October 1st. The operating budget includes the proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to October 1st, the budget is legally adopted through the passage of an ordinance.
- The City Council is authorized to amend the budget to utilize excess funds, to increase appropriations, to transfer funds, or for other purposes, as necessary.

City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets for the governmental funds are prepared in accordance with generally accepted accounting principals (GAAP), using the modified accrual basis of accounting. Within the Schedules of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget (Legal Budgetary Basis) and Actual - General and Special Revenue Funds, the budget amounts are presented in accordance with the City's policy and the actual amounts are presented in accordance with generally accepted accounting principles (GAAP). There were no differences between both bases of presentation during the fiscal year ended September 30, 2007. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

Encumbrances

The City does not utilize encumbrance accounting.

Cash and Cash Equivalents

For purposes of statement presentation, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash or cash equivalents.

Deposits

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories", a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional insurance to federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits. The City only had deposits with qualifying institutions as of September 30, 2007.

The City is authorized to invest in financial instruments, as established by Florida Statute. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Savings accounts in state-certified qualified public depositories.
- Certificates of deposit in state-certified qualified public depositories.
- Direct obligations of the U.S. Treasury.

Accounts Receivable

Accounts receivable are recorded in the Enterprise fund types. Property taxes, which were levied during fiscal year 2006 and are uncollected as of September 30, 2007, are immaterial and therefore not recorded as a receivable.

Inventories

Inventory within the Enterprise Fund at September 30, 2007, consisted of various parts, materials and supplies on hand in connection with the water system. This inventory is stated at cost, determined by the first-in, first-out (FIFO) method.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of five years. Such assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---|-------------|
| Buildings | 20-30 years |
| Improvements Other than Buildings | 10-20 years |
| Infrastructure improvements | 20 years |
| Water distribution and wastewater systems | 50 years |
| Equipment and vehicles | 5-10 years |

Equity Classifications

Government-wide Statements:

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements (described above). Reserves are used to indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. The City has no reserved fund balances.

Property Taxes

Property taxes are billed and collected within the same fiscal period, and are reflected on the cash basis when it is received from the tax collector. Since virtually all taxes levied will be collected through the tax collection process, remittances in October and November for prior year taxes are insignificant.

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 that regulate tax assessments are designed to assure a consistent property valuation method. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2007, the millage rate the City assessed was approximately 5.75 mills.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

The tax levy of the City is established by the City Council prior to October 1st of each year. The Indian River County Property Appraiser incorporates the City's millage into the total tax levy.

All property is reassessed according to its fair market value at January 1st of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes. The total assessed value at January 1, 2006, upon which the 2006 - 2007 levy was based, was approximately \$121 million.

All taxes are due and payable on November 1st (levy date) 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 15 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. Taxes paid in March, and thereafter, are without a discount.

On or prior to June 1st of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 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 held by the County.

Interfund Transactions

Interfund activity is reported as either, loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Expenditures

Expenditures are recognized when incurred except for the following exceptions permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported, if any, only when due.
- Inventory costs are reported in the period in which inventory items are consumed, rather than in the period purchased.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Compensated Absences

City employees are entitled to vacation after one year of employment and must use the vacation time earned by the end of the subsequent year after the year in which it was earned. Thus, a maximum of two years' worth of vacation time can accumulate and be paid out. Therefore, the related liability has been recognized.

Sick leave does not accumulate, nor is it paid out upon leaving the employment of the City. Therefore, the compensated absences liability does not include any provision for sick leave.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Restricted Cash

At September 30, 2007, restricted cash of \$440,655 in the Special Revenue Fund, consists of unspent infrastructure sales surtax funds and interest earned on these funds. Under Florida law, these funds may only be used for expenditures and costs associated with the construction, reconstruction or improvement of public domain ("infrastructure") projects, or for the purchase of certain vehicles and equipment, with at least a five-year life expectancy. Restricted cash also includes \$82,737 in unspent community redevelopment agency trust funds. Under Florida law, these funds may only be used for the rehabilitation of slum or blighted areas within the City. Restricted cash also includes \$193,829 in unspent local option gas tax funds. Under Florida law, these funds may only be used for the purchase, construction, maintenance and operation of transportation facilities and road and street right-of-ways.

