



**City of Fellsmere, Florida**  
**FINANCIAL STATEMENTS**  
Year Ended September 30, 2018



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**City of Fellsmere, Florida**  
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**Year ended September 30, 2018**

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**City of Fellsmere, Florida  
City Officials  
Year ended September 30, 2018**

Joel Tyson  
Mayor

Sara Savage  
Vice Mayor

Inocensia Hernandez  
Fernando Herrera  
Jessica Salgado  
Council Members

Warren W. Dill  
City Attorney

Jason R. Nunemaker  
City Manager

Deborah C. Krages  
City Clerk

Putnam Moreman, CPA, CGFM  
Director of Finance and Accounting

Keith M. Touchberry  
Chief of Police

Mark D. Mathes  
Community Development Director

Andy Shelton  
Superintendent of Public Works

## **INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and Members of the City Council  
of the 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, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Fellsmere, Florida's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

## ***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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Other Information*

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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2019 on our consideration of the City of Fellsmere, Florida'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 solely 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 effectiveness of the City of Fellsmere's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fellsmere, Florida's internal control over financial reporting and compliance.

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

Melbourne, Florida

April 10, 2019

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## City of Fellsmere, Florida Management's Discussion and Analysis

The City of Fellsmere, Florida's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's 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.

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

### Financial Highlights

The following are highlights of financial activity for the year ended September 30, 2018:

### Financial Highlights

- The City's assets exceeded its liabilities at the close of the fiscal year 2018 by \$24,960,756 (net position). The City's unrestricted net position (which may be used to meet the City's ongoing obligations to citizens and creditors) amounted to \$924,283.
- The City's total net position increased by \$2,253,496, resulting from an increase of \$2,177,850 from Governmental activities and an increase of \$75,646 from Business-type activities. Unrestricted General Fund balance increased to \$1,025,860 from \$398,602, but combined ending Governmental fund balances totaled \$496,273, a decrease of \$483,078 from the previous year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,025,860 or 92.7% of the total general fund balance.
- General fund revenue increased by \$593,115 or 29.5% and expenditures decreased by \$211,678 or 8.4%. During the year, a property that was a bequest to the City years ago in the form of a real estate limited partnership was sold by the general partners. The City's share of this sale was \$433,485, which accounts for most of the increase in our general fund revenue.
- The City reduced its external debt by \$149,742 during the 2018 fiscal year.
- On September 11, 2017 the City was impacted by Hurricane Irma and the City experienced extensive damage. Over 20" of rain from Irma caused flooding in the basement of City Hall. Our basement damage was almost entirely covered by insurance. The roof on City Hall was impacted by Irma's high winds, and temporary repairs were made to ensure the building stayed dry. We are working with FEMA to obtain funding for the damage caused to our uninsured infrastructure and other eligible storm damage costs. The amounts funded by FEMA will not be known for many more months.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains the supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, transportation, and culture and recreation. The business-type activities of the City include water, wastewater, stormwater and community development operations.

The government-wide financial statements can be found on pages 21 through 23 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 two categories - governmental funds and proprietary 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government'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

government'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 maintains numerous 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, CDBG Phase VI Fund, Culture Facilities Fund, North Regional Lake Fund, and Community Redevelopment Agency Fund, all of which are considered to be major funds. Data from several other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements.

The City adopts an annual appropriated budget for all governmental funds. Budgetary comparison statements have been provided for the General Fund, Infrastructure Fund, CDBG Phase VI Fund, Culture Facilities Fund, North Regional Lake Fund, and Community Redevelopment Agency Fund, to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 24 through 28 of this report.

*Proprietary funds.* The City 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 and wastewater, stormwater, and community development activities.

Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but those statements provide more detail and additional information, such as cash flows, for proprietary funds. The stormwater fund is reported as a non-major proprietary fund.

The basic proprietary fund financial statements can be found on 36 through 43 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 basic financial statements can be found starting on page 45 of this report.

### **Government-wide Financial Analysis**

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and deferred inflows by \$24,960,756 at the close of the most recent fiscal year.

**City of Fellsmere, Florida**  
**Management's Discussion and Analysis**

	Net Position					
	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	\$ 1,071,694	\$ 1,381,741	\$ 1,883,841	\$ 1,821,407	\$ 2,955,535	\$ 3,203,148
Capital assets, net	19,806,999	17,256,064	7,047,136	7,099,304	26,854,135	24,355,368
Total assets	<u>20,878,693</u>	<u>18,637,805</u>	<u>8,930,977</u>	<u>8,920,711</u>	<u>29,809,670</u>	<u>27,558,516</u>
Liabilities:						
Long-term liabilities	2,628,694	2,738,687	1,345,074	1,407,485	3,973,768	4,146,172
Other liabilities	575,421	402,390	288,046	287,222	863,467	689,612
Total liabilities	<u>3,204,115</u>	<u>3,141,077</u>	<u>1,633,120</u>	<u>1,694,707</u>	<u>4,837,235</u>	<u>4,835,784</u>
Deferred inflows of resources:						
Deferred revenue - business tax receipts	-	-	11,679	15,472	11,679	15,472
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>11,679</u>	<u>15,472</u>	<u>11,679</u>	<u>15,472</u>
Net position:						
Net investment in capital assets	17,136,813	14,627,945	5,717,533	5,703,621	22,854,346	20,331,566
Restricted	381,506	538,118	800,621	1,496,513	1,182,127	2,034,631
Unrestricted	156,259	330,665	768,024	10,398	924,283	341,063
Total net position	<u>\$ 17,674,578</u>	<u>\$ 15,496,728</u>	<u>\$ 7,286,178</u>	<u>\$ 7,210,532</u>	<u>\$ 24,960,756</u>	<u>\$ 22,707,260</u>

A substantial portion of the City's net position (91.6%) reflects its investment in capital assets (i.e., 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.

The City's net position is also grouped as restricted and unrestricted. Restricted net position is subject to restrictions by external parties on how it may be used. Unrestricted net position may be used to meet the government'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 position, and overall for the City as a whole.

**City of Fellsmere, Florida**  
**Management's Discussion and Analysis**

The following table shows the revenue and expenses of the total primary government:

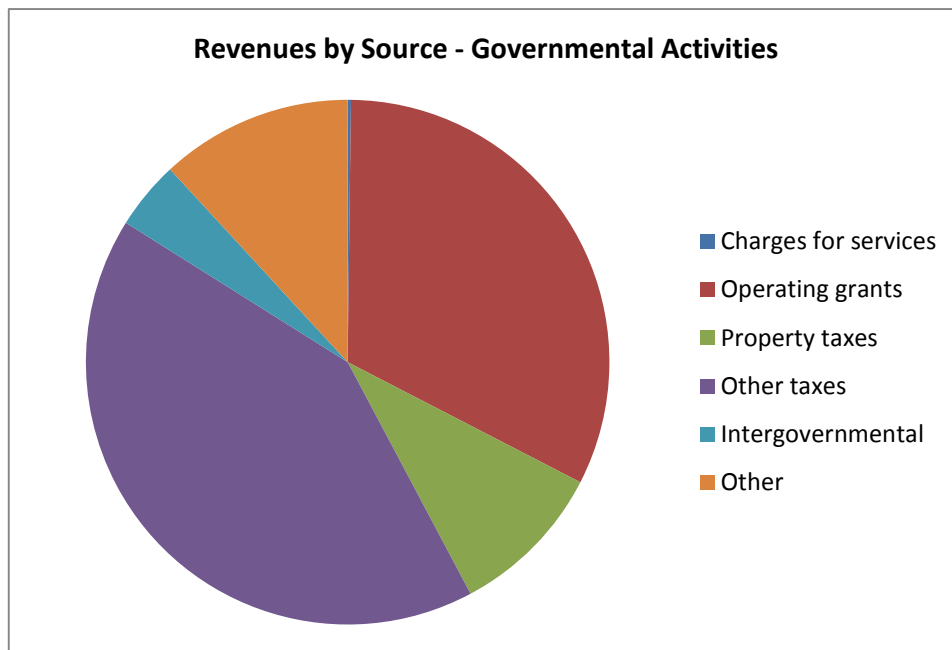
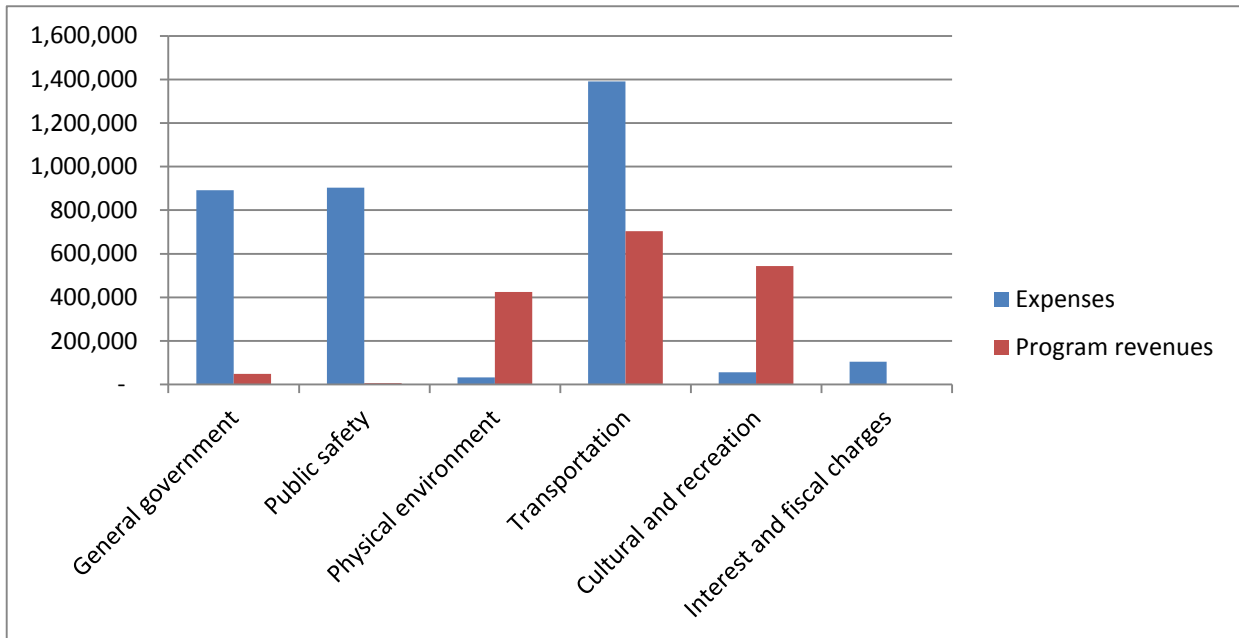
	Change in Net Position					
	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues:						
Charges for services	\$ 10,737	\$ 16,819	\$ 1,410,986	\$ 1,324,823	\$ 1,421,723	\$ 1,341,642
Operating grants	1,717,008	148,683	-	-	1,717,008	148,683
General revenues:						
Property taxes	511,955	467,680	-	-	511,955	467,680
Other taxes	2,211,648	2,083,500	-	-	2,211,648	2,083,500
Intergovernmental	224,112	212,067	-	-	224,112	212,067
Other	629,355	287,884	142,639	131,062	771,994	418,946
Total revenues	<u>5,304,815</u>	<u>3,216,633</u>	<u>1,553,625</u>	<u>1,455,885</u>	<u>6,858,440</u>	<u>4,672,518</u>
Expenses:						
General government	891,832	988,346	-	-	891,832	988,346
Public safety	904,120	1,005,720	-	-	904,120	1,005,720
Physical environment	32,907	4,701	-	-	32,907	4,701
Transportation	1,390,752	1,374,505	-	-	1,390,752	1,374,505
Cultural and recreation	56,300	56,202	-	-	56,300	56,202
Interest and fiscal charges	104,590	126,822	-	-	104,590	126,822
Water & Wastewater	-	-	817,157 *	819,580	819,580	819,580
Community development	-	-	364,582	364,037	364,582	364,037
Stormwater system	-	-	42,704	18,894	42,704	18,894
Total expenses	<u>3,380,501</u>	<u>3,556,296</u>	<u>1,224,443</u>	<u>1,202,511</u>	<u>3,787,787</u>	<u>4,758,807</u>
Change in net position, before transfers:	1,924,314	(339,663)	329,182	253,374	2,253,496	(86,289)
Transfers	253,536	201,079	(253,536)	(201,079)	-	-
Change in net position	<u>2,177,850</u>	<u>(138,584)</u>	<u>75,646</u>	<u>52,295</u>	<u>2,253,496</u>	<u>(86,289)</u>
Net position -beginning of year	15,496,728	15,635,312	7,210,532	7,158,237	22,707,260	22,793,549
Net position - ending	<u>\$ 17,674,578</u>	<u>\$15,496,728</u>	<u>\$ 7,286,178</u>	<u>\$ 7,210,532</u>	<u>\$ 24,960,756</u>	<u>\$ 22,707,260</u>

\* Reclassified 2017 Wasterwater Services expenses of \$294,009 into Water & Wastewater to be consistent with the 2018 presentation.

