

CITY OF FELLSMERE, FLORIDA

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

Year ended September 30, 2008

Table of Contents

	Page
Independent Auditors' Report	3 – 4
Required Supplementary Information:	
Management's Discussion and Analysis.....	5 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	19
Statement of Net Assets – Business-type Activities – Enterprise Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Business-type Activities – Enterprise Funds	21
Statement of Cash Flows – Business-type Activities – Enterprise Funds	22
Notes to Basic Financial Statements.....	23 - 35
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget and Actual – General Fund	37
Schedule of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget and Actual – Infrastructure Special Revenue Fund	38
Schedule of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget and Actual – FCT Grant.....	39
Schedule of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget and Actual – Community Redevelopment Agency	40
Supplemental Information:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds	42

Table of Contents (continued)

Schedule of Expenditures of State Financial Assistance.....	43
Notes to Schedule of Expenditures of State Financial Assistance	44
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45 – 46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General.....	47 – 48
Schedule of Findings and Questioned Costs	49– 51
Summary Schedule of Prior Audit Findings	52
Independent Auditors' Management Letter.....	53 – 54



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida (the City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fellsmere, Florida's basic financial statements. The combining and individual nonmajor fund financial statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Section 215.97, Florida Statutes, by Rules of the Department of Financial Services, Chapter 69I-5, and by Chapter 10.550, Rules of the Auditor General, State of Florida, and is also not a required part of the basic financial statements of the City of Fellsmere, Florida. The combining individual nonmajor fund financial statement and the schedule of expenditures of state financial assistance projects have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Haire Kmetz Nuttall Elwell & Co.

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

August 31, 2009

Management's Discussion and Analysis

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

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements beginning on page 14.

Highlights

Financial Highlights

- The assets of the City of Fellsmere exceed its liabilities at the close of the most recent fiscal year by \$18,858,990 (net assets). Of this amount, \$1,064,296 (unrestricted net assets) maybe used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$5,511,735.
- As of the close of the fiscal year ending September 30, 2008, the City of Fellsmere's governmental funds reported combined ending fund balances of \$1,637,752, a decrease of \$43,884 in comparison with the prior fiscal year. \$520,287 (32%) of this total amount is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$499,994 or 80%.
- General fund revenue increased by \$15,413 or 1% and expenditures increased by \$203,154 or 12%.
- The City's total debt increased by \$11,493 during the current fiscal year.

Government-wide financial statement

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

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

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

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

The government-wide financial statements can be found on pages 14 and 15 of this report.

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

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

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

The City of Fellsmere maintains ten 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, FCT grant fund and the community redevelopment agency fund, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 16-19 of this report.

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

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

The City of Fellsmere adopts an annual appropriated budget for each enterprise fund. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

The basic fiduciary fund information can be found in Note 6 on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found on pages 23-35 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Fellsmere, assets exceeded liabilities by \$18,858,990 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (83%) reflects its investment in capital assets (e.g., land, buildings, other improvements, infrastructure improvements, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.



**Statement of Net Assets
City of Fellsmere
September 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,967,760	\$ 1,853,800	\$ 1,996,278	\$ 2,778,170	\$ 3,964,038	\$ 4,631,970
Capital assets	12,234,942	6,400,060	5,013,153	4,679,861	17,248,095	11,079,921
Total Assets	14,202,702	8,253,860	7,009,431	7,458,031	21,212,133	15,711,891
Long-term liabilities	-	-	1,608,714	1,668,500	1,608,714	1,668,500
Other liabilities	330,008	172,164	414,421	523,972	744,429	696,136
Total Liabilities	330,008	172,164	2,023,135	2,192,472	2,353,143	2,364,636
Net Assets:						
Invested in capital assets, net of related debt	12,234,942	6,400,060	3,344,653	2,952,575	15,579,595	9,352,635
Restricted	1,117,465	1,108,534	1,097,634	1,293,563	2,215,099	2,402,097
Unrestricted	520,287	573,102	544,009	1,019,421	1,064,296	1,592,523
Total Net Assets	\$13,872,694	\$ 8,081,696	\$ 4,986,296	\$ 5,265,559	\$18,858,990	\$13,347,255

An additional portion of the City's net assets (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,064,296) may be used to meet the City's ongoing obligations to citizens and creditors.

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

There was a change (decrease) of \$195,929 in restricted net assets reported in connection with the City's business-type activities. An decrease of \$220,858 in renewal and replacement funds, an increase of \$12,796 in the bond sinking fund reserve, and an increase of \$12,133 for customer deposits.

The City's net assets increased by \$5,511,735 during the current fiscal year. The greatest portion of this was related to acquisition of Capital Assets.

Governmental Activities. Governmental activities increased the City's net assets by \$5,795,392, thereby accounting for 100% of the total growth in the net assets of the City. Key elements are as follows:

**Changes in Net Assets
City of Fellsmere
Years Ended September 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	\$ 37,588	\$ 91,287	\$ 1,029,792	\$ 2,296,727	\$ 1,067,380	\$ 2,388,014
Operating grants and contributions	45,843	57,889	-	-	45,843	57,889
Capital grants and contributions	5,731,174	1,500,000	-	250,000	5,731,174	1,750,000
General Revenues:						
Property taxes	527,543	540,924	-	-	527,543	540,924
Other taxes	1,440,025	1,447,857	-	-	1,440,025	1,447,857
Intergovernmental	109,510	124,643	-	-	109,510	124,643
Other	217,796	136,312	375,451	415,868	593,247	552,180
Total Revenues	8,109,479	3,898,912	1,405,243	2,962,595	9,514,722	6,861,507
Expenses:						
General government	802,786	682,480	-	-	802,786	682,480
Public safety	664,068	638,063	728,115	637,675	1,392,183	1,275,738
Physical environment	-	-	695,691	629,605	695,691	629,605
Transportation	888,232	863,561	-	-	888,232	863,561
Culture and recreation	266,977	64,126	-	-	266,977	64,126
Total Expenses	2,622,063	2,248,230	1,423,806	1,267,280	4,045,869	3,515,510
Increase in Net Assets before Transfers						
	5,487,416	1,650,682	(18,563)	1,695,315	5,468,853	3,345,997
Transfers, net	303,582	103,565	(260,700)	(103,565)	42,882	-
Change in Net Assets	5,790,998	1,754,247	(279,263)	1,591,750	5,511,735	3,345,997
Net Assets, beginning	8,081,696	6,327,449	5,265,559	3,616,609	13,347,255	9,944,058
Capital contributions	-	-	-	57,200	-	57,200
Net Assets, ending	\$13,872,694	\$ 8,081,696	\$ 4,986,296	\$ 5,265,559	\$18,858,990	\$13,347,255

- Property taxes decreased by \$13,381 (2%) during the year. Most of this decrease is the result of decreased property values.
- Intergovernmental revenues decreased by \$15,133 (12%) during the year.



