

**CITY OF FELLOSMERE, FLORIDA**

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

Year ended September 30, 2009

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KMETZ NUTTALL ELWELL GRAHAM, PLLC  
*Certified Public Accountants*

## 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, 2009, 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, 2009, 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 June 10, 2010, 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.


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Teresa M. Nuttall, CPA, CMA, CFE, CVA, CFF, CICA, CICA (CA), CICA (PA), CICA (TX), CICA (VA)

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

  
Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants

June 10, 2010

## 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 \$18,862,078 (net assets). Of this amount, \$372,933 (unrestricted net assets) maybe used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,088.
- As of the close of the fiscal year ending September 30, 2009, the City of Fellsmere's governmental funds reported combined ending fund balances of \$1,331,976, a decrease of \$305,776 in comparison with the prior fiscal year. \$297,755 (22%) 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 \$302,921 or 56%.
- General fund revenue increased by \$94,539 or 1% and expenditures increased by \$129,470 or 7%
- The City's total debt increased by \$1,365,372 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, CDBG grant fund, save our old school fund and the community redevelopment agency fund, all of which are considered to be major funds. Data from two other 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, CDBG grant fund, save our old school 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 activities.

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 \$18,862,078 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (86%) 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, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,085,998	\$ 1,967,760	\$ 1,809,014	\$ 1,996,278	\$ 3,895,012	\$ 3,964,038
Capital assets	14,219,107	12,234,942	5,016,515	5,013,153	19,235,622	17,248,095
<b>Total Assets</b>	<b>16,305,105</b>	<b>14,202,702</b>	<b>6,825,529</b>	<b>7,009,431</b>	<b>23,130,634</b>	<b>21,212,133</b>
Long-term liabilities	1,398,372	-	1,546,928	1,608,714	2,945,300	1,608,714
Other liabilities	754,022	330,008	569,234	414,421	1,323,256	744,429
<b>Total Liabilities</b>	<b>2,152,394</b>	<b>330,008</b>	<b>2,116,162</b>	<b>2,023,135</b>	<b>4,268,556</b>	<b>2,353,143</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	12,820,735	12,234,942	3,407,801	3,344,653	16,228,536	15,579,595
Restricted	926,477	1,117,465	1,226,388	1,097,634	2,152,865	2,215,099
Unrestricted	405,499	520,287	75,178	544,009	480,677	1,064,296
<b>Total Net Assets</b>	<b>\$ 14,152,711</b>	<b>\$ 13,872,694</b>	<b>\$ 4,709,367</b>	<b>\$ 4,986,296</b>	<b>\$ 18,862,078</b>	<b>\$ 18,858,990</b>

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 (\$480,677) may be used to meet the City's ongoing obligations to citizens and creditors.

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

There was a change increase of \$128,754 in restricted net assets reported in connection with the City's business-type activities. An increase of \$88,430 in renewal and replacement funds, an increase of \$34,273 in the bond sinking fund reserve, and an increase of \$6,051 for customer deposits.

The City's net assets increased by \$3,088 during the current fiscal year.