**Governmental activities.** Governmental activities increased the City's net position by \$2,177,850. Key elements of this increase is as follows:

- Total expenses decreased by \$175,795 or 5% for the year.
- Operating grants increased by \$1,568,325 or 1055% for the year as we completed the CDBG Phase VI paving project for N. Hickory, Wyoming and parts of other northern streets.
- Other revenue increased \$341,471 year-over-year, primarily due to the receipt of funds from the sale of a limited liability real estate partnership in which the City owned a minor partnership interest.
- Property and other taxes increased \$172,423 or 7%, due to the improved economy in the State.

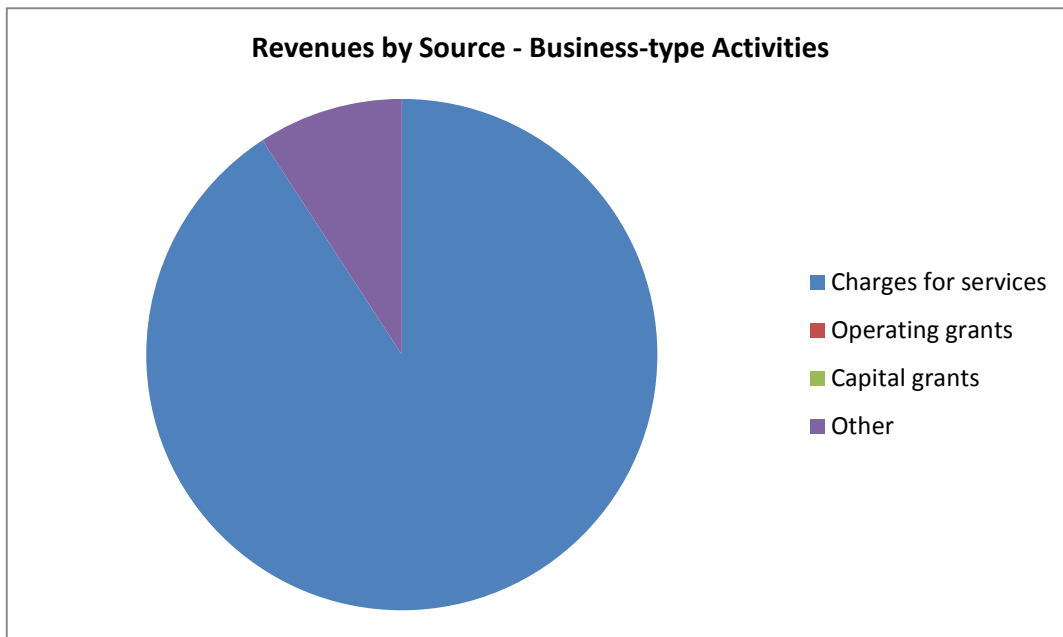
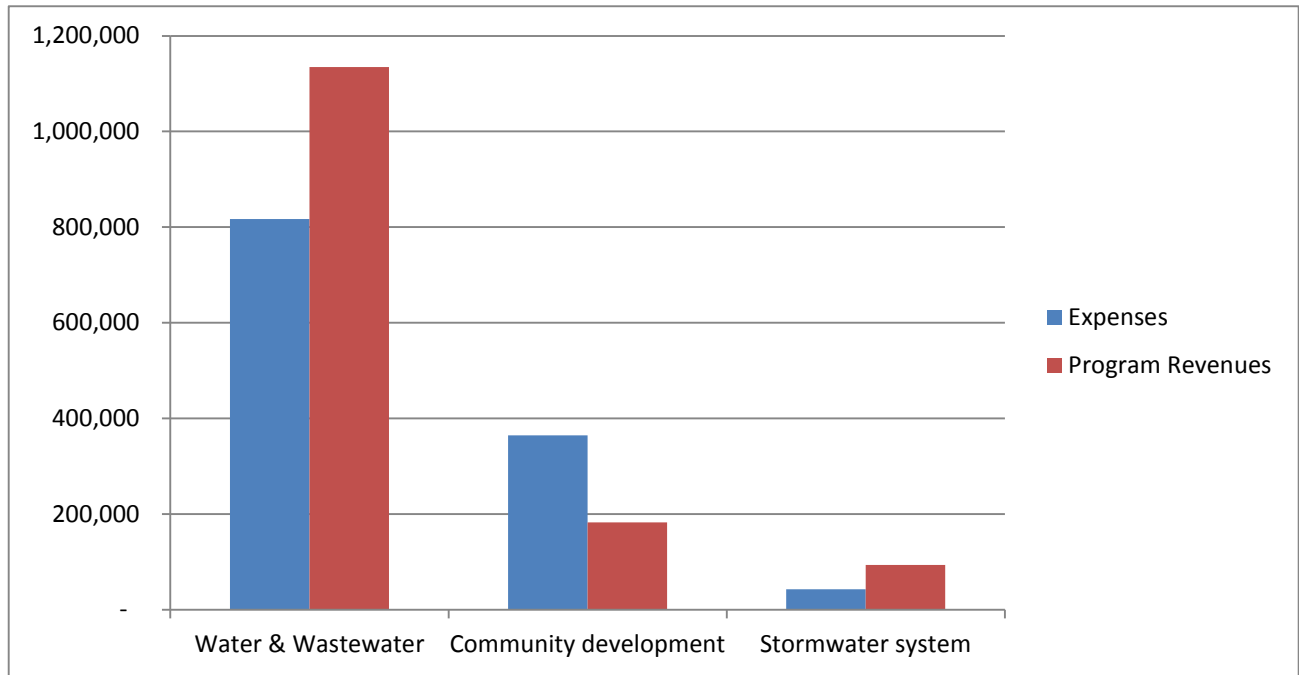
**City of Fellsmere, Florida**  
**Management's Discussion and Analysis**



**Business-type activities.** Business-type activities increased the City's net position by \$75,646. Key elements of this increase are as follows:

- There were no operating grants received this fiscal year.
- Rate increases were implemented for Water and Wastewater to bring the rates more in line with a recent rate study.

**City of Fellsmere, Florida  
Management's Discussion and Analysis**



**Financial Analysis of the City's Funds** As noted earlier, the City 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 regarding near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned 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 recent fiscal year, the City's governmental funds reported combined ending fund balances of \$496,273, a decrease of \$483,078 in comparison with the prior year. An amount of \$79,691 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is non-spendable or restricted to indicate that it is not available for new spending. The City has a negative balance in the Infrastructure Fund at year-end due to an unfortunate series of events which were not entirely within our budgetary control. Five grants were completed or neared completion within this fiscal year, at a time when we are still recovering from Hurricane Irma. The Infrastructure Fund will naturally be replenished with the 1% sales tax and the City is meanwhile significantly curtailing all current and future grants along with capital expenditures in general.

The General Fund is the main operating fund of the City. At the end of the most recent fiscal year, unassigned fund balance of the General Fund was \$1,025,860, while the total fund balance reached \$1,107,026. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44.4% of total general fund expenditures, while total fund balance represents 47.9% of that same amount. The fund balance of the City's General Fund increased by \$620,928 during the current fiscal year.

The CDBG Phase VI Fund and the Community Redevelopment Fund, both major funds, recorded year-end fund balances restricted for capital projects. Additional information on the fund equity can be found in Note 11.

**Proprietary funds.** The City's proprietary fund statements provide the same type of information found in the government-wide financial statement but in more detail. At the beginning of the fiscal year the operations and finances of the Water and Wastewater operations were combined into one fund, the Water and Wastewater Fund, to more closely reflect the allocation of the human resources devoted to those services.

Unrestricted net position of the City's Water and Wastewater Fund, Community Development, and Stormwater Enterprise funds amounted to \$768,024. The total for unrestricted net position (deficit) for each of these funds was \$1,383,854, (\$715,023) and \$99,193, respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City's business-type activities.

### Capital Asset and Debt Administration

**Capital assets.** At the end of fiscal year 2018, the City had \$26,854,135 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net increase (including additions and deductions) of \$2,498,767, approximately 10.3% from last year.



**City of Fellsmere, Florida**  
**Management's Discussion and Analysis**

The following major increase occurred in Governmental activities during the fiscal year:

- The Little League Concessions Stand, Dugouts, ball field, basketball courts and playground were all reconstructed or rebuilt during the year at a cost of \$266,648.
- The CDBG Phase VI paving project wrapped up which paved Wyoming, N. Hickory and various parts of other northern City roads for \$1,694,500.
- The North Regional Lake construction was finished at a final cost of \$620,342. This lake will substantially improve the stormwater run-off retention volume for the northern part of the City.
- The Old School/City Hall Cultural Facilities project to enhance the ability of the Old School site to host major events was substantially completed at a cost of \$849,734.
- Substantial portions of the Hall, Carter, James Stormwater Park project were completed at a cost of \$199,289.

The following major increases occurred in Business-type activities during the fiscal year:

- The City invested in land improvement costs of \$93,296 during the year.
- The City capitalized the cost of \$34,688 for waterline and well expansion.
- The City purchased a new Case backhoe to replace a 1997 backhoe that was well past its useful life. The cost of this backhoe was shared by Business-type activities was \$68,026.

	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 6,954,851	\$ 6,954,851	\$ 345,281	\$ 375,805	\$ 7,300,132	\$ 7,330,656
Construction in progress	1,731,672	1,172,548	325,591	341,376	2,057,263	1,513,924
Buildings	3,033,921	3,147,423	-	-	3,033,921	3,147,423
Improvements other than buildings	646,645	561,368	-	-	646,645	561,368
Machinery and equipment	280,365	250,622	6,376,264	6,382,123	6,656,629	6,632,745
Infrastructure	7,159,545	5,169,252	-	-	7,159,545	5,169,252
<b>Total capital assets, net</b>	<b>\$ 19,806,999</b>	<b>\$ 17,256,064</b>	<b>\$ 7,047,136</b>	<b>\$ 7,099,304</b>	<b>\$ 26,854,135</b>	<b>\$ 24,355,368</b>

Additional information on the City's capital assets can be found in Note 5.C. of this report.