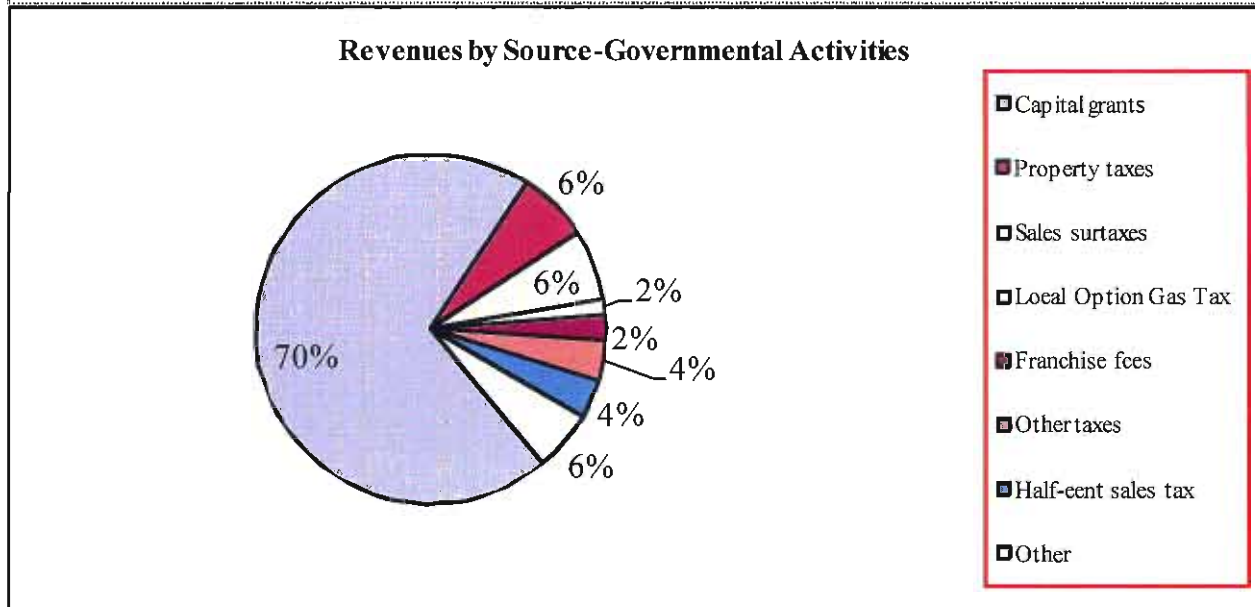
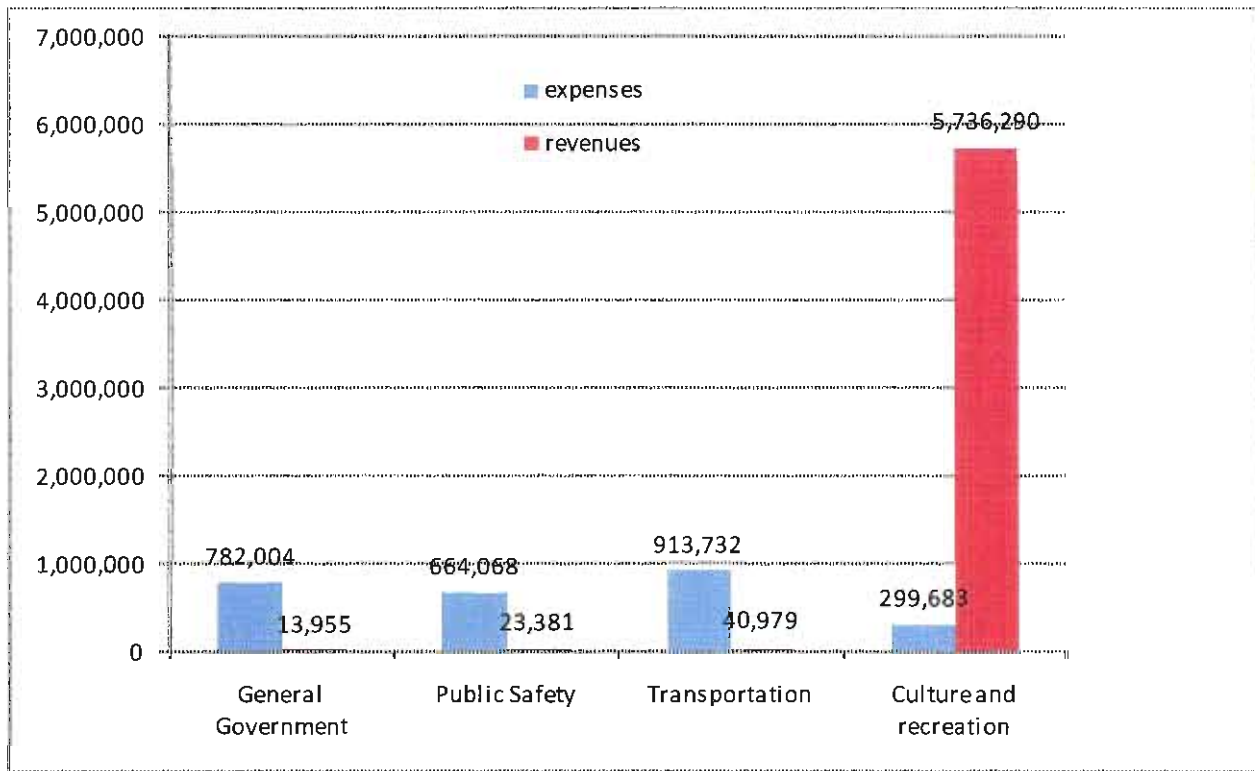


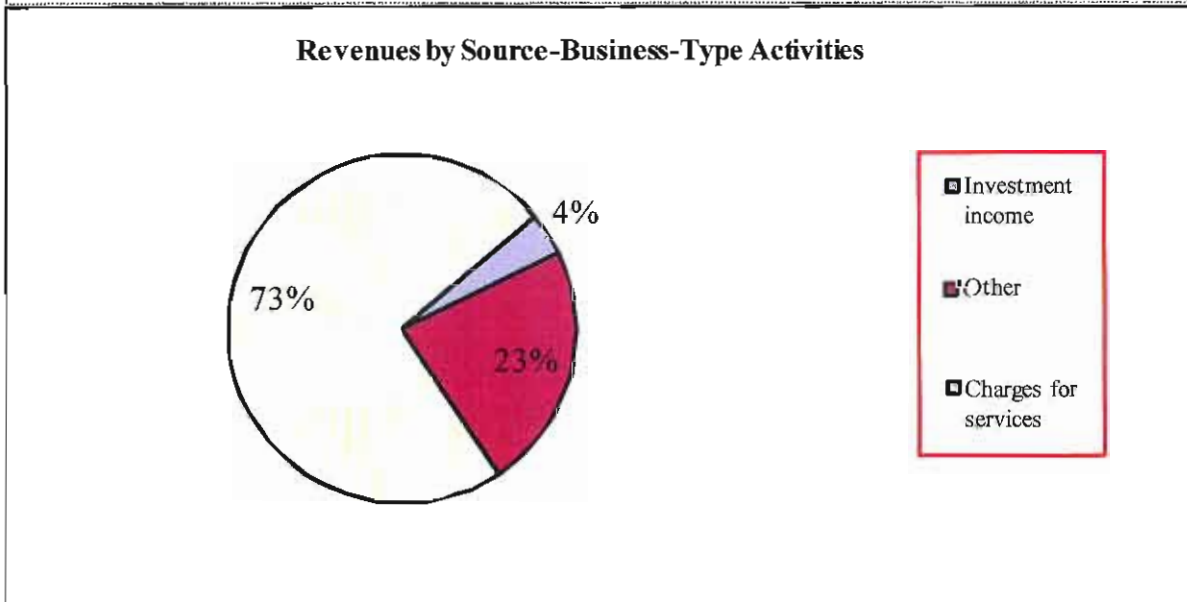
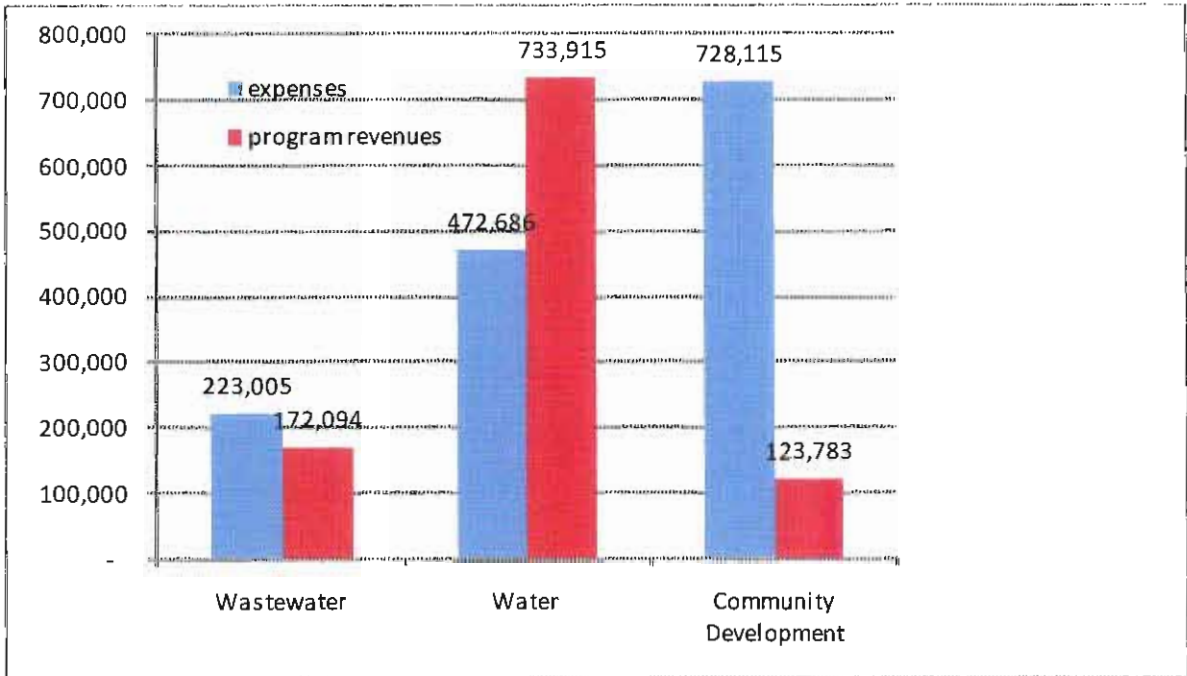
Figure 1