**Governmental Activities.** Governmental activities increased the City's net assets by \$280,017, 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, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 38,187	\$ 37,588	\$ 1,117,989	\$ 1,029,792	\$ 1,156,176	\$ 1,067,380
Operating grants and contributions	34,633	45,843	-	-	34,633	45,843
Capital grants and contributions	700,000	5,731,174	-	-	700,000	5,731,174
<b>General Revenues:</b>						
Property taxes	622,999	527,543	-	-	622,999	527,543
Other taxes	1,480,723	1,440,025	-	-	1,480,723	1,440,025
Intergovernmental	86,333	109,510	-	-	86,333	109,510
Other	99,897	217,796	171,382	375,451	271,279	593,247
<b>Total Revenues</b>	<b>3,062,772</b>	<b>8,109,479</b>	<b>1,289,371</b>	<b>1,405,243</b>	<b>4,352,143</b>	<b>9,514,722</b>
<b>Expenses:</b>						
General government	897,658	802,786	-	-	897,658	802,786
Public safety	771,078	664,068	666,055	728,115	1,437,133	1,392,183
Physical environment	-	-	672,223	695,691	672,223	695,691
Transportation	1,037,940	888,232	-	-	1,037,940	888,232
Culture and recreation	331,861	266,977	-	-	331,861	266,977
<b>Total Expenses</b>	<b>3,038,537</b>	<b>2,622,063</b>	<b>1,338,278</b>	<b>1,423,806</b>	<b>4,376,815</b>	<b>4,045,869</b>
<b>Increase (Decrease) in Net Assets before Transfers</b>						
Assets before Transfers	24,235	5,487,416	(48,907)	(18,563)	(24,672)	5,468,853
Transfers, net	255,780	303,582	(255,780)	(260,700)	-	42,882
<b>Change in Net Assets</b>	<b>280,015</b>	<b>5,790,998</b>	<b>(304,687)</b>	<b>(279,263)</b>	<b>(24,672)</b>	<b>5,511,735</b>
<b>Net Assets, beginning</b>	<b>13,872,694</b>	<b>8,081,696</b>	<b>4,986,296</b>	<b>5,265,559</b>	<b>18,858,990</b>	<b>13,347,255</b>
Capital contributions	-	-	27,758	-	27,758	-
<b>Net Assets, ending</b>	<b>\$14,152,709</b>	<b>\$13,872,694</b>	<b>\$4,709,367</b>	<b>\$4,986,296</b>	<b>\$18,862,076</b>	<b>\$18,858,990</b>

- Property taxes increased by \$95,456 (18%) during the year. Most of this increase is the result of the annexation of properties into the City.
- Intergovernmental revenues decreased by \$23,177 (21%) during the year.