**Long-term debt.** At the end of the 2018 fiscal year, the City of Fellsmere had total outstanding debt of \$3,853,523 a decrease of \$149,742 from 2017.

	General Obligation and Revenues Bonds					
	Government Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Water revenue bond, 1993	\$ -	\$ -	\$ 1,073,000	\$ 1,122,000	\$ 1,073,000	\$ 1,122,000
Capital improvement revenue bond, 2008	2,495,531	2,562,892	-	-	2,495,531	2,562,892
Construction loans	-	-	256,603	273,683	256,603	273,683
Equipment loan	28,389	44,690	-	-	28,389	44,690
<b>Total long-term debt</b>	<b>\$ 2,523,920</b>	<b>\$ 2,607,582</b>	<b>\$ 1,329,603</b>	<b>\$ 1,395,683</b>	<b>\$ 3,853,523</b>	<b>\$ 4,003,265</b>

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates and fees that will be charged for business-type activities. One of these factors is the economy.

During the most recently completed fiscal year, unassigned fund balance in the general fund increased to \$1,025,860. For the 2018 fiscal year, the City kept the millage at the same rate as the previous year (4.9599 mils), which represented a tax increase of approximately \$37,000 for the 2018 fiscal year due to naturally rising property values. At this time, the City does intend to raise the millage rate for the 2019 fiscal year to 5.3662 mils as we anticipate that overall assessed values will increase slightly for the City's property tax levy.

The City completed its' study of rates for the Water, Wastewater and Stormwater systems in time to implement rate increases in the 2017-2018 fiscal year budget. No change was implemented in the Stormwater system. Our rate consultant recommended an immediate 18% Water System rate increase beginning 10/1/2017, and a 20% Wastewater rate increase as of 10/1/2017. Management felt such large rate increases were too high to make in one fiscal year, and has elected to phase in these rate increase recommendations over a three-year period. In 2017, Water and Wastewater were increased 8%. In 2018, Water was increased 7% and Wastewater was increased 8%. In 2019, Water will increase by 7%, Wastewater will increase by 8%, and Stormwater will increase by 25%.

**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, 22 S. Orange Street, Fellsmere, Florida 32948-6714.

**BASIC FINANCIAL STATEMENTS**

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**City of Fellsmere, Florida**  
**Statement of Net Position**

<i>September 30, 2018</i>	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 831,659	\$ 223,191	\$ 1,054,850
Accounts receivable	60,615	172,479	233,094
Due from other governments	648,846	-	648,846
Internal balances	(676,000)	676,000	-
Inventories	-	11,354	11,354
Restricted cash and cash equivalents	171,498	800,621	972,119
Prepaid items	35,076	196	35,272
Capital assets:			
Nondepreciable			
Land	6,954,851	345,281	7,300,132
Construction in progress	1,731,672	325,591	2,057,263
Depreciable, net of accumulated depreciation			
Buildings	3,033,921	-	3,033,921
Improvements other than buildings	646,645	-	646,645
Machinery and equipment	280,365	6,376,264	6,656,629
Infrastructure	7,159,545	-	7,159,545
Total assets	<b>20,878,693</b>	<b>8,930,977</b>	<b>29,809,670</b>
<b>LIABILITIES</b>			
Negative equity in pooled restricted cash	127,277	-	127,277
Accounts payable and accrued liabilities	339,219	58,639	397,858
Due to other governments	94,907	31,365	126,272
Unearned revenues	14,018	198,042	212,060
Noncurrent liabilities:			
Due within one year	125,146	74,180	199,326
Due in more than one year	2,503,548	1,270,894	3,774,442
Total liabilities	<b>3,204,115</b>	<b>1,633,120</b>	<b>4,837,235</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - business tax revenue	-	11,679	11,679
Total deferred inflows of resources	-	11,679	11,679
<b>NET POSITION</b>			
Net investment in capital assets	17,136,813	5,717,533	22,854,346
Restricted for:			
Debt service	-	441,784	441,784
Renewal and replacement	-	224,657	224,657
Cemetery perpetual care	46,090	-	46,090
Deposits	335,416	134,180	469,596
Unrestricted (deficit)	156,259	768,024	924,283
Total net position	<b>\$ 17,674,578</b>	<b>\$ 7,286,178</b>	<b>\$ 24,960,756</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**  
**Statement of Activities**

Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government	\$ 891,832	\$ 678	\$ 47,951	\$ -
Public safety	904,120	6,040	242	-
Physical environment	32,907	2,450	422,770	-
Transportation	1,390,752	-	704,028	-
Culture and recreation	56,300	1,569	542,017	-
Interest and fiscal charges	104,590	-	-	-
<b>Total governmental activities</b>	<b>3,380,501</b>	<b>10,737</b>	<b>1,717,008</b>	<b>-</b>
Business-type activities:				
Water & Wastewater	817,157	1,134,563	-	-
Community development	364,582	182,721	-	-
Stormwater system	42,704	93,702	-	-
<b>Total business-type activities</b>	<b>1,224,443</b>	<b>1,410,986</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 4,604,944</b>	<b>\$ 1,421,723</b>	<b>\$ 1,717,008</b>	<b>\$ -</b>

General revenues and transfers:

Taxes:

Property

Discretionary sales

Local option gas tax

Franchise

Utility

Communications services

Eighth cent motor fuel

Half cent sales

Unrestricted investment earnings

State shared revenue

Miscellaneous

Transfers

**Total general revenues and transfers**

Change in net position

Net position, beginning of year

**Net position, end of year**

*The accompanying notes are an integral part of these financial statements.*

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (843,203)	\$ -	\$ (843,203)
(897,838)	-	(897,838)
392,313	-	392,313
(686,724)	-	(686,724)
487,286	-	487,286
(104,590)	-	(104,590)
<u>(1,652,756)</u>	<u>-</u>	<u>(1,652,756)</u>
-	317,406	317,406
-	(181,861)	(181,861)
-	50,998	50,998
<u>-</u>	<u>186,543</u>	<u>186,543</u>
<u>(1,652,756)</u>	<u>186,543</u>	<u>(1,466,213)</u>
511,955	-	511,955
783,210	-	783,210
170,568	-	170,568
304,310	-	304,310
399,197	-	399,197
70,203	-	70,203
69,053	-	69,053
415,107	-	415,107
15,611	9,552	25,163
224,112	-	224,112
613,744	133,087	746,831
253,536	(253,536)	-
<u>3,830,606</u>	<u>(110,897)</u>	<u>3,719,709</u>
<u>2,177,850</u>	<u>75,646</u>	<u>2,253,496</u>
<u>15,496,728</u>	<u>7,210,532</u>	<u>22,707,260</u>
<u>\$ 17,674,578</u>	<u>\$ 7,286,178</u>	<u>\$ 24,960,756</u>

**City of Fellsmere, Florida**  
**Balance Sheet - Governmental Funds**

<i>September 30, 2018</i>	General	Infrastructure	CDBG Phase VI
<b>ASSETS</b>			
Cash and cash equivalents	\$ 568,385	\$ -	\$ 95,220
Accounts receivable	31,964	-	-
Due from other funds	400,000	-	-
Due from other governments	240,147	129,445	-
Restricted cash and cash equivalents	-	386	-
Prepaid items	35,076	-	-
<b>Total assets</b>	<b>\$ 1,275,572</b>	<b>\$ 129,831</b>	<b>\$ 95,220</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -
Accounts payable	16,055	-	82,045
Accrued liabilities	57,584	-	-
Due to other funds	-	1,076,000	-
Due to other governments	94,907	-	-
Unearned revenues	-	-	-
<b>Total current liabilities</b>	<b>168,546</b>	<b>1,076,000</b>	<b>82,045</b>
Fund balances			
Nonspendable	35,076	-	-
Restricted	46,090	-	13,175
Unrestricted / unassigned	1,025,860	(946,169)	-
<b>Total fund balances</b>	<b>1,107,026</b>	<b>(946,169)</b>	<b>13,175</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,275,572</b>	<b>\$ 129,831</b>	<b>\$ 95,220</b>

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Certain liabilities, such as bonds payable and compensated absences, are not due and payable in the current period, and therefore are not reported in the funds.

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Net position of governmental activities

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Culture Facilities	North Regional Lake	Community Redevelopment Agency	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 168,054	\$ 831,659
-	-	-	28,651	60,615
-	-	-	-	400,000
200,000	-	-	79,254	648,846
-	-	36,197	134,915	171,498
-	-	-	-	35,076
<b>\$ 200,000</b>	<b>\$ -</b>	<b>\$ 36,197</b>	<b>\$ 410,874</b>	<b>\$ 2,147,694</b>

\$ 60,093	\$ -	\$ -	\$ 67,184	\$ 127,277
139,907	-	-	43,628	281,635
-	-	-	-	57,584
-	-	-	-	1,076,000
-	-	-	-	94,907
-	-	-	14,018	14,018
<b>200,000</b>	<b>-</b>	<b>-</b>	<b>124,830</b>	<b>1,651,421</b>

-	-	-	-	35,076
-	-	36,197	286,044	381,506
-	-	-	-	79,691
-	-	36,197	286,044	496,273
<b>\$ 200,000</b>	<b>\$ -</b>	<b>\$ 36,197</b>	<b>\$ 410,874</b>	

19,806,999

(2,628,694)

**\$ 17,674,578**

**City of Fellsmere, Florida**

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

<i>Year Ended September 30, 2018</i>	General	Infrastructure	CDBG Phase VI
<b>Revenues</b>			
Taxes:			
Property	\$ 511,955	\$ -	\$ -
Public utility	399,197	-	-
Sales	-	783,210	-
Motor fuel	-	-	-
Communications services	70,203	-	-
Franchise fees	304,310	-	-
Intergovernmental	755,978	-	698,018
Charges for services	4,697	-	-
Fines	6,527	-	-
Investment earnings	10,266	4,798	-
Other revenues	543,011	20,537	-
<b>Total revenues</b>	<b>2,606,144</b>	<b>808,545</b>	<b>698,018</b>
<b>Expenditures</b>			
Current:			
General government	884,388	307	-
Public safety	857,099	-	-
Physical environment	-	-	-
Transportation	525,406	-	-
Culture and recreation	40,138	-	-
Debt service:			
Principal	-	83,661	-
Interest and fiscal charges	-	105,817	-
Capital outlay	4,350	69,329	1,447,463
<b>Total expenditures</b>	<b>2,311,381</b>	<b>259,114</b>	<b>1,447,463</b>
Excess (deficiency) of revenues over (under) expenditures	294,763	549,431	(749,445)
<b>Other financing sources (uses)</b>			
Transfers in	374,444	-	749,445
Transfers out	(76,112)	(1,735,655)	-
Insurance proceeds	27,833	-	-
<b>Total other financing sources (uses)</b>	<b>326,165</b>	<b>(1,735,655)</b>	<b>749,445</b>
Net change in fund balances	620,928	(1,186,224)	-
Fund balances, beginning of year	486,098	240,055	13,175
<b>Fund balances, end of year</b>	<b>\$ 1,107,026</b>	<b>\$ (946,169)</b>	<b>\$ 13,175</b>