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

Business-type activities. Business-type activities decreased the City's net assets by \$279,263, accounting for 5% of the total growth in net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities decreased by \$1,266,935 (55%). The Community Development fund accounted for a significant portion of this decrease as a result of the decrease growth within the City.





Financial Analysis of the Governments' Funds

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

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



As of the end of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$1,637,752, a decrease of \$43,884 in comparison with the prior year. An amount of \$520,287 constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed or is legally restricted for a variety of uses.

The general fund is the main operating fund of the City. At the end of the most recent fiscal year, unreserved, undesignated fund balance of the general fund was \$499,994, while the total fund balance reached \$628,704. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 26% of total general fund expenditures, while total fund balance represents 33% of that same amount. The fund balance of the City's general fund increased by \$43,640 during the current fiscal year.

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

Unrestricted net assets of the City's water, community development and wastewater enterprise funds amounted to \$544,009. The total for unrestricted net assets for each of these funds was \$102,872, \$607,954 and (\$166,817), respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City of Fellsmere's business-type activities.

General Fund Budgetary Highlights

During the year the City did not amend its annual budget and ended the most recent fiscal year with \$131,524 less actual revenue than was budgeted. The actual expenditures were some \$359,102 less than the budgeted amount.

Capital Assets and Debt Administration

Capital Assets. The City of Fellsmere's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$17,248,095 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 64%. This represents a 91% increase for governmental activities and a 7% increase for business-type activities.

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

- Various vehicles and equipment were purchased for \$21,619.
- A variety of projects were begun during the fiscal year ended 2008. Construction in progress at the end of the current fiscal year was \$567,076.
- New connections for the water system for the most recent fiscal year were \$211,707.
- New connections for the wastewater system for the most recent fiscal year were \$142,211.
- Improvements, road and drainage additions amounted to \$761,932.
- Purchase of land for \$5,547,246.

**Capital Assets, Net of Depreciation
City of Fellsmere
Years Ended September 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	\$ 5,799,617	\$ 252,371	\$ 10,357	\$ 10,357	\$ 5,809,974	\$ 262,728
Buildings	508,333	566,170	739,706	758,317	1,248,039	1,324,487
Improvements other than buildings	1,481,612	918,666	3,912,866	3,651,156	5,394,478	4,569,822
Machinery and equipment	355,369	380,272	38,210	30,447	393,579	410,719
Infrastructure	3,834,949	4,149,418	-	-	3,834,949	4,149,418
Construction in progress	255,062	133,163	312,014	229,584	567,076	362,747
Total	\$12,234,942	\$ 6,400,060	\$ 5,013,153	\$ 4,679,861	\$17,248,095	\$11,079,921

Additional information on the City's capital assets can be found in Note 5 on pages 31 and 32 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Fellsmere had total outstanding debt of \$1,668,500, of this amount \$187,500 comprises a note backed by a secondary pledge of water system revenues and \$1,481,000 debt for revenue bonds secured by a primary pledge of water system revenues.

**Outstanding Debt-Revenue Bond and Note Payables
City of Fellsmere
Years Ended September 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Note payable	\$ -	\$ -	\$ 187,500	\$ 214,286	\$ 187,500	\$ 214,286
Revenue bond	-	-	1,481,000	1,513,000	1,481,000	1,513,000
Total	\$ -	\$ -	\$ 1,668,500	\$ 1,727,286	\$ 1,668,500	\$ 1,727,286

The City's total debt decreased by \$58,786 during the current fiscal year. The key factor in this decrease was the scheduled payment for debt service within the water fund. The City has no other long-term debt.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates and fees that will be charged for the business-type activities. One of these factors is the economy.

Fellsmere's local economy consists largely of agriculture, retail and service industries. The Indian River County unemployment rate in 2008 was 9.1%, up from 4.3% the previous year. The effects of the housing slump, the financial market's meltdown, the State's tax reform and the lack of growth within the County have all combined as the perfect storm to cripple the area economy and negatively affect the unemployment rate.



During the most recently completed fiscal year, unreserved, undesignated fund balance in the general fund increased to \$499,994. The City has appropriated \$300,000 of this amount for spending in the 2009 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise ad valorem taxes during the 2009 fiscal year.

Both the water and wastewater rates were raised by 2.39% for the 2009 fiscal year budget. This rate was established by the Florida Public Service Commission to annually adjust for the effects of inflation for water and wastewater operations.