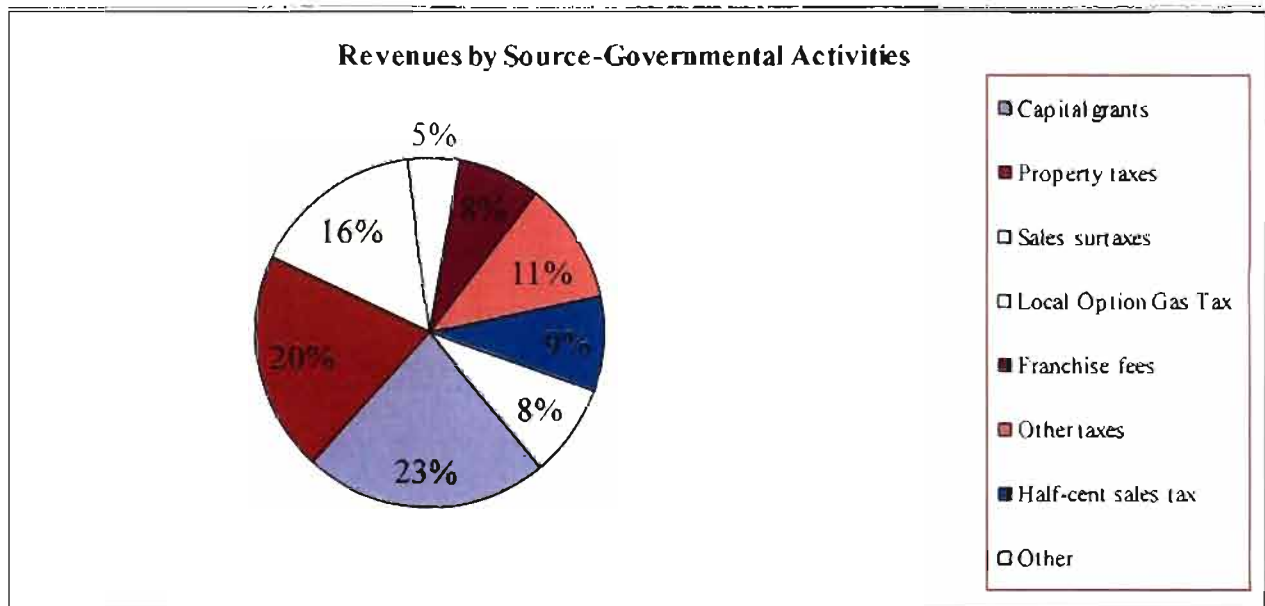
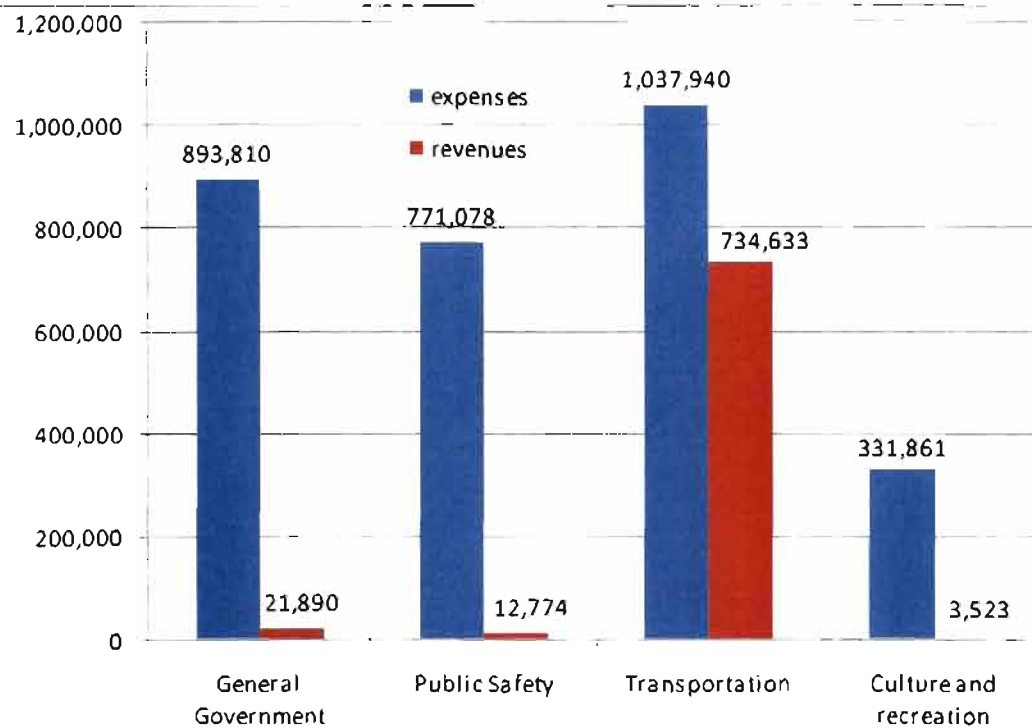
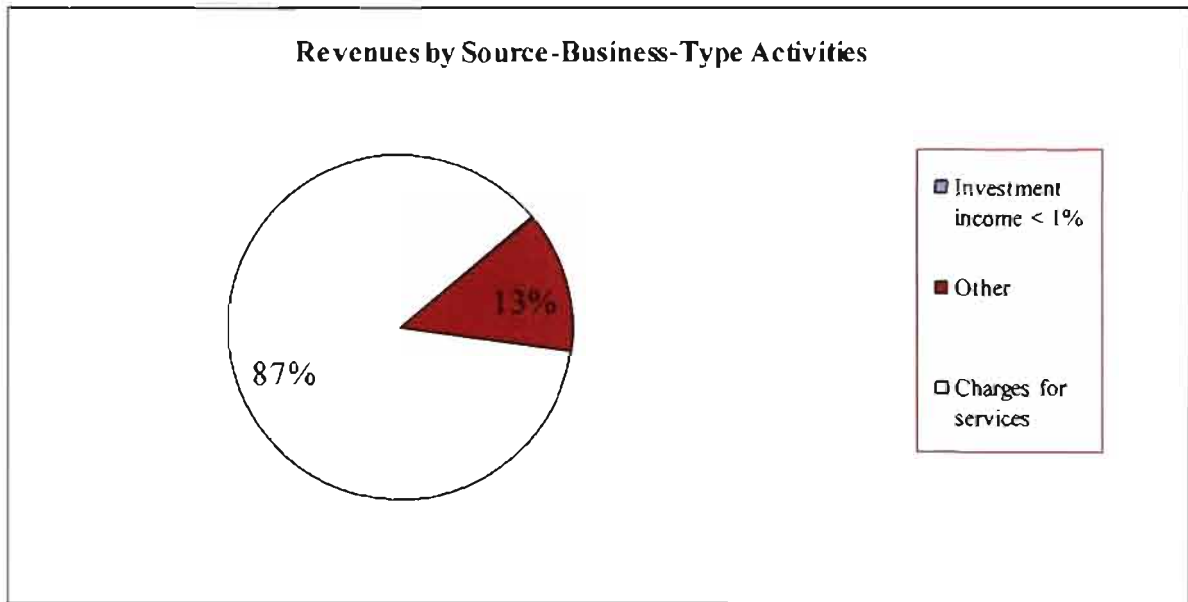
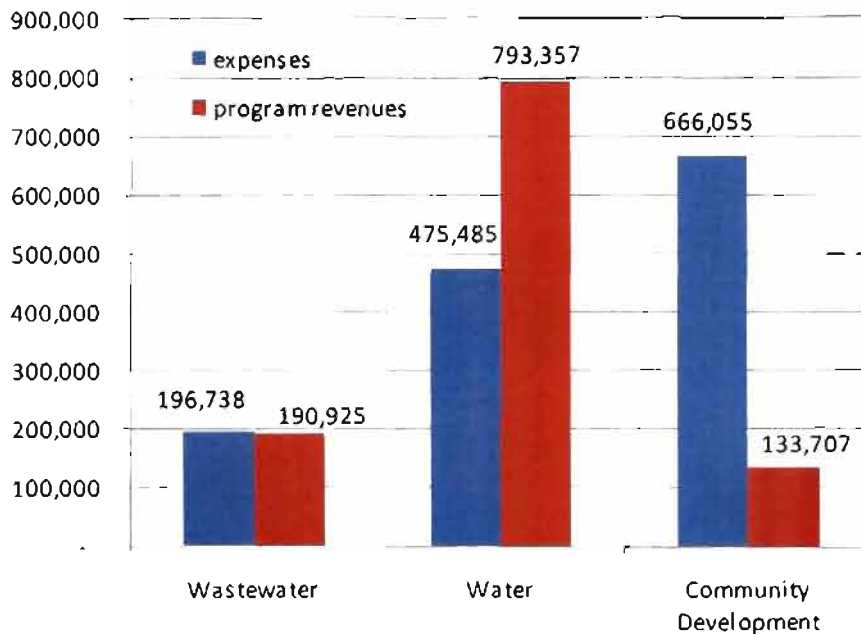