*The accompanying notes are an integral part of these financial statements.*

Culture Facilities	North Regional Lake	Community Redevelopment Agency	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 511,955
-	-	-	-	399,197
-	-	-	-	783,210
-	-	-	170,568	170,568
-	-	-	-	70,203
-	-	-	-	304,310
500,000	418,172	-	52,625	2,424,793
-	-	-	-	4,697
-	-	-	-	6,527
-	-	547	-	15,611
-	2	6,068	16,293	585,911
500,000	418,174	6,615	239,486	5,276,982
-	-	11,007	-	895,702
-	-	-	-	857,099
-	-	-	46,636	46,636
-	-	-	34,709	560,115
-	-	-	-	40,138
-	-	-	-	83,661
-	-	-	-	105,817
849,734	610,577	-	470,808	3,452,261
849,734	610,577	11,007	552,153	6,041,429
(349,734)	(192,403)	(4,392)	(312,667)	(764,447)
349,734	192,403	39,296	444,073	2,149,395
-	-	-	(84,092)	(1,895,859)
-	-	-	-	27,833
349,734	192,403	39,296	359,981	281,369
-	-	34,904	47,314	(483,078)
-	-	1,293	238,730	979,351
\$ -	\$ -	\$ 36,197	\$ 286,044	\$ 496,273

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

*Year Ended September 30, 2018*

Net change in fund balances - total governmental funds	\$	<b>(483,078)</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>		<b>2,550,935</b>
<p>Repayment of bond principal and loans is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the principal payments on the long-term debt.</p>		<b>83,662</b>
<p>Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		<b>26,331</b>
Change in net position of governmental activities	\$	<b>2,177,850</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Taxes:				
Property	\$ 496,744	\$ 496,744	\$ 511,955	\$ 15,211
Public utility	351,100	351,100	399,197	48,097
Communications services	52,000	52,000	70,203	18,203
Franchise fees	298,446	298,446	304,310	5,864
Intergovernmental	665,000	665,000	755,978	90,978
Charges for services	8,800	8,800	4,697	(4,103)
Fines	7,000	7,000	6,527	(473)
Investment earnings	2,330	2,330	10,266	7,936
Other revenues	124,775	124,775	543,011	418,236
<b>Total revenues</b>	<b>2,006,195</b>	<b>2,006,195</b>	<b>2,606,144</b>	<b>599,949</b>
<b>Expenditures</b>				
Current:				
General government	1,466,545	1,466,545	884,388	582,157
Public safety	924,443	924,443	857,099	67,344
Transportation	628,741	628,741	525,406	103,335
Culture and recreation	44,450	44,450	40,138	4,312
Capital outlay	-	-	4,350	(4,350)
<b>Total expenditures</b>	<b>3,064,179</b>	<b>3,064,179</b>	<b>2,311,381</b>	<b>752,798</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,057,984)</b>	<b>(1,057,984)</b>	<b>294,763</b>	<b>1,352,747</b>
<b>Other financing sources (uses)</b>				
Transfers in	418,552	418,552	374,444	(44,108)
Transfers out	-	-	(76,112)	(76,112)
Insurance proceeds	-	-	27,833	27,833
<b>Total other financing sources (uses)</b>	<b>418,552</b>	<b>418,552</b>	<b>326,165</b>	<b>(92,387)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(639,432)</b>	<b>(639,432)</b>	<b>620,928</b>	<b>1,260,360</b>
<b>Fund balances, beginning of year</b>	<b>486,098</b>	<b>486,098</b>	<b>486,098</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ (153,334)</b>	<b>\$ (153,334)</b>	<b>\$ 1,107,026</b>	<b>\$ 1,260,360</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - Infrastructure Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Taxes:				
Sales	\$ 838,000	\$ 838,000	\$ 783,210	\$ (54,790)
Investment earnings	-	-	4,798	4,798
Other revenue	32,500	32,500	20,537	(11,963)
Total revenues	870,500	870,500	808,545	(61,955)
<b>Expenditures</b>				
Current:				
General government	300	300	307	(7)
Debt service:				
Principal	88,801	88,801	83,661	5,140
Interest and fiscal charges	116,227	116,227	105,817	10,410
Capital outlay	124,275	124,275	69,329	54,946
Total expenditures	329,603	329,603	259,114	70,489
<b>Excess of revenues over expenditures</b>	<b>540,897</b>	<b>540,897</b>	<b>549,431</b>	<b>8,534</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	625,000	-	625,000
Transfers out	(1,065,897)	(1,690,897)	(1,735,655)	(44,758)
Total other financing sources (uses)	(1,065,897)	(1,065,897)	(1,735,655)	580,242
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(525,000)</b>	<b>(525,000)</b>	<b>(1,186,224)</b>	<b>588,776</b>
<b>Fund balances, beginning of year</b>	<b>240,055</b>	<b>240,055</b>	<b>240,055</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ (284,945)</b>	<b>\$ (284,945)</b>	<b>\$ (946,169)</b>	<b>\$ 588,776</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – CDBG Phase VI Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Other transportation	\$ 700,000	\$ 700,000	\$ 698,018	\$ (1,982)
Total revenues	700,000	700,000	698,018	(1,982)
<b>Expenditures</b>				
Capital outlay	753,050	1,433,050	1,447,463	(14,413)
Total expenditures	753,050	1,433,050	1,447,463	(14,413)
<b>Deficiency of revenues under expenditures</b>	<b>(53,050)</b>	<b>(733,050)</b>	<b>(749,445)</b>	<b>(16,395)</b>
<b>Other financing sources (uses)</b>				
Transfers in	73,050	753,050	749,445	(3,605)
Transfers out	(20,000)	(20,000)	-	20,000
Total other financing sources (uses)	53,050	733,050	749,445	16,395
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances, beginning of year	13,175	13,175	13,175	-
Fund balances, end of year	\$ 13,175	\$ 13,175	\$ 13,175	\$ -

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – Culture Facilities Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Other revenue	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Total revenues	500,000	500,000	500,000	-
<b>Expenditures</b>				
Capital outlay	615,500	846,500	849,734	(3,234)
Total expenditures	615,500	846,500	849,734	(3,234)
<b>Deficiency of revenues under expenditures</b>	<b>(115,500)</b>	<b>(346,500)</b>	<b>(349,734)</b>	<b>(3,234)</b>
<b>Other financing sources (uses)</b>				
Transfers in	125,000	356,000	349,734	(6,266)
Transfers out	(9,500)	(9,500)	-	9,500
Total other financing sources (uses)	115,500	346,500	349,734	3,234
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	-	-	-	-
<b>Fund balances, beginning of year</b>	-	-	-	-
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*The accompanying notes are an integral part of these financial statements.*



**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – North Regional Lake Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 418,172	(81,828)
Other revenue	-	-	2	2
<b>Total revenues</b>	<b>500,000</b>	<b>500,000</b>	<b>418,174</b>	<b>(81,826)</b>
<b>Expenditures</b>				
Capital outlay	603,000	615,000	610,577	4,423
<b>Total expenditures</b>	<b>603,000</b>	<b>615,000</b>	<b>610,577</b>	<b>4,423</b>
<b>Deficiency of revenues under expenditures</b>	<b>(103,000)</b>	<b>(115,000)</b>	<b>(192,403)</b>	<b>(77,403)</b>
<b>Other financing sources (uses)</b>				
Transfers in	110,000	122,000	192,403	70,403
Transfers out	(7,000)	(7,000)	-	7,000
<b>Total other financing sources (uses)</b>	<b>103,000</b>	<b>115,000</b>	<b>192,403</b>	<b>77,403</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - Community Redevelopment Agency Fund**

<i>Year Ended September 30, 2018</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ 547	\$ 547
Other revenue	34,350	34,350	6,068	(28,282)
<b>Total revenues</b>	<b>34,350</b>	<b>34,350</b>	<b>6,615</b>	<b>(27,735)</b>
<b>Expenditures</b>				
Current:				
General government	36,460	36,460	11,007	25,453
<b>Total expenditures</b>	<b>36,460</b>	<b>36,460</b>	<b>11,007</b>	<b>25,453</b>
<b>Deficiency of revenues under expenditures</b>	<b>(2,110)</b>	<b>(2,110)</b>	<b>(4,392)</b>	<b>(2,282)</b>
<b>Other financing sources (uses)</b>				
Transfers in	2,110	2,110	39,296	37,186
<b>Total other financing sources (uses)</b>	<b>2,110</b>	<b>2,110</b>	<b>39,296</b>	<b>37,186</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>34,904</b>	<b>34,904</b>
<b>Fund balances, beginning of year</b>	<b>1,293</b>	<b>1,293</b>	<b>1,293</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 1,293</b>	<b>\$ 1,293</b>	<b>\$ 36,197</b>	<b>\$ 34,904</b>

*The accompanying notes are an integral part of these financial statements.*

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**City of Fellsmere, Florida**  
**Statement of Net Position - Proprietary Funds**

<i>September 30, 2018</i>	Water & Wastewater	Community Development
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 122,162	\$ 1,383
Restricted cash and cash equivalents	800,621	-
Accounts receivable	125,401	44,441
Due from other funds	1,301,000	-
Inventories	11,354	-
Prepaid items	65	131
<b>Total current assets</b>	<b>2,360,603</b>	<b>45,955</b>
Noncurrent assets:		
Capital assets:		
Land	330,940	14,341
Construction in progress	325,591	-
Machinery and equipment	9,215,676	26,372
Less accumulated depreciation	(2,907,054)	(26,372)
<b>Total capital assets, net of accumulated depreciation</b>	<b>6,965,153</b>	<b>14,341</b>
<b>Total noncurrent assets</b>	<b>6,965,153</b>	<b>14,341</b>
<b>Total assets</b>	<b>9,325,756</b>	<b>60,296</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	35,499	9,288
Accrued liabilities	1,432	9,310
Accrued interest payable	20	-
Due to other funds	-	625,000
Due to other governmental units	-	31,365
Unearned revenues	137,680	60,362
Current portion of accrued compensated absences	449	4,192
Current portion of long-term debt	69,539	-
<b>Total current liabilities</b>	<b>244,619</b>	<b>739,517</b>
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	1,048	9,782
Long-term debt, net of current portion	1,260,064	-
<b>Total noncurrent liabilities</b>	<b>1,261,112</b>	<b>9,782</b>
<b>Total liabilities</b>	<b>1,505,731</b>	<b>749,299</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred revenue - business tax receipts	-	11,679
<b>Total deferred outflow of resources</b>	<b>-</b>	<b>11,679</b>
<b>NET POSITION (DEFICIT)</b>		
Net investment in capital assets	5,635,550	14,341
Restricted for:		
Debt service	441,784	-
Renewal and replacement	224,657	-
Deposits	134,180	-
Unrestricted (deficit)	1,383,854	(715,023)
<b>Total net position (deficit)</b>	<b>\$ 7,820,025</b>	<b>\$ (700,682)</b>

Stormwater System - Nonmajor fund		Total
\$ 99,646	\$	223,191
-		800,621
2,637		172,479
-		1,301,000
-		11,354
-		196
<b>102,283</b>		<b>2,508,841</b>
-		345,281
-		325,591
68,026		9,310,074
(384)		(2,933,810)
<b>67,642</b>		<b>7,047,136</b>
<b>67,642</b>		<b>7,047,136</b>
<b>169,925</b>		<b>9,555,977</b>
3,090		47,877
-		10,742
-		20
-		625,000
-		31,365
-		198,042
-		4,641
-		69,539
<b>3,090</b>		<b>987,226</b>
-		10,830
-		1,260,064
-		1,270,894
<b>3,090</b>		<b>2,258,120</b>
-		11,679
-		11,679
67,642		5,717,533
-		441,784
-		224,657
-		134,180
<b>99,193</b>		<b>768,024</b>
<b>\$ 166,835</b>	<b>\$</b>	<b>7,286,178</b>