Requests for Information

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



City of Fellsmere, Florida
Statement of Net Assets

September 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 738,846	\$ 405,593	\$ 1,144,439
Accounts receivable	-	476,534	476,534
Restricted cash and cash equivalents	777,303	1,097,635	1,874,938
Due from other governmental units	257,054	-	257,054
Due from other entities	70,335	-	70,335
Advance to wastewater service fund	108,000	-	108,000
Prepaid expenses	16,222	1,598	17,820
Inventory	-	14,918	14,918
Capital assets, net of accumulated depreciation	12,234,942	5,013,153	17,248,095
Total Assets	14,202,702	7,009,431	21,212,133
Liabilities			
Accounts payable	220,383	60,570	280,953
Wages payable	34,478	-	34,478
Other liabilities	75,147	30,756	105,903
Customer and other deposits	-	151,654	151,654
Due to general fund	-	108,000	108,000
Accrued interest on revenue bond and note	-	3,655	3,655
Noncurrent liabilities:			
Due within one year:			
Note payable	-	26,786	26,786
Revenue bond payable	-	33,000	33,000
Due in more than one year:			
Note payable	-	160,714	160,714
Revenue bond payable	-	1,448,000	1,448,000
Total Liabilities	330,008	2,023,135	2,353,143
Net Assets			
Invested in capital assets, net of related debt	12,234,942	3,344,653	15,579,595
Restricted:			
Revenue bond debt service	-	328,888	328,888
Renewal and replacement	-	684,765	684,765
Other restrictions	1,117,465	83,981	1,201,446
Total restricted	1,117,465	1,097,634	2,215,099
Unrestricted	520,287	544,009	1,064,296
Total Net Assets	\$ 13,872,694	\$ 4,986,296	\$ 18,858,990

See accompanying notes to the financial statements.



City of Fellsmere, Florida
Statement of Activities

Year ended September 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental Activities:							
General government	\$ 802,786	\$ 13,955	\$ -	\$ -	\$ (788,831)	\$ -	\$ (788,831)
Public safety	664,068	18,517	4,864	-	(640,687)	-	(640,687)
Transportation	888,232	-	40,979	-	(847,253)	-	(847,253)
Culture and recreation	266,977	5,116	-	5,731,174	5,469,313	-	5,469,313
Total Governmental Activities	2,622,063	37,588	45,843	5,731,174	3,192,542	-	3,192,542
Business-type Activities							
Public water system	472,686	733,915	-	-	-	261,229	261,229
Community development	728,115	123,783	-	-	-	(604,332)	(604,332)
Wastewater system	223,005	172,094	-	-	-	(50,911)	(50,911)
Total Business-type Activities	1,423,806	1,029,792	-	-	-	(394,014)	(394,014)
Total	\$ 4,045,869	\$ 1,067,380	\$ 45,843	\$ 5,731,174	3,192,542	(394,014)	2,798,528
	General Revenues:						
	Taxes:						
	Property taxes				527,543		527,543
	Discretionary sales surtax				533,676		533,676
	Local option gas tax				127,332		127,332
	Franchise fees				184,270		184,270
	Utility taxes				196,205		196,205
	Communications service tax				103,041		103,041
	Half-cent sales tax				295,501		295,501
	Unrestricted investment earnings				46,453	55,436	101,889
	Intergovernmental				109,510	-	109,510
	Miscellaneous				171,343	320,015	491,358
	Transfers, net				303,582	(260,700)	42,882
	Total General Revenues, Special Items and Transfers				2,598,456	114,751	2,713,207
	Change in Net Assets				5,790,998	(279,263)	5,511,735
	Net Assets, beginning				8,081,696	5,265,559	13,347,255
	Net Assets, ending				\$ 13,872,694	\$ 4,986,296	\$ 18,858,990



See accompanying notes to the financial statements.

City of Fellsmere, Florida
Balance Sheet - Governmental Funds

September 30, 2008

	General Fund	Infrastructure Special Revenue Fund	RCT Grant Fund	Community Redevelopment Agency Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 512,977	\$ -	\$ -	\$ -	\$ 225,869	\$ 738,846
Restricted cash and cash equivalents	-	425,347	-	123,011	228,945	777,303
Due from other governmental units	43,001	43,904	-	-	170,149	257,054
Due from other entities	70,335	-	-	-	-	70,335
Advance to wastewater service fund	108,000	-	-	-	-	108,000
Prepaid expenses	16,222	-	-	-	-	16,222
Total Assets	\$ 750,535	\$ 469,251	\$ -	\$ 123,011	\$ 624,963	\$ 1,967,760
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 12,206	\$ -	\$ -	\$ 2,600	\$ 205,577	\$ 220,383
Wages payable	34,478	-	-	-	-	34,478
Compensated absences	75,147	-	-	-	-	75,147
Total Liabilities	121,831	-	-	2,600	205,577	330,008
Fund Balances						
Designated for infrastructure projects	-	469,251	-	-	-	469,251
Designated for transportation expenditures	-	-	-	-	399,093	399,093
Designated for community redevelopment	-	-	-	120,411	-	120,411
Designated for Brookside Cemetery	20,710	-	-	-	-	20,710
Reserved for advance to wastewater service fund	108,000	-	-	-	-	108,000
Unreserved, undesignated	499,994	-	-	-	20,293	520,287
Total Fund Balances	628,704	469,251	-	120,411	419,386	1,637,752
Total Liabilities and Fund Balances	\$ 750,535	\$ 469,251	\$ -	\$ 123,011	\$ 624,963	\$ 1,967,760

See accompanying notes to the financial statements.



City of Fellsmere, Florida

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

Year ended September 30, 2008

Fund Balances-Total Governmental Funds		<u>\$ 1,637,752</u>
Amounts reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	\$ 15,905,043	
Less accumulated depreciation	<u>(3,670,101)</u>	
Net governmental capital assets		12,234,942
Net Assets of Governmental Activities		<u>\$ 13,872,694</u>

See accompanying notes to the financial statements.



City of Fellsmere, Florida

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

Year ended September 30, 2008

	General Fund	Infrastructure Special Revenue Fund	FCT Grant Fund	Community Redevelopment Agency Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 527,543	\$ -	\$ -	\$ -	\$ -	\$ 527,543
Discretionary sales surtax	-	533,676	-	-	-	533,676
Local option gas tax	-	-	-	-	127,332	127,332
Franchise fees	184,270	-	-	-	-	184,270
Utility taxes	196,205	-	-	-	-	196,205
Communications service tax	103,041	-	-	-	-	103,041
Intergovernmental	445,990	-	5,449,924	-	286,114	6,182,028
Charges for services	19,071	-	-	-	-	19,071
Fines and forfeitures	18,517	-	-	-	-	18,517
Miscellaneous	90,257	16,879	-	110,585	75	217,796
Total Revenues	1,584,894	550,555	5,449,924	110,585	413,521	8,109,479
Expenditures						
Current operating:						
General government	731,246	4,502	1,608	33,555	3,139	774,050
Public safety	623,817	-	-	-	-	623,817
Transportation	473,665	-	-	-	78,162	551,827
Culture and recreation	73,670	-	-	-	294	73,964
Capital outlay	-	62,341	5,487,115	25,500	858,331	6,433,287
Total Expenditures	1,902,398	66,843	5,488,723	59,055	939,926	8,456,945
Excess (Deficit) of Revenues over Expenditures	(317,504)	483,712	(38,799)	51,530	(526,405)	(347,466)
Other Financing Sources (Uses)						
Transfers in	361,144	-	38,799	-	464,924	864,867
Transfers out	-	(500,223)	-	(9,900)	(51,162)	(561,285)
Net Other Financing Sources (Uses)	361,144	(500,223)	38,799	(9,900)	413,762	303,582
Net Changes in Fund Balances	43,640	(16,511)	-	41,630	(112,643)	(43,884)
Fund Balance, beginning of year	585,064	485,762	-	78,781	532,029	1,681,636
Fund Balance, end of year	\$ 628,704	\$ 469,251	\$ -	\$ 120,411	\$ 419,386	\$ 1,637,752

See accompanying notes to the financial statements.