Restricted cash at September 30, 2007, in the Enterprise Fund, consists of unspent water and wastewater system impact fees and interest earned on these funds of \$905,623. Under City adopted resolutions, these funds may only be used for extensions, enlargements, or additions to the capital assets of the water and wastewater systems. Restricted cash also consists of a bond sinking fund reserve for the water system in the amount of \$316,092 and customer deposits of the water and wastewater systems totaling \$71,848.

Note 3 - Due from Other Entities

At September 30, 2007, amounts due from other entities in the General Fund consisted of utility taxes due from local utility companies totaling \$13,105 and accounts receivable totaling \$15,221.

Note 4 - Due from Other Governmental Units

Amounts due from other governmental units includes the following at September 30, 2007:

| | General Fund | Special Revenue Funds | Total |
|---|--------------|-----------------------|------------|
| State of Florida - Dept. of Revenue (various tax revenue) | \$ 42,654 | \$ 70,683 | \$ 113,337 |
| Federal Emergency Management Agency | - | 181,680 | 181,680 |
| Other local sources | 1,608 | - | 1,608 |
| | \$ 44,262 | \$ 252,363 | \$ 296,625 |



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

| Governmental activities | Balance September 30, 2006 | Additions | Deletions | Balance September 30, 2007 |
|---|----------------------------------|---------------------|---------------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 252,371 | \$ - | \$ - | \$ 252,371 |
| Construction in progress | 117,921 | 133,163 | (117,921) | 133,163 |
| Total capital assets not being depreciated | 370,292 | 133,163 | (117,921) | 385,534 |
| Other capital assets: | | | | |
| Buildings and improvements | 1,105,667 | - | - | 1,105,667 |
| Improvements other than buildings | 1,812,995 | 4,394 | - | 1,817,389 |
| Equipment, fixtures & furnishings | 1,112,896 | 144,083 | - | 1,256,979 |
| Infrastructure improvements | 2,449,129 | 2,533,754 | - | 4,982,883 |
| Total other capital assets, at historical cost | 6,480,687 | 2,682,231 | - | 9,162,918 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (486,835) | (52,662) | - | (539,497) |
| Improvements other than buildings | (725,148) | (173,575) | - | (898,723) |
| Equipment, fixtures & furnishings | (759,327) | (117,380) | - | (876,707) |
| Infrastructure improvements | (711,009) | (122,456) | - | (833,465) |
| Total accumulated depreciation | (2,682,319) | (466,073) * | - | (3,148,392) |
| Other capital assets, net | 3,798,368 | 2,216,158 | - | 6,014,526 |
| Governmental activities capital assets, net | \$ 4,168,660 | \$ 2,349,321 | \$ (117,921) | \$ 6,400,060 |



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 5 - Capital Assets (continued)

| Business-type activities | Balance September 30, 2006 | Additions | Deletions | Balance September 30, 2007 |
|---|----------------------------------|--------------------|-------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,357 | \$ - | \$ - | \$ 10,357 |
| Construction in progress | - | 229,584 | - | 229,584 |
| Total capital assets not being depreciated | 10,357 | 229,584 | - | 239,941 |
| Other capital assets: | | | | |
| Water plant | 678,548 | 252,023 | - | 930,571 |
| Water lines | 2,965,545 | 6,339 | - | 2,971,884 |
| Water tank | 411,683 | - | - | 411,683 |
| Wastewater lines | 1,086,690 | 57,200 | - | 1,143,890 |
| Vehicle and equipment | 59,040 | 12,155 | - | 71,195 |
| Equipment | 5,273 | - | - | 5,273 |
| Total other capital assets, at historical cost | 5,206,779 | 327,717 | - | 5,534,496 |
| Less accumulated depreciation for: | | | | |
| Water plant | (157,003) | (15,251) | - | (172,254) |
| Water lines | (581,617) | (64,710) | - | (646,327) |
| Water tank | (96,060) | (8,234) | - | (104,294) |
| Wastewater lines | (103,374) | (22,306) | - | (125,680) |
| Vehicle and equipment | (34,266) | (6,826) | - | (41,092) |
| Equipment | (4,206) | (723) | - | (4,929) |
| Total accumulated depreciation | (976,526) | (118,050) * | - | (1,094,576) |
| Other capital assets, net | 4,230,253 | 209,667 | - | 4,439,920 |
| Business-type activities capital assets, net | \$ 4,240,610 | \$ 439,251 | \$ - | \$ 4,679,861 |