City of Fellsmere, Florida

**Statement of Revenues, Expenses and Changes in Fund Net Position**

**Proprietary Funds**

<i>Year Ended September 30, 2018</i>	Water & Wastewater	Community Development
<b>Operating revenues:</b>		
Charges for services	\$ 1,134,563	\$ -
Building permits, licenses and fees	-	182,721
Other revenues	67,024	66,051
<b>Total operating revenues</b>	<b>1,201,587</b>	<b>248,772</b>
<b>Operating expenses:</b>		
Salaries, wages and employee benefits	105,025	206,399
Contractual services, materials and supplies	456,181	158,183
Depreciation	198,491	-
<b>Total operating expenses</b>	<b>759,697</b>	<b>364,582</b>
<b>Operating income (loss)</b>	<b>441,890</b>	<b>(115,810)</b>
<b>Nonoperating revenues (expenses):</b>		
Interest income	9,465	87
Interest expense	(57,460)	-
<b>Total nonoperating revenues (expenses)</b>	<b>(47,995)</b>	<b>87</b>
<b>Income (loss) before transfers and capital contributions</b>	<b>393,895</b>	<b>(115,723)</b>
<b>Transfers</b>		
Transfers in	-	77,292
Transfers out	(234,060)	(48,864)
<b>Total transfers</b>	<b>(234,060)</b>	<b>28,428</b>
<b>Change in net position</b>	<b>159,835</b>	<b>(87,295)</b>
<b>Net position (deficit), beginning of year</b>	<b>7,660,190</b>	<b>(613,387)</b>
<b>Net position (deficit), end of year</b>	<b>\$ 7,820,025</b>	<b>\$ (700,682)</b>

*The accompanying notes are an integral part of these financial statements.*

Stormwater System - Nonmajor fund		Total
\$	93,702	\$ 1,228,265
	-	182,721
	12	133,087
	<u>93,714</u>	<u>1,544,073</u>
	-	311,424
	42,320	656,684
	384	198,875
	<u>42,704</u>	<u>1,166,983</u>
	<u>51,010</u>	<u>377,090</u>
	-	9,552
	-	(57,460)
	-	(47,908)
	51,010	329,182
	-	77,292
	(47,904)	(330,828)
	<u>(47,904)</u>	<u>(253,536)</u>
	3,106	75,646
	163,729	7,210,532
\$	<u>166,835</u>	\$ <u>7,286,178</u>

**City of Fellsmere, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**

<i>Year Ended September 30, 2018</i>	Water & Wastewater	Community Development
<b>Cash flows from operating activities:</b>		
Cash received from customers for sales and services	\$ 1,204,036	\$ 272,114
Internal activity - payments (receipts) from other funds	(1,129,000)	72,425
Cash payments to employees	(70,945)	(147,847)
Cash payments to suppliers for goods and services	(502,355)	(224,282)
Net cash provided by (used in) operating activities	(498,264)	(27,590)
<b>Cash flows from noncapital financing activities:</b>		
Transfers from other funds	-	77,292
Transfers to other funds	(234,060)	(48,864)
Net cash provided by (used in) noncapital financing activities	(234,060)	28,428
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(112,200)	-
Proceeds from sale of assets	34,000	-
Principal paid on long-term debt	(66,080)	-
Interest paid on long-term debt	(57,682)	-
Net cash used in capital and related financing activities	(201,962)	-
<b>Cash flows from investing activities:</b>		
Interest on investments	9,465	87
Net cash provided by investing activities	9,465	87
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(924,821)</b>	<b>925</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,847,604</b>	<b>458</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 922,783</b>	<b>\$ 1,383</b>
<b>Classified on the statement of net position as:</b>		
Current assets:		
Cash and cash equivalents	\$ 122,162	\$ 1,383
Restricted cash and cash equivalents	800,621	-
	<b>\$ 922,783</b>	<b>\$ 1,383</b>

*The accompanying notes are an integral part of these financial statements.*



Stormwater System - Nonmajor fund		Total
\$ 91,527	\$ 1,567,677	
-	(1,056,575)	
-	(218,792)	
<u>(39,230)</u>	<u>(765,867)</u>	
<u>52,297</u>	<u>(473,557)</u>	
-	77,292	
<u>(47,904)</u>	<u>(330,828)</u>	
<u>(47,904)</u>	<u>(253,536)</u>	
(68,026)	(180,226)	
-	34,000	
-	(66,080)	
-	(57,682)	
<u>(68,026)</u>	<u>(269,988)</u>	
-	9,552	
-	9,552	
(63,633)	(987,529)	
<u>163,279</u>	<u>2,011,341</u>	
<u>\$ 99,646</u>	<u>\$ 1,023,812</u>	
\$ 99,646	\$ 223,191	
-	800,621	
<u>\$ 99,646</u>	<u>\$ 1,023,812</u>	

*The accompanying notes are an integral part of these financial statements.*

**City of Fellsmere, Florida**  
**Statement of Cash Flows (continued)**  
**Proprietary Funds**

<i>Year Ended September 30, 2018</i>	Water & Wastewater	Community Development
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ 441,890	\$ (115,810)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	198,491	-
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	5,861	739
Due from other funds	(1,129,000)	-
Inventories	2,396	-
Prepaid items	(65)	(131)
Capital assets	(482)	-
Increase (decrease) in liabilities:		
Accounts payable	(15,667)	(9,971)
Accrued liabilities	848	(720)
Due to other funds	-	72,425
Due to other governmental units	(12,136)	24,539
Accrued compensated absences	394	3,275
Unearned revenues	9,206	1,857
Deferred inflows - business tax receipts	-	(3,793)
Total adjustments	(940,154)	88,220
Net cash provided by (used in) operating activities	\$ (498,264)	\$ (27,590)

*The accompanying notes are an integral part of these financial statements.*

Stormwater System - Nonmajor fund		Total
<u>\$</u>	<u>51,010</u>	<u>\$ 377,090</u>
	384	198,875
	(2,187)	4,413
	-	(1,129,000)
	-	2,396
	-	(196)
	-	(482)
	3,090	(22,548)
	-	128
	-	72,425
	-	12,403
	-	3,669
	-	11,063
	-	(3,793)
	<u>1,287</u>	<u>(850,647)</u>
<u>\$</u>	<u>52,297</u>	<u>\$ (473,557)</u>

*The accompanying notes are an integral part of these financial statements.*

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

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, Wastewater Systems, and Community Development. The City has a population of 5,723.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government. The City reported no discretely presented component units for the year ended September 30, 2018.

*Blended Component Unit*

The following component unit is blended with the primary government for financial statement purposes because the component unit’s governing body is substantially the same as the City Council and because the component unit exclusively serves the City.

**Community Redevelopment Agency (CRA)** – The governing body of the CRA is the Fellsmere City Council. The CRA was formed in November 2005 and is accounted for in a special revenue fund entitled “Community Redevelopment Agency Fund.” Florida Statute Section 163.387(8) requires an independent audit of the fund each fiscal year, and submission of a report of such audit. The City has presented the CRA as a major fund of the City to satisfy this requirement, simply due to the fact that the scope of an audit for a major fund is broader than that of a non-major fund.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements**

The government wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary 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. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the City has none of the latter. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except expenditure-driven grants which must be collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *Infrastructure Fund* accounts for the financial resources used for infrastructure improvements and equipment purchases.

The *CDBG Phase VI Fund* accounts for the financial resources used for the Community Development Block Grant.

The *Cultural Facilities Fund* accounts for the financial resources used for the Cultural Facilities Grant.

The *North Regional Lake Fund* accounts for the financial resources used for the North Regional Lake Grant.

The *Community Redevelopment Agency Fund* accounts for the activities of the Community Redevelopment Agency related to economic initiatives within the City.

The City reports the following major proprietary funds:

The *Water & Wastewater Fund* accounts for the activities in providing water and wastewater services to the public.

The *Community Development Fund* accounts for the financial resources of the City's building department.

Additionally, the City reports the following fund types:

*Special Revenue Funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

The City's nonmajor enterprise fund consists of the stormwater system fund.

As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

At the beginning of fiscal year 2018, the Wastewater Service fund was combined with the Water Department Fund which is now the Water & Sewer Fund.

**D. Assets, Liabilities and Equity**

**1. Cash and Cash Equivalents**

Cash and cash equivalents represent all investments that are short term, highly liquid, and readily convertible to a specified cash value. These investments generally have an original maturity of three months or less. Cash and cash equivalents consist of cash in banks and on hand.

**2. Deposits**

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories." By doing so, those governmental units will be covered by Florida's Public Deposits Program, a statewide collateralization program that protects public deposits.

The City had deposits only with qualifying public depositories as of September 30, 2018.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Equity (continued)**

**2. Deposits (continued)**

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.

**3. Interfund Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

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.

**4. Accounts Receivable**

Accounts receivable consist of trade receivables and are recorded at the net realizable value. The City has no allowance for doubtful accounts as of September 30, 2018, as all receivables are considered collectible.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Equity (continued)**

**5. Inventories and Prepaid Items**

Inventory at September 30, 2018 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Costs are recorded as expenditures or expenses when consumed rather than when purchased. Prepaid items consist of prepaid insurance at September 30, 2018.

**6. Restricted Net Position**

Certain assets of the City are classified as restricted on the Statement of Net Position because their use is limited either by law or through constitutional provision or enabling legislation, or by restrictions imposed externally by creditors, grantors, contributors, or laws and regulations of other governments. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted assets, then from unrestricted assets.

**7. Capital Assets**

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 more than 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Equity (continued)**

**7. Capital Assets (continued)**

Buildings	20 to 30 years
Improvements other than buildings	10 to 20 years
Infrastructure improvements	20 years
Water distribution and wastewater systems	50 years
Equipment and vehicles	5 to 10 years

**8. Unearned Revenues**

Unearned revenues include amounts collected before the revenue recognition criteria are met. The unearned items consist of a retainer for a preliminary development plan and developer prepaid deposits.

**9. Deferred Inflows of Resources**

Unavailable revenues in governmental funds and resources received before time requirements were met are deferred inflows of resources. As of September 30, 2018, there were no amounts reported as deferred inflows in the governmental funds. As of September 30, 2018, there was \$11,679 reported as deferred inflows for business tax receipts in the proprietary funds.

**10. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation. These are accounted for using the termination payment method. All vacation amounts are accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations and retirements.

**11. Long-term Obligations**

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Equity (continued)**

**11. Long-term Obligations (continued)**

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**12. Fund Equity**

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the government's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Manager or his/her designee. Unassigned fund balance is the residual classification for the General Fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

At September 30, 2018, the Infrastructure fund and the Community Development fund had a deficit fund balance of \$946,169 and \$700,682, respectively. The City intends to reverse the fund deficit in the Infrastructure fund in fiscal year 2019 through expected increased grant revenue and decreased spending. Rate increases are expected to reverse the Community Development fund deficit in fiscal year 2019.

**13. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The City utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Equity (continued)**

**13. Use of Estimates (continued)**

such changes could materially affect the amounts reported in the financial statements.

**14. Subsequent Event**

City Council awarded a bid to Guettler Brothers Construction, LLC for the South Regional Lake in the amount of \$578,395.