Figure 1

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 \$276,929. Key elements of this decrease are as follows:

- Other revenues for business-type activities decreased by \$204,069 (54%). 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 \$1,331,976, a decrease of \$305,776 in comparison with the prior year. An amount of \$405,499 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 \$410,665, while the total fund balance reached \$542,175. 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 20% of total general fund expenditures, while total fund balance represents 27% of that same amount. The fund balance of the City's general fund decreased by \$86,529 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 \$75,178. The total for unrestricted net assets for each of these funds was \$139,635, \$151,119 and (\$215,576), 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 \$163,107 less actual revenue than was budgeted. The actual expenditures were some \$439,832 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, 2009, amounts to \$19,235,622 (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 14%. This represents a 16% 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 \$140,586.
- A variety of projects were begun during the fiscal year ended 2009. Construction in progress at the end of the current fiscal year, which included the renovation project for the save our old school amounted to \$1,577,863.
- New connections for the water system for the most recent fiscal year were \$75,004.
- Improvements, road and drainage additions amounted to \$985,583.

**Capital Assets, Net of Depreciation  
City of Fellsmere  
Years Ended September 30, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	\$ 5,803,467	\$ 5,799,617	\$ 10,357	\$ 10,357	\$ 5,813,824	\$ 5,809,974
Buildings	455,670	508,333	721,095	758,317	1,176,765	1,266,650
Improvements other than buildings	1,237,767	1,481,612	3,889,441	3,651,156	5,127,208	5,132,768
Machinery and equipment	385,009	355,369	25,977	30,447	410,986	385,816
Infrastructure	4,561,900	3,834,949	-	-	4,561,900	3,834,949
Construction in progress	1,775,294	255,062	369,645	229,584	2,144,939	484,646
<b>Total</b>	<b>\$14,219,107</b>	<b>\$ 12,234,942</b>	<b>\$ 5,016,515</b>	<b>\$ 4,679,861</b>	<b>\$19,235,622</b>	<b>\$16,914,803</b>