* Depreciation expense was charged to functions/programs as follows:

| Governmental Activities | |
|---------------------------------|-------------------|
| General government | \$ 26,899 |
| Public safety | 37,082 |
| Transportation | 382,368 |
| Culture and recreation | 19,724 |
| | \$ 466,073 |
| Business-type Activities | |
| Public water system | \$ 95,021 |
| Wastewater system | 22,306 |
| Community development | 723 |
| | \$ 118,050 |

City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 6 – Deferred Compensation Plan

As of July 1, 1997, the City established a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is available to all City employees (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 10% of employee salaries and wages for 2007. Total City contributions to the plan amounted to \$88,836 for the fiscal year ended September 30, 2007. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the City employees and their beneficiaries and are not accessible by the City or its creditors. Neither the City nor the independent plan administrator have any liability for losses under the plan agreement, but they do have the duty of due care that would be required of any ordinary prudent investor.

Note 7 - Note Payable

The change in the City’s long-term obligations for business-type activities during the year, consist of the following:

| | Principal Outstanding 2006 | Additions | Reductions | Principal Outstanding 2007 |
|------------------------------------|----------------------------------|-----------|------------|----------------------------------|
| Public Water System - note payable | \$ 241,071 | \$ - | \$ 26,785 | \$ 214,286 |

On October 25, 2000, the City negotiated a \$375,000 revenue note with Bank of America. The funds were used to complete a water system interconnection with Indian River County's water system. The agreement requires interest at 4.88% to be paid in semi-annual installments over 15 years, commencing in April 2001. Principal will be paid in 14 equal annual installments of \$26,786, commencing in October 2001, and continuing on the same date of each successive year thereafter. The note is secured by a secondary pledge of the gross revenues of the City's water system.

Amounts needed for the planned extended repayment of the note at September 30, 2007, are as follows:

| Fiscal year ending September 30, | Total Payment | Interest Portion of Payment | Principal Portion of Payment |
|----------------------------------|---------------|-----------------------------------|------------------------------------|
| 2008 | \$ 35,940 | \$ 9,154 | \$ 26,786 |
| 2009 | 34,625 | 7,839 | 26,786 |
| 2010 | 33,321 | 6,535 | 26,786 |
| 2011 | 32,014 | 5,228 | 26,786 |
| 2012 - 2015 | 114,988 | 7,846 | 107,142 |
| | \$ 250,888 | \$ 36,602 | \$ 214,286 |



Note 8 - Revenue Bond Payable

The change in the City's long-term obligations for business-type activities during the year, consist of the following:

| | Principal Outstanding 2006 | Additions | Reductions | Principal Outstanding 2007 |
|----------------------|----------------------------------|-----------|------------|----------------------------------|
| Revenue bond payable | \$ 1,543,000 | \$ - | \$ 30,000 | \$ 1,513,000 |

The City issued a Water Revenue Bond, Series 1993, with an interest rate of 4.5%, in April of 1994 in the amount of \$1.8 million in order to finance the construction of a public water system. Construction was completed and the system was brought on-line in March of 1995. The bondholder is the United States Department of Agriculture - Rural Economic and Community Development.

The bond constitutes a special obligation of the City secured by a lien on and pledge of the gross revenues of the water system. Additionally, the bond is serviced by a deficiency pledge of the City's half-cent sales tax revenue to the extent needed each month to provide for any deficiency in water revenues. The City's monthly half-cent sales tax revenue amounts to approximately \$25,000.

The annual requirements to amortize the debt outstanding as of September 30, 2007, are as follows:

| Fiscal year ending September 30, | Total Payment | Interest Portion of Payment | Principal Portion of Payment |
|----------------------------------|---------------|-----------------------------------|------------------------------------|
| 2008 | \$ 100,085 | \$ 68,085 | \$ 32,000 |
| 2009 | 99,645 | 66,645 | 33,000 |
| 2010 | 100,160 | 65,160 | 35,000 |
| 2011 | 99,585 | 63,585 | 36,000 |
| 2012 - 2033 | 2,197,665 | 820,665 | 1,377,000 |
| | \$ 2,597,140 | \$ 1,084,140 | \$ 1,513,000 |

Note 9 - Public Deposits and Collateralization

The City maintains a cash account at a financial institution located in Indian River County, Florida. The account was entirely covered, by either government backed insurance programs (i.e., FDIC) or collateralized by the respective financial institutions' investments, as required by Florida Statutes, throughout the fiscal year ended September 30, 2007.