**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds." The details of this \$(2,628,694) difference are as follows:

Capital improvement bond	\$ (2,495,531)
Equipment loan	(28,389)
Compensated absences	(104,774)
<hr/>	
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ (2,628,694)
<hr/>	

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this \$2,550,935 difference are as follows:

Capital outlay	\$ 3,452,261
Depreciation expense	(901,326)
<hr/>	
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net position of governmental activities</i>	\$ 2,550,935
<hr/>	

**NOTE 3: BUDGETARY INFORMATION**

The City follows the procedures set forth below in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through 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. The final adoption of the City budget complies with the "Truth in Millage" Statute of Florida that mandates two public hearings prior to the adoption of the ad valorem tax millage rate and budget. Prior to October 1 of each year, the public hearings are held, and the Council adopts the final budget and establishes the ad valorem tax millage rate.

The budget may be formally amended by the City Council at any time during the fiscal year; however, in practice it is rarely amended. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, using the modified accrual basis of accounting. Within the financial statements, budget amounts are presented in accordance with the City's policy and the accrual amounts are presented in accordance with generally accepted accounting principles. There were no differences between both bases of presentation during the fiscal year ended September 30, 2018. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

The appropriated budget is prepared by fund, function, and department. Shifts in appropriations within fund totals may be done on the authority of the City Manager. Transfers of appropriations between funds require approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations made by the City Council) is the fund level. There were no budget adjustments during the year ended September 30, 2018.

**NOTE 4: EXCESS OF EXPENDITURES OVER BUDGET**

Budgeted expenditures exceeded revenues in the CDBG Phase VI Fund, Cultural Facilities Fund, North Regional Lake Fund, and the Community Redevelopment Agency Fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and did not constitute an unbalanced budget.

The City did have actual expenditures in excess of the final budget in the CDBG Phase VI Fund and the Cultural Facilities Fund by \$16,395 and \$3,234, respectively. However, for purposes of compliance with Chapter 166 of the Florida Statutes, the City considered transfers out to be expenditures of the fund. Actual expenditures and transfers out are less than the final budget for all funds.

**NOTE 5: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

At September 30, 2018, the carrying amount of the City's deposits with banks was \$1,899,092 and the bank balance was \$2,028,571. In addition, the City holds \$600 of petty cash.

All the deposits were covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes.

Restricted cash in the Governmental Funds at September 30, 2018 consists of \$386 in the infrastructure fund, which must be used only 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 \$36,197 in unspent community redevelopment agency trust funds. Under Florida law, these funds may be used only for the rehabilitation of slum or blighted areas within the City. Restricted cash includes \$134,915 in unspent local option gas tax funds. Under Florida law, these funds may be used only for the purchase, construction, maintenance and operation of transportation facilities and road and street right-of-ways. The Culture Facilities Fund and several non-major special revenue funds had negative equity in pooled restricted cash of \$60,093 and \$67,184, respectively. The balance of restricted cash in the governmental funds is housed within various special revenue funds and is restricted to the specific purpose of that fund.

Restricted cash in the Enterprise Funds at September 30, 2018 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$224,657. Under City adopted resolutions, these funds may be used only for extensions, enlargements, or additions to the capital assets of the water and wastewater systems. Restricted cash also consists of bond sinking fund reserve for the water system in the amount of \$441,784 and customer deposits of the water and wastewater systems of \$134,180.

*Custodial Credit Risk.* The City's investment policy pursuant to Florida State Statutes 218.415(18), requires securities, with the exception of certificates of deposit, to be held with a third party custodian; and all securities purchased by, and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposit maintained by book-entry at the issuing bank shall clearly identify the City as the owner.

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and investments (continued)**

As of September 30, 2018, the City did not have any securities that were required to be held with a third party custodian.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. In lieu of adopting its own investment policy, the City invests surplus funds pursuant to the guidelines in Florida Statute 218.415, subsection 17. The City did not have any investments at September 30, 2018.

**B. Interfund receivables and payables and transfers**

The composition of interfund balances as of September 30, 2018, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 400,000	\$ -
Infrastructure fund	-	1,076,000
Water & Wastewater fund	1,301,000	-
Community development fund	-	625,000
<b>Total</b>	<b>\$ 1,701,000</b>	<b>\$ 1,701,000</b>

The Community Development fund required funding from the General fund, and the Infrastructure fund required funding from the Water Department fund to support operations.

For the year ended September 30, 2018, interfund transfers consisted of the following:

Transfers Out	Transfers In							Totals
	General fund	CDBG phase VI fund	Culture facilities fund	North regional lake fund	Community redevelopment agency	Nonmajor governmental funds	Community development fund	
General fund	\$ -	\$ -	\$ -	\$ -	\$ 39,296	\$ -	\$ 36,816	\$ 76,112
Infrastructure fund	-	749,445	349,734	192,403	-	444,073	-	1,735,655
Nonmajor governmental funds	84,092	-	-	-	-	-	-	84,092
Water & Wastewater fund	211,980	-	-	-	-	-	22,080	234,060
Community development fund	48,864	-	-	-	-	-	-	48,864
Stormwater system - nonmajor proprietary fund	29,508	-	-	-	-	-	18,396	47,904
<b>Totals</b>	<b>\$ 374,444</b>	<b>\$ 749,445</b>	<b>\$ 349,734</b>	<b>\$ 192,403</b>	<b>\$ 39,296</b>	<b>\$ 444,073</b>	<b>\$ 77,292</b>	<b>\$ 2,226,687</b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.



**City of Fellsmere, Florida**  
**Notes to Financial Statements**

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Interfund receivables and payables and transfers (continued)**

**C. Capital assets**

Capital asset activity for the primary government for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,954,851	\$ -	\$ -	\$ 6,954,851
Construction in progress	1,172,548	1,226,015	(666,891)	1,731,672
<b>Total capital assets, not being depreciated</b>	<b>8,127,399</b>	<b>1,226,015</b>	<b>(666,891)</b>	<b>8,686,523</b>
Capital assets, being depreciated:				
Buildings	5,664,226	139,529	-	5,803,755
Improvements other than buildings	3,292,757	94,824	-	3,387,581
Machinery and equipment	1,729,213	115,730	(261,241)	1,583,702
Infrastructure	9,393,943	2,543,054	-	11,936,997
<b>Total capital assets, being depreciated</b>	<b>20,080,139</b>	<b>2,893,137</b>	<b>(261,241)</b>	<b>22,712,035</b>
Less accumulated depreciation for:				
Buildings	(2,516,803)	(253,031)	-	(2,769,834)
Improvements other than buildings	(2,731,389)	(9,547)	-	(2,740,936)
Machinery and equipment	(1,478,591)	(85,987)	261,241	(1,303,337)
Infrastructure	(4,224,691)	(552,761)	-	(4,777,452)
<b>Total accumulated depreciation</b>	<b>(10,951,474)</b>	<b>(901,326)</b>	<b>261,241</b>	<b>(11,591,559)</b>
<b>Total capital assets, being depreciated, net</b>	<b>9,128,665</b>	<b>1,991,811</b>	<b>-</b>	<b>11,120,476</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 17,256,064</b>	<b>\$ 3,217,826</b>	<b>\$ (666,891)</b>	<b>\$ 19,806,999</b>

**City of Fellsmere, Florida**  
**Notes to Financial Statements**

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital assets (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 375,805	\$ -	\$ (30,524)	\$ 345,281
Construction in progress	341,376	-	(15,785)	325,591
<b>Total capital assets, not being depreciated</b>	<b>717,181</b>	<b>-</b>	<b>(46,309)</b>	<b>670,872</b>
Capital assets, being depreciated:				
Water plant	2,785,255	93,296	-	2,878,551
Water lines	3,629,911	25,012	-	3,654,923
Water tank	411,683	-	-	411,683
Vehicle and equipment	75,662	-	(3,440)	72,222
Equipment	30,868	-	(4,496)	26,372
Wastewater lines	2,188,621	9,676	-	2,198,297
Stormwater equipment	-	68,026	-	68,026
<b>Total capital assets, being depreciated</b>	<b>9,122,000</b>	<b>196,010</b>	<b>(7,936)</b>	<b>9,310,074</b>
Less accumulated depreciation for:				
Water plant	(599,203)	(57,379)	-	(656,582)
Water lines	(1,335,248)	(74,764)	-	(1,410,012)
Water tank	(185,638)	(7,242)	-	(192,880)
Vehicle and equipment	(72,668)	-	446	(72,222)
Equipment	(30,868)	-	4,496	(26,372)
Wastewater lines	(516,252)	(59,106)	-	(575,358)
Stormwater equipment	-	(384)	-	(384)
<b>Total accumulated depreciation</b>	<b>(2,739,877)</b>	<b>(198,875)</b>	<b>4,942</b>	<b>(2,933,810)</b>
<b>Total capital assets, being depreciated, net</b>	<b>6,382,123</b>	<b>(2,865)</b>	<b>(2,994)</b>	<b>6,376,264</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 7,099,304</b>	<b>\$ (2,865)</b>	<b>\$ (49,303)</b>	<b>\$ 7,047,136</b>

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital assets (continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 8,468
Public safety	55,824
Transportation	812,082
Culture and recreation	24,952
<u>Total depreciation expense - governmental activities</u>	<u>\$ 901,326</u>
Business-type activities:	
Water & Wastewater	\$ 198,491
Stormwater	384
<u>Total depreciation expense - business-type activities</u>	<u>\$ 198,875</u>

**D. Accounts payable and accrued liabilities**

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 281,635	\$ 47,877
Accrued liabilities	57,584	10,742
Accrued interest on long-term debt	-	20
<u>Total payables</u>	<u>\$ 339,219</u>	<u>\$ 58,639</u>

**E. Construction Commitments**

The City has various commitments outstanding at September 30, 2018. The major commitments include the following:

Project	Spent to date	Remaining commitment	Major funding source
CDBG Phase VI	\$ 1,657,821	\$ -	Grant & City Match
FDOT TAP Massachusetts Sidewalk	107,113	285,012	Grant & City Match
FDEP Railtrail - RTP Park Lateral to Willow	-	400,000	Grant & City Match
Cultural Facilities Grant - City Hall	905,130	-	Grant & City Match
<u>Total</u>	<u>\$ 2,670,064</u>	<u>\$ 685,012</u>	

**City of Fellsmere, Florida**  
**Notes to Financial Statements**

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Long-term liabilities**

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Capital improvement bond	\$ 2,562,892	\$ -	\$ (67,361)	\$ 2,495,531	\$ 76,867
Equipment loan	44,690	-	(16,301)	28,389	16,847
Compensated absences	131,105	46,149	(72,480)	104,774	31,432
Total governmental activities	\$ 2,738,687	\$ 46,149	\$ (156,142)	\$ 2,628,694	\$ 125,146

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Revenue bond	\$ 1,122,000	\$ -	\$ (49,000)	\$ 1,073,000	\$ 52,000
Construction loans	273,683	-	(17,080)	256,603	17,539
Compensated absences	11,802	16,006	(12,337)	15,471	4,641
Total business-type activities	\$ 1,407,485	\$ 16,006	\$ (78,417)	\$ 1,345,074	\$ 74,180

**Capital Improvement Bond**

In December 2008, the City authorized a \$3,000,000, 30-year capital improvement revenue bond, Series 2008, to fund the renovation of the Historic Fellsmere School Building. The bond was purchased by a local financial institution, at a stated interest rate of 4.5%. Interest is payable monthly, with principal payments commencing on July 1, 2010. The bonds provide for a pledge of receipts from the one-cent infrastructure sales surtax and upon the expiration of the sales surtax, the bond will be further secured by proceeds of the City's half-cent sales tax. Repayment of the bonds began in October 2010. At September 30, 2018 the balance of the loan was \$2,495,531.