City of Fellsmere, Florida

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

Year ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds		\$ (43,884)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	\$ 6,433,287	
Less current year depreciation	<u>(598,405)</u>	
		5,834,882
Change in Net Assets of Governmental Activities		\$ 5,790,998

See accompanying notes to the financial statements.



City of Fellsmere, Florida

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

September 30, 2008

	Public Water System	Community Development	Wastewater System	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 76,937	\$ 328,594	\$ 62	\$ 405,593
Accounts receivable	92,430	379,429	4,675	476,534
Inventory	14,918	-	-	14,918
Prepaid expenses	423	1,175	-	1,598
Total Current Assets	184,708	709,198	4,737	898,643
Nonecurrent Assets				
Restricted cash and cash equivalents	1,002,495	-	95,140	1,097,635
Capital assets, net of accumulated depreciation	3,860,242	17,027	1,135,884	5,013,153
Total Nonecurrent Assets	4,862,737	17,027	1,231,024	6,110,788
Total Assets	5,047,445	726,225	1,235,761	7,009,431
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	12,169	37,071	11,330	60,570
Customer and other deposits	66,012	64,173	21,469	151,654
Other liabilities	-	-	30,756	30,756
Due to general fund	-	-	108,000	108,000
Accrued interest on revenue bond and note	3,655	-	-	3,655
Long-term liabilities due within one year:				
Note payable	26,786	-	-	26,786
Revenue bond payable	33,000	-	-	33,000
Total Current Liabilities	141,622	101,244	171,555	414,421
Noncurrent Liabilities				
Note payable	160,714	-	-	160,714
Revenue bond payable	1,448,000	-	-	1,448,000
Total Noncurrent Liabilities	1,608,714	-	-	1,608,714
Total Liabilities	1,750,336	101,244	171,555	2,023,135
Net Assets				
Invested in capital assets, net of related debt	2,191,742	17,027	1,135,884	3,344,653
Restricted:				
Revenue bond debt service	328,888	-	-	328,888
Renewal and replacement	607,595	-	77,170	684,765
Other restrictions	66,012	-	17,969	83,981
Total restricted	1,002,495	-	95,139	1,097,634
Unrestricted	102,872	607,954	(166,817)	544,009
Total Net Assets	\$ 3,297,109	\$ 624,981	\$ 1,064,206	\$ 4,986,296

See accompanying notes to the financial statements.



City of Fellsmere, Florida

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

Year ended September 30, 2008

	Public Water System	Community Development	Wastewater System	Total
Operating Revenues				
Charges for services	\$ 733,915	\$ -	\$ 172,094	\$ 906,009
Building permits, licenses and fees	-	123,783	-	123,783
Miscellaneous	13,295	306,720	-	320,015
Total Operating Revenues	747,210	430,503	172,094	1,349,807
Operating Expenses				
Personnel services	47,153	113,051	-	160,204
Materials, supplies, services and other	252,983	612,338	198,468	1,063,789
Depreciation	95,202	2,726	24,537	122,465
Total Operating Expenses	395,338	728,115	223,005	1,346,458
Operating Income (Loss)	351,872	(297,612)	(50,911)	3,349
Nonoperating Revenues (Expenses)				
Interest income	32,270	19,742	3,424	55,436
Interest expense	(77,348)	-	-	(77,348)
Total Nonoperating Revenues (Expenses)	(45,078)	19,742	3,424	(21,912)
Income (Loss) Before Transfers	306,794	(277,870)	(47,487)	(18,563)
Transfers In	-	-	-	-
Transfers Out	(122,100)	(73,800)	(64,800)	(260,700)
Total transfers, net	(122,100)	(73,800)	(64,800)	(260,700)
Change in Net Assets	184,694	(351,670)	(112,287)	(279,263)
Net Assets , beginning of year	3,112,415	976,651	1,176,493	5,265,559
Net Assets, end of year	\$ 3,297,109	\$ 624,981	\$ 1,064,206	\$ 4,986,296

See accompanying notes to the financial statements.



City of Fellsmere, Florida
Statement of Cash Flows - Business-type Activities - Enterprise Funds
Year ended September 30, 2008

	Public Water System	Community Development	Wastewater System	Total
Cash Flows from Operating Activities:				
Cash received from customers	\$ 694,855	\$ (68,680)	\$ 181,551	\$ 807,726
Cash received from others	13,295	306,720	-	320,015
Cash payments to suppliers	(308,231)	(680,942)	(371,989)	(1,361,162)
Cash payments to employees	(47,153)	(117,065)	-	(164,218)
Net Cash Provided by (Use for) Operating Activities	352,766	(559,967)	(190,438)	(397,639)
Cash Flows from Noncapital Financing Activities:				
Net transfers out to General Fund	(122,100)	(73,800)	(64,800)	(260,700)
Cash Flows from Capital and Related Financing Activities:				
Interest paid on debt	(77,975)	-	-	(77,975)
Construction and purchase of capital assets	(354,570)	(19,409)	(81,778)	(455,757)
Principal paid on debt	(58,786)	-	-	(58,786)
Advance from general fund	-	-	108,000	108,000
Net Cash Provided by (Used) for Capital and Related Financing Activities	(491,331)	(19,409)	26,222	(484,518)
Cash Flows from Investing Activities:				
Interest income	32,270	19,742	3,424	55,436
Net Cash Provided by Investing Activities	32,270	19,742	3,424	55,436
Net (decrease) in cash and cash equivalents	(228,395)	(633,434)	(225,592)	(1,087,421)
Cash and Cash Equivalents, beginning of year	1,307,827	962,028	320,794	2,590,649
Cash and Cash Equivalents, end of year	\$ 1,079,432	\$ 328,594	\$ 95,202	\$ 1,503,228
Classified as:				
Cash and cash equivalents	\$ 76,937	\$ 328,594	\$ 62	\$ 405,593
Restricted cash and cash equivalents	1,002,495	-	95,140	1,097,635
Total	\$ 1,079,432	\$ 328,594	\$ 95,202	\$ 1,503,228
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating income (loss)	\$ 351,872	\$ (297,612)	\$ (50,911)	\$ 3,349
Adjustments to reconcile the operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	95,202	2,726	24,537	122,465
Changes in assets and liabilities:				
Accounts receivable	(47,764)	(254,636)	2,528	(299,872)
Inventory	(4,059)	-	-	(4,059)
Prepaid expenses	(423)	(1,175)	-	(1,598)
Accounts payable and accrued expenses	(50,766)	(67,429)	(169)	(118,364)
Customer and other deposits	8,704	62,173	6,929	77,806
Other Liabilities	-	(4,014)	(173,352)	(177,366)
Net Cash Provided by Operating Activities	\$ 352,766	\$ (559,967)	\$ (190,438)	\$ (397,639)

See accompanying notes to the financial statements.



Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

Fund Financial Statements:

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

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

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

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

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

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

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

Major Funds:

General Fund (as described above)

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

Florida Community Trust (FCT) Grant Fund – To account for the acquisition and development of conservation land.

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

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

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

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

Non-Major Funds:

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

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

Soccer Field Grant Special Revenue Fund – To account for grants for improvements to the soccer field.

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

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

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

Basis of Accounting

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets for the governmental funds are prepared in accordance with generally accepted accounting principals (GAAP), using the modified accrual basis of accounting. Within the Schedules of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Budget (Legal Budgetary Basis) and Actual - General and Special Revenue Funds, the budget amounts are presented in accordance with the City's policy and the actual amounts are presented in accordance with generally accepted accounting principles (GAAP). There were no differences between both bases of presentation during the fiscal year ended September 30, 2008. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

Encumbrances

The City does not utilize encumbrance accounting.