Note 10 - Grantor Audits

The City participates in various federal and state grant programs from year-to-year, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any funding may be required. In the opinion of the City's management, there are no significant contingent liabilities, relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the financial statements for such contingencies.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 11 – Donation of Limited Partnership Interests

The City owns an interest, received as a donation in a prior year, in a limited partnership described as follows:

Pennrich Associates Limited Partnership – 14.82% interest in profit, loss and capital

At December 31, 2006, the partnership's income tax return reported a positive capital account balance, as such, there is no carrying value recorded on the City's books and records inasmuch as there is no readily available method of determining fair market value. In accordance with the partnership agreement, the City will not be required nor obligated to make any further capital contributions.

Note 12 - 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; injuries to employees; and natural disasters.

The City's risk management activities are recorded in the General and Enterprise Funds. The funds administer the health, property and liability, and workers' compensation insurance activities of the City.

Significant losses are covered by insurance through a public entity risk pool for all major programs except employee health care, which is covered by commercial insurance, and unemployment insurance, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.



REQUIRED SUPPLEMENTARY INFORMATION



City of Fellsmere, Florida

Schedule of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
Budget and Actual - General Fund

Year ended September 30, 2007

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 568,000 | \$ 568,000 | \$ 540,924 | \$ (27,076) |
| Franchise fees | 164,230 | 164,230 | 159,569 | (4,661) |
| Utility taxes | 195,470 | 195,470 | 190,564 | (4,906) |
| Communication service tax | 107,630 | 107,630 | 90,648 | (16,982) |
| Intergovernmental | 592,190 | 592,190 | 484,055 | (108,135) |
| Charges for services | 31,900 | 31,900 | 20,820 | (11,080) |
| Fines and forfeitures | 35,550 | 35,550 | 28,436 | (7,114) |
| Miscellaneous | 52,600 | 52,600 | 93,847 | 41,247 |
| Total Revenues | 1,747,570 | 1,747,570 | 1,608,863 | (138,707) |
| Expenditures | | | | |
| Current operating: | | | | |
| General government | 860,700 | 860,700 | 622,656 | 238,044 |
| Public safety | 753,310 | 753,310 | 600,771 | 152,539 |
| Transportation | 437,610 | 437,610 | 431,415 | 6,195 |
| Culture and recreation | 90,640 | 90,640 | 44,402 | 46,238 |
| Total Expenditures | 2,142,260 | 2,142,260 | 1,699,244 | 443,016 |
| Excess (deficit) of Revenues over Expenditures | (394,690) | (394,690) | (90,381) | 304,309 |
| Other Financing Sources (uses) | | | | |
| Appropriation of beginning fund balance | - | - | - | - |
| Transfers in | 394,690 | 394,690 | 210,556 | (184,134) |
| Transfers out | - | - | (59,119) | (59,119) |
| Net Other Financing Sources (Uses) | 394,690 | 394,690 | 151,437 | (243,253) |
| Net Changes in Fund Balances | - | - | 61,056 | \$ 61,056 |
| Fund Balance, beginning of year | 524,008 | 524,008 | 524,008 | |
| Fund Balance, end of year | \$ 524,008 | \$ 524,008 | \$ 585,064 | |

City of Fellsmere, Florida
 Schedule of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds
 Budget and Actual - Infrastructure Special Revenue Fund