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 \$3,007,086, of this amount \$160,714 comprises a note backed by a secondary pledge of water system revenues, \$1,448,000 debt for revenue bonds secured by a primary pledge of water system revenues, and a \$1,398,372 capital improvement bond 2008, which is secured by a primary pledge of infrastructure sales surtax revenues, and if that tax expires by a secondary pledge of half-cent sales tax revenues

**Outstanding Debt-Revenue Bond and Note Payables  
City of Fellsmere  
Years Ended September 30, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Note payable	\$ -	\$ -	\$ 160,714	\$ 160,714	\$ 160,714	\$ 160,714
Revenue bond payable	-	-	1,448,000	1,481,000	1,448,000	1,481,000
Capital improvements revenue bond payable	1,398,372	-	-	-	1,398,372	-
<b>Total</b>	<b>\$ 1,398,372</b>	<b>\$ -</b>	<b>\$ 1,608,714</b>	<b>\$ 1,641,714</b>	<b>\$ 3,007,086</b>	<b>\$ 1,641,714</b>

The City's total debt increased by \$1,365,372 during the current fiscal year. The key factor in this increase was the draw down on the capital improvement revenue bond for work performed on the save our old school building.

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year 2010 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 2009 was 14.9%, up from 9.1% 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 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 decreased to \$410,665. The City has appropriated \$350,000 of this amount for spending in the 2010 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise ad valorem taxes during the 2010 fiscal year.

Both the water and wastewater rates were raised by 2.55% for the 2010 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, 2009

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 535,740	\$ 108,420	\$ 644,160
Accounts receivable	-	34,600	34,600
Other receivables	-	424,747	424,747
Restricted cash and cash equivalents	477,069	1,226,388	1,703,457
Due from other governmental units	325,695	-	325,695
Due from other entities	189,953	-	189,953
Advance to other funds	475,816	-	475,816
Prepaid expenses	81,725	-	81,725
Inventory	-	14,859	14,859
Capital assets, net of accumulated depreciation	14,219,107	5,016,515	19,235,622
<b>Total Assets</b>	<b>16,305,105</b>	<b>6,825,529</b>	<b>23,130,634</b>
<b>Liabilities</b>			
Accounts payable	418,806	51,425	470,231
Wages payable	39,582	-	39,582
Other liabilities	84,079	30,756	114,835
Customer and other deposits	-	157,895	157,895
Due to other funds	211,555	264,261	475,816
Accrued interest on revenue bond and note	-	3,111	3,111
Noncurrent liabilities:			
Due within one year:			
Note payable	-	26,786	26,786
Revenue bond payable	-	35,000	35,000
Due in more than one year:			
Note payable	-	133,928	133,928
Revenue bond payable	-	1,413,000	1,413,000
Capital improvements revenue bond payable	1,398,372	-	1,398,372
<b>Total Liabilities</b>	<b>2,152,394</b>	<b>2,116,162</b>	<b>4,268,556</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	12,820,735	3,407,801	16,228,536
Restricted:			
Revenue bond debt service	-	363,161	363,161
Renewal and replacement	-	773,195	773,195
Other restrictions	926,477	90,032	1,016,509
<b>Total restricted</b>	<b>926,477</b>	<b>1,226,388</b>	<b>2,152,865</b>
Unrestricted	405,499	75,178	480,677
<b>Total Net Assets</b>	<b>\$ 14,152,711</b>	<b>\$ 4,709,367</b>	<b>\$ 18,862,078</b>