**Equipment Loan**

In 2017, the City entered into a loan with the bank for the purchase of two police cars. The loan will be repaid with 36 monthly payments of \$1,461, until May of 2020. Interest is charged at 3.25%, and at September 30, 2018 the balance of the loan was \$28,389.

**Construction Loans**

In 2010, the City entered into two loans with the Florida Department of Environmental Protection. Disbursements for the loan were considered federal funds under a grant from the Environmental Protection Agency, Capitalization Grants for the State Revolving Fund. The construction project to expand the water treatment plant was finished in 2012. Both loans are to be repaid with 40 semi-annual payments of \$7,288 for loan #1 and \$4,837 for loan #2 in March and September ending in March and September 2031, respectively. Interest is charged at 2.71% and

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Long-term liabilities (continued)**

2.61%, and at September 30, 2018 the balances of loan #1 and #2 were \$153,681 and \$102,922, respectively.

**Revenue Bond Payable**

The City issued a Water Revenue Bond, Series 1993, with an interest rate of 4.5% in April 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 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 water revenues and half-cent sales tax revenues amounted to approximately \$837,000 and \$415,000, respectively, in 2018.

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended September 30,	Governmental Activities		Business-type Activities	
	Principle	Interest	Principle	Interest
2019	\$ 93,714	\$ 111,398	\$ 69,539	\$ 55,017
2020	91,639	107,628	72,010	52,206
2021	84,078	103,505	74,494	49,292
2022	87,940	99,642	77,991	46,275
2023	91,980	95,602	81,502	43,110
2024 - 2028	526,791	411,122	456,658	163,298
2029 - 2033	659,798	278,114	497,409	63,376
2034 - 2038	826,009	111,904	-	-
2039	61,971	582	-	-
<b>Total</b>	<b>\$ 2,523,920</b>	<b>\$ 1,319,497</b>	<b>\$ 1,329,603</b>	<b>\$ 472,574</b>

**G. Operating Leases**

The City's copy machine is leased under a five-year, operating lease for \$108 a month which expires on May 18, 2022.

Minimum future rental payments under the non-cancelable operating leases as of September 30, 2018, are as follows:

**NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)**

**G. Operating Leases (continued)**

Years ending September 30,	
2019	\$ 1,297
2020	1,297
2021	1,297
2022	865
Total minimum lease payments	\$ 4,756

Total rent expense charged to expense in 2018 was \$1,297.

**NOTE 6: 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. For insured programs, there have been no significant reductions in insurance coverage. There have been no settlements that exceeded insurance coverage for each of the past three fiscal years.

**NOTE 7: PROPERTY TAXES**

Property taxes are billed and collected within the same fiscal period, and are reflected on the cash basis when 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, 2018, the millage rate assessed by the City was 4.9599 mills.

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

**NOTE 7: PROPERTY TAXES (Continued)**

All property is reassessed according to its fair market value at January 1 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, 2018, upon which the 2017 – 2018 levy was based, was approximately \$103.3 million.

All taxes are due and payable on November 1 (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 1 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.

**NOTE 8: CONTINGENT LIABILITIES**

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. 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.

**NOTE 9: BENEFIT PLANS**

***Governmental Money Purchase Plan and Trust***

Beginning October 1, 2008, the City established a governmental money purchase defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is administered by an independent plan administrator through an administrative service agreement.

Participation in the plan is limited to charter officers and department heads (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 13% of employee salaries and wages for employees who contributed 4% in 2018. Although the charter officers and department heads may participate in both the deferred compensation plan (see Note 10) and the governmental money purchase plan and trust, the City will contribute to only one plan on their behalf. Total City contributions to the plan amounted to \$66,330 for the fiscal year ended September 30, 2018. The

**NOTE 9: BENEFIT PLANS (Continued)**

***Governmental Money Purchase Plan and Trust (continued)***

money purchase plan 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.

**Retirement Health Savings Plan**

Beginning October 1, 2006 the City established a health reimbursement account and a retirement health savings plan for the benefit of the employees. Both accounts are administered by an independent plan administrator through administrative service agreements. The City credits a flat dollar amount to the health reimbursement account which will vary pursuant to the annual budget appropriation. That amount is then used to pay eligible health claims. For the year ended September 30, 2018, the City credited \$3,000 to each employee's account, and an additional \$3,000 to those employees with dependent coverage for a total of \$6,000, which amounted to \$147,000. All full-time employees participate in the plan.

In July of each year, a percentage (as determined by the City Council) of the employee's remaining balance in the health reimbursement account is swept from that account into the retirement health savings plan. The percentage swept this year was 20% of the remaining July balance. For the year ended September 30, 2018, the employees' remaining balance in the health reimbursement account amounted to \$195,765.

The retirement health savings account is administered by an independent plan administrator who also manages the associated funds. All amounts deposited into the fund, all property and rights purchased with those amounts, and all income attributable to those accounts 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 10: DEFERRED COMPENSATION PLAN**

Beginning July 1, 1997, the City established a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). 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 13% of employee salaries and wages for employees who contributed 4% in 2018.



**NOTE 10: DEFERRED COMPENSATION PLAN (Continued)**

Employer and employee contributions to the plan were \$102,189 and \$81,163, respectively in 2018. 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 11: FUND BALANCES - GOVERNMENTAL FUNDS**

In accordance with GASBC 1300, *Fund Accounting*, the City classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Infra-structure	CDBG Phase VI	Culture Facilities	North Regional Lake	Community Redevelop-ment Agency	Nonmajor Governmental Funds	Totals
Nonspendable:								
Prepaid items	\$ 35,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,076
Total nonspendable	35,076	-	-	-	-	-	-	35,076
Restricted for:								
Capital projects	-	-	13,175	-	-	36,197	286,044	335,416
Brookside Cemetary	46,090	-	-	-	-	-	-	46,090
Total restricted	46,090	-	13,175	-	-	36,197	286,044	381,506
Unassigned	1,025,860	(946,169)	-	-	-	-	-	79,691
Total fund balances, governmental funds	\$ 1,107,026	\$ (946,169)	\$ 13,175	\$ -	\$ -	\$ 36,197	\$ 286,044	\$ 496,273

**NOTE 12: FUTURE ACCOUNTING PRONOUNCEMENTS**

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

- Asset retirement obligations;
- Fiduciary activities;
- Leases;
- Disclosure related to debt; and
- Accounting for interest cost incurred before the end of a construction period.

The City is currently evaluating the effects that these statements will have on its 2019 financial statements.

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS**

**City of Fellsmere, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds**

	Special Revenue			
<i>September 30, 2018</i>	Local Option Gas Tax	FDOT 195/ CR 512 Interlocal Beautification	FDOT TAP Massachusetts	FOA Transportation Access
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 10,683	\$ -
Accounts receivable	-	5,400	-	23,251
Due from other governments	29,254	-	-	-
Restricted cash and cash equivalents	134,915	-	-	-
<b>Total assets</b>	<b>\$ 164,169</b>	<b>\$ 5,400</b>	<b>\$ 10,683</b>	<b>\$ 23,251</b>
<b>LIABILITIES</b>				
Negative equity in pooled restricted cash	\$ -	\$ 102	\$ -	\$ 20,174
Accounts payable	-	-	10,683	-
Unearned revenues	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>102</b>	<b>10,683</b>	<b>20,174</b>
<b>FUND BALANCES</b>				
Restricted	164,169	5,298	-	3,077
<b>Total fund balances</b>	<b>164,169</b>	<b>5,298</b>	<b>-</b>	<b>3,077</b>
<b>Total liabilities and fund balances</b>	<b>\$ 164,169</b>	<b>\$ 5,400</b>	<b>\$ 10,683</b>	<b>\$ 23,251</b>

Special Revenue

FDEP Railtrail Greenway RTP/ PK Lat'l Willow	FRDAP Trail Head Preserve LWCF	FRDAP Little League Park	HC&J Stormwater Grant Park	FDEP Wetlands Park LWCF	FEMA Fellsmere Flood Study
\$ 1,280	\$ -	\$ -	\$ 13,063	\$ 5,428	\$ -
-	-	-	-	-	-
-	-	50,000	-	-	-
-	-	-	-	-	-
<b>\$ 1,280</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 13,063</b>	<b>\$ 5,428</b>	<b>\$ -</b>
\$ -	\$ -	\$ 46,908	\$ -	\$ -	\$ -
1,280	-	3,092	13,063	5,428	-
-	-	-	-	-	-
<b>1,280</b>	<b>-</b>	<b>50,000</b>	<b>13,063</b>	<b>5,428</b>	<b>-</b>
-	-	-	-	-	-
-	-	-	-	-	-
<b>\$ 1,280</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 13,063</b>	<b>\$ 5,428</b>	<b>\$ -</b>

**City of Fellsmere, Florida**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds (continued)**

Special Revenue						
<i>September 30, 2018</i>	Historic Train Village	City Hall Roof	LWCF HC&J Stormwater Park	Special Projects	Total	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,082	\$ -	\$ 7,818	\$ 125,700	\$ 168,054	
Accounts receivable	-	-	-	-	28,651	
Due from other governments	-	-	-	-	79,254	
Restricted cash and cash equivalents	-	-	-	-	134,915	
<b>Total assets</b>	<b>\$ 4,082</b>	<b>\$ -</b>	<b>\$ 7,818</b>	<b>\$ 125,700</b>	<b>\$ 410,874</b>	
<b>LIABILITIES</b>						
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -	\$ -	\$ 67,184	
Accounts payable	-	-	7,818	2,264	43,628	
Unearned revenues	-	-	-	14,018	14,018	
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>7,818</b>	<b>16,282</b>	<b>124,830</b>	
<b>FUND BALANCES</b>						
Restricted	4,082	-	-	109,418	286,044	
<b>Total fund balances</b>	<b>4,082</b>	<b>-</b>	<b>-</b>	<b>109,418</b>	<b>286,044</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 4,082</b>	<b>\$ -</b>	<b>\$ 7,818</b>	<b>\$ 125,700</b>	<b>\$ 410,874</b>	

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

	Special Revenue			
	Local Option Gas Tax	FDOT 195/ CR 512 Interlocal Beautification	FDOT TAP Massachusetts	FOA Transportation Access
<i>For the year ended September 30, 2018</i>				
<b>REVENUES</b>				
Taxes:				
Motor fuel	\$ 170,568	\$ -	\$ -	\$ -
Intergovernmental	-	-	6,010	-
Other revenues	-	-	-	-
<b>Total revenues</b>	<b>170,568</b>	<b>-</b>	<b>6,010</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current:				
Physical environment	-	-	-	-
Transportation	34,709	-	-	-
Capital outlay	14,124	-	50,477	-
<b>Total expenditures</b>	<b>48,833</b>	<b>-</b>	<b>50,477</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>121,735</b>	<b>-</b>	<b>(44,467)</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	44,467	-
Transfers out	(84,092)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(84,092)</b>	<b>-</b>	<b>44,467</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>37,643</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances, beginning of year</b>	<b>126,526</b>	<b>5,298</b>	<b>-</b>	<b>3,077</b>
<b>Fund balances, end of year</b>	<b>\$ 164,169</b>	<b>\$ 5,298</b>	<b>\$ -</b>	<b>\$ 3,077</b>