Year ended September 30, 2007

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Discretionary sales surtax | \$ 674,190 | \$ 674,190 | \$ 552,261 | \$ (121,929) |
| Miscellaneous | 25,000 | 25,000 | 44,721 | 19,721 |
| Total Revenues | 699,190 | 699,190 | 596,982 | (102,208) |
| Expenditures | | | | |
| Current operating: | | | | |
| General government | 1,000 | 1,000 | 678 | 322 |
| Capital outlay | 735,690 | 735,690 | 144,083 | 591,607 |
| Total Expenditures | 736,690 | 736,690 | 144,761 | 591,929 |
| Excess (deficit) of Revenues over Expenditures | (37,500) | (37,500) | 452,221 | 489,721 |
| Other Financing Sources (uses) | | | | |
| Appropriation of beginning fund balance | 750,000 | 750,000 | - | (750,000) |
| Debt proceeds | 1,400,000 | 1,400,000 | - | (1,400,000) |
| Transfers in | - | - | 79,366 | 79,366 |
| Transfers out | (2,112,500) | (2,112,500) | (1,192,518) | 919,982 |
| Net Other Financing Sources (Uses) | 37,500 | 37,500 | (1,113,152) | (1,150,652) |
| Net Changes in Fund Balances | - | - | (660,931) | \$ (660,931) |
| Fund Balance, beginning of year | 1,146,693 | 1,146,693 | 1,146,693 | |
| Fund Balance, end of year | \$ 1,146,693 | \$ 1,146,693 | \$ 485,762 | |



City of Fellsmere, Florida
 Schedule of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds
 Budget and Actual - Community Redevelopment Agency

Year ended September 30, 2007

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|------------------|-----------|-----------|---|
| | Original | Final | | |
| Revenues | | | | |
| Miscellaneous | \$ 92,120 | \$ 92,120 | \$ 34,726 | \$ (57,394) |
| Total Revenues | 92,120 | 92,120 | 34,726 | (57,394) |
| Expenditures | | | | |
| General government | 92,120 | 92,120 | 15,064 | 77,056 |
| Total Expenditures | 92,120 | 92,120 | 15,064 | 77,056 |
| Excess (deficit) of Revenues over Expenditures | - | - | 19,662 | 19,662 |
| Other Financing Sources (uses) | | | | |
| Transfers in | - | - | 59,119 | 59,119 |
| Net Changes in Fund Balance | - | - | 78,781 | \$ 78,781 |
| Fund Balance, beginning of year | - | - | - | |
| Fund Balance, end of year | \$ - | \$ - | \$ 78,781 | |



SUPPLEMENTAL INFORMATION



City of Fellsmere, Florida
 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances - Nonmajor Governmental Funds - Special Revenue Funds

Year ended September 30, 2007

| | Local Option Gas Tax | Community Development Block Grant | Senior League Grants | Special Projects Fund | Growth Management Initiative | FEMA Hurricane Grants | Save Our Old School Fund | Total Nonmajor Governmental Funds |
|---|----------------------------|---|----------------------------|-----------------------------|------------------------------------|-----------------------------|--------------------------------|---|
| Revenues | | | | | | | | |
| Local option gas tax | \$ 146,867 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 146,867 |
| Intergovernmental | - | - | - | - | 5,000 | 1,425 | - | 6,425 |
| Miscellaneous | - | - | - | 4,050 | - | - | 1,000 | 5,050 |
| Total Revenues | 146,867 | - | - | 4,050 | 5,000 | 1,425 | 1,000 | 158,342 |
| Expenditures | | | | | | | | |
| Current operating: | | | | | | | | |
| General government | - | - | - | - | - | - | 17,183 | 17,183 |
| Public safety | - | - | - | - | - | 210 | - | 210 |
| Transportation | 49,778 | - | - | - | - | - | - | 49,778 |
| Culture and recreation | - | - | - | - | - | - | - | - |
| Capital outlay | - | 62,401 | 36,875 | - | - | - | - | 99,276 |
| Total Expenditures | 49,778 | 62,401 | 36,875 | - | - | 210 | 17,183 | 166,447 |
| Excess (deficit) of Revenues over Expenditures | 97,089 | (62,401) | (36,875) | 4,050 | 5,000 | 1,215 | (16,183) | (8,105) |
| Other Financing Sources (uses) | | | | | | | | |
| Transfers in | - | 62,401 | 36,875 | - | - | - | - | 99,276 |
| Transfers out | (47,230) | - | - | - | - | - | - | (47,230) |
| Net Other Financing Sources (Uses) | (47,230) | 62,401 | 36,875 | - | - | - | - | 52,046 |
| Net Changes in Fund Balances | 49,859 | - | - | 4,050 | 5,000 | 1,215 | (16,183) | 43,941 |
| Fund Balance, beginning of year | 351,226 | - | - | 2,800 | 2,500 | 6,753 | 124,809 | 488,088 |
| Fund Balance, end of year | \$ 401,085 | \$ - | \$ - | \$ 6,850 | \$ 7,500 | \$ 7,968 | \$ 108,626 | \$ 532,029 |