Cash and Cash Equivalents

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

Deposits

Florida Statutes require state and local governmental units to deposit monies with financial institutions classified as "Qualified Public Depositories", a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional insurance to federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits. The City only had deposits with qualifying institutions as of September 30, 2008.

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

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

Accounts Receivable

Accounts receivable are recorded in the Enterprise fund types. Property taxes, which were levied during fiscal year 2007 and are uncollected as of September 30, 2008, are immaterial and therefore not recorded as a receivable.

Inventories

Inventory within the Enterprise Fund at September 30, 2008, consisted of various parts, materials and supplies on hand in connection with the water system. This inventory is stated at cost, determined by the first-in, first-out (FIFO) method.

City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

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

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

Equity Classifications

Government-wide Statements:

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

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

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements (described above). Reserves are used to indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use.

Property Taxes

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

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State that regulate tax assessments are designed to assure a consistent property valuation method. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2008, the millage rate the City assessed was approximately 4.56 mills.



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

All property is reassessed according to its fair market value at January 1st of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes. The total assessed value at January 1, 2007, upon which the 2007 - 2008 levy was based, was approximately \$118 million.

All taxes are due and payable on November 1st (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. Taxes paid in March, and thereafter, are without a discount.

On or prior to June 1st of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold tax certificates are held by the County.

Interfund Transactions

Interfund activity is reported as either, loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. The outstanding \$108,000 interfund transfer (due to/ due from) between the General Fund and the Wastewater Fund is expected to be paid back over a 5 year period.

Expenditures

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

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

Operating Revenues and Expenses

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

Compensated Absences

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

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Note 2 - Restricted Cash

At September 30, 2008, restricted cash of \$425,327 in the Special Revenue Fund, consists of unspent infrastructure sales surtax funds and interest earned on these funds. Under Florida law, these funds may only be used for expenditures and costs associated with the construction, reconstruction or improvement of public domain ("infrastructure") projects, or for the purchase of certain vehicles and equipment, with at least a five-year life expectancy. Restricted cash also includes \$123,011 in unspent community redevelopment agency trust funds. Under Florida law, these funds may only be used for the rehabilitation of slum or blighted areas within the City. Restricted cash also includes \$228,945 in unspent local option gas tax funds. Under Florida law, these funds may only be used for the purchase, construction, maintenance and operation of transportation facilities and road and street right-of-ways.

Restricted cash at September 30, 2008, in the Enterprise Fund, consists of unspent water and wastewater system impact fees and interest earned on these funds of \$684,766. Under City adopted resolutions, these funds may only be used for extensions, enlargements, or additions to the capital assets of the water and wastewater systems. Restricted cash also consists of a bond sinking fund reserve for the water system in the amount of \$328,887 and customer deposits of the water and wastewater systems totaling \$83,982.

Note 3 - Due from Other Entities

At September 30, 2008, amounts due from other entities in the General Fund consisted of utility taxes due from local utility companies totaling \$14,034 and accounts receivable totaling \$56,301.

Note 4 - Due from Other Governmental Units

Amounts due from other governmental units includes the following at September 30, 2008:

	General Fund	Special Revenue Funds	Total
State of Florida - Dept. of Revenue (various tax revenue)	\$ 40,548	\$ 63,199	\$ 103,747
Federal Emergency Management Agency	-	150,853	150,853
Other local sources	2,454	-	2,454
	\$ 43,002	\$ 214,052	\$ 257,054



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

Governmental activities	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Capital assets not being depreciated:				
Land	\$ 252,371	\$ 5,547,246	\$ -	\$ 5,799,617
Construction in progress	133,163	121,899	-	255,062
Total capital assets not being depreciated	385,534	5,669,145	-	6,054,679
Other capital assets:				
Buildings and improvements	1,105,667	-	-	1,105,667
Improvements other than buildings	1,817,389	736,432	-	2,553,821
Equipment, fixtures & furnishings	1,256,979	2,210	(76,696)	1,182,493
Infrastructure improvements	4,982,883	25,500	-	5,008,383
Total other capital assets, at historical cost	9,162,918	764,142	(76,696)	9,850,364
Less accumulated depreciation for:				
Buildings and improvements	(540,219)	(57,115)	-	(597,334)
Improvements other than buildings	(898,723)	(173,486)	-	(1,072,209)
Equipment, fixtures & furnishings	(786,223)	(117,597)	76,696	(827,124)
Infrastructure improvements	(923,227)	(250,207)	-	(1,173,434)
Total accumulated depreciation	(3,148,392)	(598,405) *	76,696	(3,670,101)
Other capital assets, net	6,014,526	165,737	-	6,180,263
Governmental activities capital assets, net	\$ 6,400,060	\$ 5,834,882	\$ -	\$ 12,234,942



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 5 - Capital Assets (continued)

Business-type activities	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Capital assets not being depreciated:				
Land	\$ 10,357	\$ -	\$ -	\$ 10,357
Construction in progress	229,584	82,430	-	312,014
Total capital assets not being depreciated	239,941	82,430	-	322,371
Other capital assets:				
Water plant	930,571	-	-	930,571
Water lines	2,971,884	211,707	-	3,183,591
Water tank	411,683	-	-	411,683
Wastewater lines	1,143,890	142,211	-	1,286,101
Vehicle and equipment	71,195	-	-	71,195
Equipment	5,273	19,409	-	24,682
Total other capital assets, at historical cost	5,534,496	373,327	-	5,907,823
Less accumulated depreciation for:				
Water plant	(172,254)	(18,611)	-	(190,865)
Water lines	(646,327)	(59,437)	-	(705,764)
Water tank	(104,294)	(8,234)	-	(112,528)
Wastewater lines	(125,680)	(24,537)	-	(150,217)
Vehicle and equipment	(41,092)	(8,920)	-	(50,012)
Equipment	(4,929)	(2,726)	-	(7,655)
Total accumulated depreciation	(1,094,576)	(122,465) *	-	(1,217,041)
Other capital assets, net	4,439,920	250,862	-	4,690,782
Business-type activities capital assets, net	\$ 4,679,861	\$ 333,292	\$ -	\$ 5,013,153

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

Governmental Activities	
General government	\$ 28,736
Public safety	40,251
Transportation	336,405
Culture and recreation	193,013
	\$ 598,405
Business-type Activities	
Public water system	\$ 95,202
Wastewater system	24,537
Community development	2,726
	\$ 122,465



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 6 – Deferred Compensation Plan

As of July 1, 1997, the City established a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is available to all City employees (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 12% of employee salaries and wages for 2008. Total City contributions to the plan amounted to \$111,181 for the fiscal year ended September 30, 2008. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

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

Note 7 - Note Payable

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

	Principal Outstanding 2007	Additions	Reductions	Principal Outstanding 2008
Public Water System - note payable	\$ 214,286	\$ -	\$ 26,786	\$ 187,500

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

Amounts needed for the planned extended repayment of the note at September 30, 2008, are as follows:

Fiscal year ending September 30,	Total Payment	Interest Portion of Payment	Principal Portion of Payment
2009	\$ 34,625	\$ 7,839	\$ 26,786
2010	33,321	6,535	26,786
2011	32,014	5,228	26,786
2012	30,709	3,924	26,785
2013 - 2015	84,279	3,922	80,357
	\$ 214,948	\$ 27,448	\$ 187,500



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 8 - Revenue Bond Payable

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

	Principal Outstanding 2007	Additions	Reductions	Principal Outstanding 2008
Revenue bond payable	\$ 1,513,000	\$ -	\$ 32,000	\$ 1,481,000

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

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

The annual requirements to amortize the debt outstanding as of September 30, 2008, are as follows:

Fiscal year ending September 30,	Total Payment	Interest Portion of Payment	Principal Portion of Payment
2009	\$ 99,645	\$ 66,645	\$ 33,000
2010	100,160	65,160	35,000
2011	99,585	63,585	36,000
2012	99,965	61,965	38,000
2013 - 2033	2,097,700	758,700	1,339,000
	\$ 2,497,055	\$ 1,016,055	\$ 1,481,000

Note 9 - Public Deposits and Collateralization

The City maintains a cash account at a financial institution located in Indian River County, Florida. The account was entirely covered, by either government backed insurance programs (i.e., FDIC) or collateralized by the respective financial institutions' investments, as required by Florida Statutes, throughout the fiscal year ended September 30, 2008.