Special Revenue

FDEP Railtrail Greenway RTP/ PK Lat'l Willow	FRDAP Trail Head Preserve LWCF	FRDAP Little League Park	HC&J Stormwater Grant Park	FDEP Wetlands Park LWCF	FEMA Fellsmere Flood Study
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	<b>42,017</b>	-	-	<b>4,598</b>
-	-	-	-	-	-
-	-	<b>42,017</b>	-	-	<b>4,598</b>
-	-	<b>3,964</b>	-	-	<b>36,050</b>
-	-	-	-	-	-
<b>12,313</b>	<b>34,073</b>	<b>80,701</b>	<b>199,290</b>	<b>34,854</b>	-
<b>12,313</b>	<b>34,073</b>	<b>84,665</b>	<b>199,290</b>	<b>34,854</b>	<b>36,050</b>
<b>(12,313)</b>	<b>(34,073)</b>	<b>(42,648)</b>	<b>(199,290)</b>	<b>(34,854)</b>	<b>(31,452)</b>
<b>12,313</b>	<b>34,073</b>	<b>42,648</b>	<b>199,290</b>	<b>34,854</b>	<b>31,452</b>
-	-	-	-	-	-
<b>12,313</b>	<b>34,073</b>	<b>42,648</b>	<b>199,290</b>	<b>34,854</b>	<b>31,452</b>
-	-	-	-	-	-
-	-	-	-	-	-
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**City of Fellsmere, Florida**  
**Combining Statement of Revenues, Expenditures and Changes in Fund**  
**Balances - Nonmajor Governmental Funds (continued)**

<i>For the year ended September 30, 2018</i>	Special Revenue				Total
	Historic Train Village	City Hall Roof	LWCF HC&J Stormwater Park	Special Projects	
<b>REVENUES</b>					
Taxes:					
Motor fuel	\$ -	\$ -	\$ -	\$ -	\$ 170,568
Intergovernmental	-	-	-	-	52,625
Other revenues	-	-	-	16,293	16,293
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,293</b>	<b>239,486</b>
<b>EXPENDITURES</b>					
Current:					
Physical environment	-	-	-	6,622	46,636
Transportation	-	-	-	-	34,709
Capital outlay	9,026	6,533	29,417	-	470,808
<b>Total expenditures</b>	<b>9,026</b>	<b>6,533</b>	<b>29,417</b>	<b>6,622</b>	<b>552,153</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(9,026)</b>	<b>(6,533)</b>	<b>(29,417)</b>	<b>9,671</b>	<b>(312,667)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	9,026	6,533	29,417	-	444,073
Transfers out	-	-	-	-	(84,092)
<b>Total other financing sources (uses)</b>	<b>9,026</b>	<b>6,533</b>	<b>29,417</b>	<b>-</b>	<b>359,981</b>
<b>Net change in fund balances</b>	<b>-</b>			<b>9,671</b>	<b>47,314</b>
<b>Fund balances, beginning of year</b>	<b>4,082</b>	<b>-</b>	<b>-</b>	<b>99,747</b>	<b>238,730</b>
<b>Fund balances, end of year</b>	<b>\$ 4,082</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 109,418</b>	<b>\$ 286,044</b>



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

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

We have audited, 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, 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, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Fellsmere, Florida's basic financial statements, and have issued our report thereon dated April 10, 2019.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. However, as described below we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness [2017-002].

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies. [2017-003, 2018-001 and 2018-002].

### **Finding 2017-002 CAPITAL ASSET TRACKING – *Material Weakness***

**Condition:** Management does not have procedures in place to provide reasonable assurance that capital assets are free of material misstatements. Capital outlay did not reconcile to additions in the governmental funds, and capital asset subsidiary ledgers were not properly being maintained and reconciled to the general ledger. As a result, adjustments for governmental activities were required to be made which increased total net book value by \$1,966,113. In addition, an annual observation of capital assets is not being performed.

**Criteria:** Accounting policies and procedures should be in place that provide reasonable assurance that capital assets are free of material misstatements.

**Cause:** Management is not properly maintaining capital asset subsidiary ledgers, nor is a reconciliation of capital outlay accounts properly being executed. In addition, an annual observation of capital assets is not being performed.

**Effect:** There is significant potential that capital assets owned by the City are not being recorded on the City's general ledger and subsidiary ledgers which would have resulted in inaccurate reporting of capital assets and inaccurate reporting of the City's net position on the annual financial statements, prior to audit adjustment.

**Recommendation:** We recommend management develop and adopt procedures to provide reasonable assurance that capital assets are free of material misstatements. Specifically, management should develop a process for tracking of the City's capital assets, so that all assets can be properly recorded and reconciled back to the trial balance. Additionally, year-end schedules and reconciliations should be reviewed and approved to ensure that assets are properly being captured, depreciated, and reconciled. Lastly, the City should perform an annual observation of its capital asset inventory.

**Management's Response:** Management implemented reconciliation procedures mid-way through the 2018 fiscal year as a result of this comment. Those procedures as initially designed were not robust enough to ensure a timely reconciliation of the capital asset subsidiary and general ledgers. Enhancements to those procedures will ensure that the reconciliation process is far simpler in the future. Management would like to note that the final additions and deletions schedule did reconcile. Management would also like to note that during 2018 \$269,177 in obsolete equipment was removed from the fixed asset register as part of our efforts to reconcile our subsidiary ledger and general ledgers to our actual assets in use. We consider this a partial inventory of our fixed assets. Lastly, an annual observation of our capital assets is not needed for a City of this size, but it is time that our departments conducted a routine inventory of all of our fixed assets and we address the findings of that inventory.

### **Finding 2017-003 TRIAL BALANCE – *Significant Deficiency***

**Condition:** During the 2017 audit, twenty journal entries were needed and during the 2018 audit, three journal entries were needed to true up the trial balance.

**Criteria:** Accounting policies and procedures should be in place that provide reasonable assurance that the trial balance is complete at year end.

**Cause:** A final review of the trial balance was not completed prior to the start of the audit.

**Effect:** Information presented in the financial report could be misstated.

**Recommendation:** We recommend management develop and adopt procedures at year end to provide that the trial balance is complete and reasonable at year end. Specifically, management should review the trial balance at year end to ensure that fund balance agrees to the prior year financial statements, analyze large changes in account balances, and agree balances to supporting schedules.

**Management's Response:** A final review of the Trial Balance was conducted prior to the start of the audit, however management presumed the three entries in question were part of the carryover from 2017 and did not need to be made at the start of the 2018 fiscal year. Management created a monthly financial statement review looking for large variances between prior year actuals and current year budget, specifically to address this comment.

#### **Finding 2018-001 UTILITY BILLING ADJUSTMENTS – *Significant Deficiency***

**Condition:** There was a lack of segregation of duties over adjustments to utility billing.

**Criteria:** The City should have proper controls in place to ensure adjustments to utility billing are properly reviewed and approved by someone who does not record the adjustment.

**Cause:** There is no consistent review of adjustments to utility billing.

**Effect:** Utility revenue could be understated due to misappropriation of assets.

**Recommendation:** We recommend that the City require review and approval of all adjustments to utility billing.

**Management's Response:** Whenever there is one person primarily responsible for a job function there is always going to be a problem with the lack of segregation of duties. We recognize that and have countermeasures in place to help ensure that utility billing and collections remain free from material errors. Thank you for noting that the review of the adjustments to utility billing was not consistent. There were routine reviews being done, but those reviews were not based upon set parameters and were not frequently documented. Going forward, all utility billing adjustment in excess of \$100 will require management review and written approval.

#### **Finding 2018-002 TRANSFER – *Significant Deficiency***

**Condition:** During the audit, an adjusting journal entry was required to be made to reconcile transfers in and out.

**Criteria:** Transfers in and out of funds should reconcile to zero. Additionally, transfers in and out should be recorded in the State approved chart of accounts.

**Cause:** Transfers in and out contained an unreconciled difference on the subsidiary ledger as not all transfers were being recorded in the State approved chart of accounts.

**Effect:** The financial statements could be misstated and the transfers could be misrepresented in revenue and expense accounts.

**Recommendation:** We recommend that management reconcile transfers in and out at year-end and also record transfers in the State approved chart of accounts.

**Management's Response:** At one point in time in 2018 transfers in and out of the funds did balance. It has been the City's practice (with Council direction) to allocate administrative overhead from various departments to grants that are active in the City. In the grant close-out process, those administrative overhead transfers have traditionally become capital expenditures, thereby losing their transfer classification, and have created a reconciling difference between the transfers in and out. Our Auditors now tell us that it is not appropriate to capitalize administrative overhead allocated to grants, even though this practice has been followed for years. In the future we will therefore leave the transfer expenditure in the fund to preserve the sanctity of the transfers in and out.

### **Compliance and Other Matters**

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

### **City of Fellsmere, Florida's Responses to Findings**

City of Fellsmere, Florida's responses to the findings identified in our audit are described above. City of Fellsmere, Florida's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

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

Melbourne, Florida

April 10, 2019



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**INDEPENDENT AUDITORS’ MANAGEMENT LETTER**

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

**Report on the Financial Statements**

We have audited the financial statements of the City of Fellsmere, Florida as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated April 10, 2019.

**Auditor’s Responsibility**

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 Chapter 10.550, Rules of the Florida Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants’ Report on Compliance with Local Government Investment Policies on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated April 10, 2019, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address the finding and recommendation made in the preceding annual financial audit as noted below:

Prior Year Internal Control Findings

IC 2017-001 Retainage Payable	Cleared
IC 2017-002 Capital Asset Tracking	Repeated, Revised
IC 2017-003 Trial Balance	Repeated, Revised
ML 2017-004 Expenditures Exceed Appropriations	Cleared

## **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the City of Fellsmere, Florida as well as its blended component unit is disclosed in the notes to the financial statements.

## **Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City of Fellsmere, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City of Fellsmere, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City of Fellsmere. It is management's responsibility to monitor the City of Fellsmere, Florida'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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we had the following recommendation:

### **Finding 2018-003 BUDGET COMPLIANCE – *Other Matter***

**Condition:** The budgeted excess of expenditures over revenues exceeded reserves in the General Fund and the Infrastructure Fund.

**Criteria:** According to Florida Statute 166.241, *Municipalities*, the amount available from taxation and other sources, including balances brought forward from prior fiscal years, must equal the total appropriations for expenditures and reserves.

**Cause:** The budgeted balance brought forward from the prior fiscal year is in excess of the beginning of year fund balance, which resulted in a negative budgeted fund balance in the General Fund and the Infrastructure Fund.

**Effect:** The budget overage could cause the City to overspend and have a negative fund balance in the General Fund and the Infrastructure Fund resulting in a poor financial condition.

**Recommendation:** We recommend that management review fund balance reserves in each fund during the budgeting process to determine how much the City has to spend in each fund.



**Management's Response:** The City's 2018 budget was largely completed by August of 2017, and final approval was obtained in September of 2017. This is well before the final fund balance numbers for the year are known, or can be easily estimated. Management bases the budgeted fund balance available upon the best estimates available at the time. Management will process a budget amendment should this issue arise in the future.

### **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### **Purpose of this Letter**

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

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

Melbourne, Florida  
April 10, 2019

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## **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES**

The Honorable Mayor and Members of the City Council  
Of the City of Fellsmere, Florida

We have examined the City of Fellsmere's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2018. Management of the City of Fellsmere is responsible for the City of Fellsmere's compliance with the specified requirements. Our responsibility is to express an opinion on the City of Fellsmere's compliance with the specified requirements based on our examination.

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

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

In our opinion, the City of Fellsmere complied, in all material respects, with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2018.

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

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

Melbourne, Florida  
April 10, 2019