City of Fellsmere, Florida
 Schedule of Expenditures of Federal Award Programs
 Year ended September 30, 2007

| Federal Agency/Pass-through Grantor/Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| U.S. Department of Housing and Urban Development | | | |
| State of Florida Department of Community Affairs - Division of Housing and Community Development | | | |
| Community Development Block Grant States Program * | 14.228 | 06DB-3C-10-40-02-W09 | \$ 1,500,000 |

* Denotes a major project



City of Fellsmere, Florida
Notes to Schedule of Expenditures of Federal Award Programs
September 30, 2007

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal award programs was prepared to include the activity of all federal awards of the City of Fellsmere, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note B – Grant

The City of Fellsmere, Florida received a federal grant passed through from the State of Florida. The grant provided \$1,500,000 toward road and drainage improvements within the City.



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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and
Members of the City Council
City of Fellsmere, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City of Fellsmere, Florida's basic financial statements and have issued our report thereon dated August 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fellsmere, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fellsmere, Florida's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Fellsmere, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fellsmere, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Fellsmere, Florida's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fellsmere, Florida's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fellsmere, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Haire, Kmetz, Nuttall, Elwell & Co.

O'Haire, Kmetz, Nuttall, Elwell & Co., chartered
Certified Public Accountants

August 14, 2008



O'Haire, Kmetz, Nuttall, Elwell & Co., chartered

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Fellsmere, Florida

Compliance

We have audited the compliance of the City of Fellsmere, Florida (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City of Fellsmere, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fellsmere, Florida's management. Our responsibility is to express an opinion on the City of Fellsmere, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fellsmere, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fellsmere, Florida's compliance with those requirements.

In our opinion, the City of Fellsmere, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended September 30, 2007.

Internal Control over Compliance

The management of the City of Fellsmere, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fellsmere, Florida's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but we do not express an opinion on the effectiveness of the City of Fellsmere, Florida's internal control over compliance.

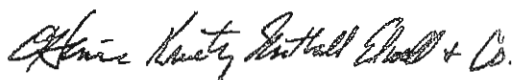
To the Honorable Mayor and
Members of the City Council
City of Fellsmere, Florida

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



O'Haire, Kmetz, Nuttall, Elwell & Co., chartered
Certified Public Accountants

August 14, 2008

City of Fellsmere, Florida
Schedule of Findings and Questioned Costs
Federal Award Programs
Year Ended September 30, 2007

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Fellsmere, Florida
2. No significant deficiencies relating to the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Fellsmere, Florida were disclosed during our audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City of Fellsmere, Florida expresses an unqualified opinion.
6. No audit findings or questioned costs relative to the major federal award programs, as are required to be reported in accordance with Section 510 (a) of OMB Circular A-133, are reported in Part C of this schedule.
7. The programs tested as a major programs include:

| <u>Federal Program</u> | <u>Federal CFDA No.</u> |
|--|-------------------------|
| Community Development Block Grants (CDBG) States Program | 14.228 |
8. The threshold for distinguishing Type A and B programs was \$300,000 for major federal award programs.
9. The City of Fellsmere, Florida did not qualify as a low-risk auditee.

B. Findings - Financial Statements Audit - None

C. Findings and Questioned Costs - Major Federal Award Programs Audit - None



**City of Fellsmere, Florida
Summary Schedule of Prior Audit Findings
Major Federal Award Programs
Year Ended September 30, 2007**

There were no instances of findings or questioned costs for major federal award programs in prior years.





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Independent Auditors' Management Letter

To the Honorable Mayor and
Members of the City Council
City of Fellsmere, Florida

We have audited the accompanying financial statements of the City of Fellsmere, Florida (the City) as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated August 14, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Basic Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated August 14, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or the schedule of findings and questioned costs, this letter is required to include the following information.

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. There were no recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Fellsmere, Florida complied with Section 218.415, Florida Statutes.

Sections 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.

Sections 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Fellsmere, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determined whether the annual financial report for the City of Fellsmere, Florida for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.

Section 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

O'Haire Kmetz Nuttall Elwell & Co.

O'Haire, Kmetz, Nuttall, Elwell & Co., chartered
Certified Public Accountants

August 14, 2008