Note 10 - Grantor Audits

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



City of Fellsmere, Florida

Notes to Financial Statements (continued)

Note 11 – Donation of Limited Partnership Interests

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

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

At December 31, 2007, the partnership's income tax return reported a positive capital account balance, as such, there is no carrying value recorded on the City's books and records inasmuch as there is no readily available method of determining fair market value. In accordance with the partnership agreement, the City will not be required nor obligated to make any further capital contributions.

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

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

Note 13 – Subsequent Events

In December 2008, the City entered into a contract for \$2,985,000 with a local contractor for renovation of the Historic Fellsmere School Building.

Also in December 2008, the City authorized a \$3,000,000, 30 year capital improvement revenue bond in order to fund the renovation of the Historic Fellsmere School Building. 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 from the City's half-cent sales tax.



REQUIRED SUPPLEMENTARY INFORMATION

City of Fellsmere, Florida

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

Year ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 538,370	\$ 538,370	\$ 527,543	\$ (10,827)
Franchise fees	188,750	188,750	184,270	(4,480)
Utility taxes	204,760	204,760	196,205	(8,555)
Communication service tax	98,250	98,250	103,041	4,791
Intergovernmental	529,960	529,960	445,990	(83,970)
Charges for services	36,800	36,800	19,071	(17,729)
Fines and forfeitures	36,020	36,020	18,517	(17,503)
Miscellaneous	122,890	122,890	90,257	(32,633)
Total Revenues	1,755,800	1,755,800	1,584,894	(170,906)
Expenditures				
Current operating:				
General government	1,077,850	1,077,850	731,246	346,604
Public safety	650,700	650,700	623,817	26,883
Transportation	455,600	455,600	473,665	(18,065)
Culture and recreation	77,350	77,350	73,670	3,680
Capital outlay	-	-	-	-
Total Expenditures	2,261,500	2,261,500	1,902,398	359,102
Excess (Deficit) of Revenues over Expenditures	(505,700)	(505,700)	(317,504)	188,196
Other Financing Sources (Uses)				
Appropriation of beginning fund balance	161,100	161,100	-	(161,100)
Transfers in	344,600	344,600	361,144	16,544
Transfers out	-	-	-	-
Net Other Financing Sources (Uses)	505,700	505,700	361,144	(144,556)
Net Changes in Fund Balances	-	-	43,640	\$ 43,640
Fund Balance, beginning of year	585,064	585,064	585,064	
Fund Balance, end of year	\$ 585,064	\$ 585,064	\$ 628,704	



City of Fellsmere, Florida

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

Year ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Discretionary sales surtax	\$ 591,140	\$ 591,140	\$ 533,676	\$ (57,464)
Miscellaneous	35,000	35,000	16,879	(18,121)
Total Revenues	626,140	626,140	550,555	(75,585)
Expenditures				
Current operating:				
General government	205,140	205,140	4,502	200,638
Capital outlay	7,500	7,500	62,341	(54,841)
Total Expenditures	212,640	212,640	66,843	145,797
Excess (Deficit) of Revenues over Expenditures	413,500	413,500	483,712	70,212
Other Financing Sources (Uses)				
Appropriation of beginning fund balance	454,000	454,000	-	(454,000)
Debt proceeds	1,400,000	1,400,000	-	(1,400,000)
Transfers out	(2,267,500)	(2,267,500)	(500,223)	1,767,277
Net Other Financing Sources (Uses)	(413,500)	(413,500)	(500,223)	(86,723)
Net Changes in Fund Balances	-	-	(16,511)	\$ (16,511)
Fund Balance, beginning of year	485,762	485,762	485,762	
Fund Balance, end of year	\$ 485,762	\$ 485,762	\$ 469,251	



City of Fellsmere, Florida

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

Year ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Intergovernmental	\$ 7,300,000	\$ 7,300,000	\$ 5,449,924	\$ (1,850,076)
Total Revenues	7,300,000	7,300,000	5,449,924	(1,850,076)
Expenditures				
Capital outlay	7,330,000	7,330,000	5,488,723	1,841,277
Total Expenditures	7,330,000	7,330,000	5,488,723	1,841,277
Excess (Deficit) of Revenues over Expenditures	(30,000)	(30,000)	(38,799)	(8,799)
Other Financing Sources (Uses)				
Transfers in	30,000	30,000	38,799	8,799
Net Changes in Fund Balance	-	-	-	\$ -
Fund Balance, beginning of year	-	-	-	
Fund Balance, end of year	\$ -	\$ -	\$ -	



City of Fellsmere, Florida

Schedule of Revenues, Expenditures and Changes in

Fund Balances - Governmental Funds

Budget and Actual - Community Redevelopment Agency Fund

Year ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Miscellaneous	\$ 106,700	\$ 106,700	\$ 110,585	\$ 3,885
Total Revenues	106,700	106,700	110,585	3,885
Expenditures				
Current operating:				
General government	96,800	96,800	33,555	63,245
Capital outlay	-	-	25,500	(25,500)
Total Expenditures	96,800	96,800	59,055	37,745
Excess (Deficit) of Revenues over Expenditures	9,900	9,900	51,530	41,630
Other Financing Sources (Uses)				
Transfers out	(9,900)	(9,900)	(9,900)	-
Net Other Financing Sources (Uses)	(9,900)	(9,900)	(9,900)	-
Net Changes in Fund Balances	-	-	41,630	\$ 41,630
Fund Balance, beginning of year	78,781	78,781	78,781	
Fund Balance, end of year	\$ 78,781	\$ 78,781	\$ 120,411	



SUPPLEMENTAL INFORMATION

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

Year ended September 30, 2008

	Local Option Gas Tax	Community Development Block Grants	Soccer Field Grants	Senior League Grants	Special Projects Fund	Save Our Old School Fund	Total Nonmajor Governmental Funds
Revenues							
Local option gas tax	\$ 127,332	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,332
Intergovernmental	-	-	101,250	180,000	4,864	-	286,114
Miscellaneous	-	-	-	-	75	-	75
Total Revenues	127,332	-	101,250	180,000	4,939	-	413,521
Expenditures							
Current operating:							
General government	-	639	-	-	2,500	-	3,139
Public safety	-	-	-	-	-	-	-
Transportation	78,162	-	-	-	-	-	78,162
Culture and recreation	-	-	101	193	-	-	294
Capital outlay	-	10,440	251,364	438,576	3,500	154,451	858,331
Total Expenditures	78,162	11,079	251,465	438,769	6,000	154,451	939,926
Excess (Deficit) of Revenues over Expenditures	49,170	(11,079)	(150,215)	(258,769)	(1,061)	(154,451)	(526,405)
Other Financing Sources (Uses)							
Transfers in	-	8,571	150,215	258,769	3,500	43,869	464,924
Transfers out	(51,162)	-	-	-	-	-	(51,162)
Net Other Financing Sources (Uses)	(51,162)	8,571	150,215	258,769	3,500	43,869	413,762
Net Changes in Fund Balances	(1,992)	(2,508)	-	-	2,439	(110,582)	(112,643)
Fund Balance, beginning of year	401,085	-	-	-	22,318	108,626	532,029
Fund Balance(Deficit), end of year	\$ 399,093	\$ (2,508)	\$ -	\$ -	\$ 24,757	\$ (1,956)	\$ 419,386



City of Fellsmere, Florida
 Schedule of Expenditures of State Financial Assistance
 Year ended September 30, 2008

State Agency/Pass-through Grantor/Project Title	State CSFA Number	Agency or Pass-through Number	State Expenditures
Department of Community Affairs- Housing and Community Development			
Florida Communities Trust Land Acquisition and Administration Grant *	52.002	08-CT-C1-07-F7-A1-030	\$ 4,907,051

* Denotes a major project



City of Fellsmere, Florida

Notes to Schedule of Expenditures of State Financial Assistance
September 30, 2008

Note A – Basis of Presentation

The accompanying schedule of state financial assistance was prepared to include the activity of all state awards of the City of Fellsmere, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Florida Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note B – Grant

The City of Fellsmere, Florida received a State grant. The grant provided \$4,907,051 towards the purchase of conservation land. The City is required, among other things, to build recreational facilities, staff a nature center, provide or facilitate regular educational classes, and plant native vegetation.





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

Tax, Business and Financial Consultants

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

THOMAS F. O'HAIRE, CPA (RETIRED)
MICHAEL L. KMETZ, CPA, PFS
SCOTT A. NUTTALL, CPA, CFP
BRIAN J. ELWELL, CPA

PATRICK K. GRAHAM, CPA
HARVEY L. HERRST, CPA
TERESA M. LASOTA, CPA

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida (the City) as of and for the year ended September 30, 2008, which collectively comprise the City of Fellsmere, Florida's basic financial statements and have issued our report thereon dated August 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Fellsmere, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fellsmere, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Fellsmere, Florida's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Reference item number 2008-1 and 2008-2.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiency referenced as item number 2008-1 above is not a material weakness, however the deficiency referenced as item number 2008-2 above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fellsmere, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item number 2008-3.

The City of Fellsmere, Florida's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Fellsmere, Florida's response and, accordingly, we express no opinion on it.

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



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

August 31, 2009





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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General

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

Compliance

We have audited the compliance of the City of Fellsmere, Florida (the City) with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that are applicable to each of its major State projects for the year ended September 30, 2008. The City of Fellsmere, Florida's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major State projects is the responsibility of the City of Fellsmere, Florida's management. Our responsibility is to express an opinion on the City of Fellsmere, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards; generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, rules of the Auditor General. Those standards, and Chapter 10.550, rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about the City of Fellsmere, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fellsmere, Florida's compliance with those requirements.

In our opinion, the City of Fellsmere, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major State projects for the year ended September 30, 2008.

Internal Control over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State project on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a State project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State project that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



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

August 31, 2009

City of Fellsmere, Florida
Schedule of Findings and Questioned Costs
State Projects
Year Ended September 30, 2008

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Fellsmere, Florida
2. Significant deficiencies in internal control disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Item number 2008-1 is not considered a material weakness, however item number 2008-2 is considered a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Fellsmere, Florida were disclosed during our audit.
4. No significant deficiencies in internal control over a major State project are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General.
5. The auditor's report on compliance with requirements applicable to the major State projects for the City of Fellsmere, Florida, expresses an unqualified opinion.
6. Our audit disclosed no findings or questioned costs required to be reported related to State projects under Chapter 10.557, Rules of the Auditor General.
7. The programs tested as major State projects include:

<u>State Project</u>	<u>State CSFA No.</u>
Florida Communities Trust – Land Acquisition and Administration Grant	52.002
8. The threshold for distinguishing Type A and B projects was \$300,000 for major State projects.

B. Findings - Financial Statements

Finding
Number
2008-1

Finding
General Fund fund balance was not in agreement with the prior year ending balance.

Condition
The General Fund fund balance was debited in error by a mid year adjusting journal entry which was created to close out the State Shared Revenue and 8th Cent Motor Fuel Tax accounts receivable. The debit side of the entry should have been posted to revenue instead of to fund balance.

Context
The error was noted during our review of fund balances.



Effect

The effect of the error was to understate General Fund fund balance and receivables and to overstate revenue.

Cause

Oversight

Recommendation

We recommend that the Finance Director prepare and utilize a checklist for month end adjusting journal entries and other closing procedures, in order to help prevent such oversights.

Views of Responsible Officials and Planned Corrective Actions

The Finance Director has and utilizes a checklist for month end closing entries.

2008-2

Finding

Inherent lack of segregation of duties

Condition

The City's accounting department consists of two people, and as a result, various duties cannot be efficiently or economically segregated to provide for optimum separation of duties.

Context

Noted finding through inquiry and audit planning.

Effect

There are conflicting duties that rest with various individuals

Cause

In managements opinion the cost to hire additional accounting personnel has outweighed the benefits of improved internal controls

Recommendation

We recommend that the City either hire a third accounting person and then redistribute tasks in order to maximize segregation of duties and internal controls, or the City Manager and Council should provide more detailed oversight relative to the financial activities of the City.

Views of Responsible Officials and Planned Corrective Actions

The fiscal year end 2010 budget has a second accounting clerk included, to begin around July 2010, and the duties will be redistributed at that time.

2008-3

Finding

The Community Development fund exceeded approved budgetary expenditures by approximately \$293,000.

Condition

The City's approved budget for the Community Development fund was \$508,150. However, the City expended \$801,915. The City expended \$293,765 more than was legally adopted, which is contrary to Section 166.241(2), Florida Statutes.

Context

Noted finding through inquiry and audit planning.



Effect

Finding is contrary to Section 166.241 (2), Florida Statutes.

Cause

Oversight

Recommendation

We recommend that the City Manager and Council provide more detailed oversight relative to possible budgetary over expenditures, and a policy should be established whereby all budget vs. actual expenditures are reviewed after year end, with sufficient time to consider amending the budget if deemed necessary.

Views of Responsible Officials and Planned Corrective Actions

The Community Development Fund for at least the previous ten (10) years has had expenditures exceeding appropriations. However, the actual revenues and/or retained earnings have always been more than adequate to cover any appropriation deficiency. This is all related to the cost recovery technique the City uses to recover development related costs. As we pay our consultants prior to invoicing the developer/ property owner. Additionally, in the fiscal year end 2009 budget, the City appropriated a portion of the retained earnings and this issue should be moot.

C. Findings and Questioned Costs - Major State Projects - None

**City of Fellsmere, Florida
Summary Schedule of Prior Audit Findings
Major State Projects
Year Ended September 30, 2008**

There were no instances of findings or questioned costs for major State assistance projects in prior years.





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Independent Auditors' Management Letter

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

We have audited the accompanying financial statements of the City of Fellsmere, Florida (the City) as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated August 31, 2009.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control over Compliance, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated August 31, 2009, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

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

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

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

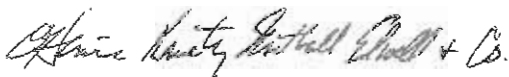
Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual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

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

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

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

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



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

August 31, 2009