See accompanying notes to the financial statements

City of Fellsmere, Florida  
Statement of Activities  
Year ended September 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 897,658	\$ 21,890	\$ -	\$ -	\$ (875,768)	\$ -	\$ (875,768)
Public safety	771,078	12,774	-	-	(758,304)	-	(758,304)
Transportation	1,037,940	-	34,633	700,000	(303,307)	-	(303,307)
Culture and recreation	331,861	3,523	-	-	(328,338)	-	(328,338)
<b>Total Governmental Activities</b>	<b>3,038,537</b>	<b>38,187</b>	<b>34,633</b>	<b>700,000</b>	<b>(2,265,717)</b>	<b>-</b>	<b>(2,265,717)</b>
<b>Business-type Activities</b>							
Public water system	475,485	793,357	-	-	-	317,872	317,872
Community development	666,055	133,707	-	-	-	(532,348)	(532,348)
Wastewater system	196,738	190,925	-	-	-	(5,813)	(5,813)
<b>Total Business-type Activities</b>	<b>1,338,278</b>	<b>1,117,989</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(220,289)</b>	<b>(220,289)</b>
<b>Total</b>	<b>\$ 4,376,815</b>	<b>\$ 1,156,176</b>	<b>\$ 34,633</b>	<b>\$ 700,000</b>	<b>(2,265,717)</b>	<b>(220,289)</b>	<b>(2,486,006)</b>

**General Revenues:**

Taxes:

Property taxes	622,999	-	622,999
Discretionary sales surtax	489,359	-	489,359
Local option gas tax	143,959	-	143,959
Franchise fees	232,786	-	232,786
Utility taxes	239,709	-	239,709
Communications service tax	106,564	-	106,564
Half-cent sales tax	268,346	-	268,346
Unrestricted investment earnings	4,173	1,603	5,776
Intergovernmental	86,333	-	86,333
Miscellaneous	95,724	169,779	265,503
Contributed capital from developer	-	27,758	27,758
Transfers, net	255,780	(255,780)	-

**Total General Revenues, Special Items and Transfers**

2,545,732 (56,640) 2,489,092

**Change in Net Assets**

280,015 (276,929) 3,086

**Net Assets, beginning**

13,872,694 4,986,296 18,858,990

**Net Assets, ending**

\$ 14,152,709 \$ 4,709,367 \$ 18,862,076



City of Fellsmere, Florida  
Balance Sheet - Governmental Funds

September 30, 2009

	General Fund	Infrastructure Fund	CDBG Grant Fund	Save Our Old School Fund	Community Redevelopment Agency Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 305,810	\$ -	\$ -	\$ -	\$ -	\$ 229,930	\$ 535,740
Restricted cash and cash equivalents	-	270,846	-	-	98,611	107,612	477,069
Due from other governmental units	36,903	43,118	70,000	-	-	175,674	325,695
Due from other entities	48,398	141,555	-	-	-	-	189,953
Advance to other funds	215,744	118,517	-	141,555	-	-	475,816
Prepaid expenses	81,725	-	-	-	-	-	81,725
<b>Total Assets</b>	<b>\$ 688,580</b>	<b>\$ 574,036</b>	<b>\$ 70,000</b>	<b>\$ 141,555</b>	<b>\$ 98,611</b>	<b>\$ 513,216</b>	<b>\$ 2,085,998</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 22,875	\$ -	\$ -	\$ 175,407	\$ 19,411	\$ 201,113	\$ 418,806
Wages payable	39,451	-	-	131	-	-	39,582
Compensated absences	84,079	-	-	-	-	-	84,079
Due to other funds	-	141,555	70,000	-	-	-	211,555
<b>Total Liabilities</b>	<b>146,405</b>	<b>141,555</b>	<b>70,000</b>	<b>175,538</b>	<b>19,411</b>	<b>201,113</b>	<b>754,022</b>
<b>Fund Balances</b>							
Designated for infrastructure projects	-	432,481	-	-	-	-	432,481
Designated for transportation expenditures	-	-	-	-	-	283,286	283,286
Designated for community redevelopment	-	-	-	-	79,200	-	79,200
Designated for Brookside Cemetery	23,510	-	-	-	-	-	23,510
Reserved for advance to other funds	108,000	-	-	-	-	-	108,000
Unreserved, undesignated	410,665	-	-	(33,983)	-	28,817	405,499
<b>Total Fund Balances</b>	<b>542,175</b>	<b>432,481</b>	<b>-</b>	<b>(33,983)</b>	<b>79,200</b>	<b>312,103</b>	<b>1,331,976</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 688,580</b>	<b>\$ 574,036</b>	<b>\$ 70,000</b>	<b>\$ 141,555</b>	<b>\$ 98,611</b>	<b>\$ 513,216</b>	<b>\$ 2,085,998</b>

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, 2009

<b>Fund Balances-Total Governmental Funds</b>		<b>\$ 1,331,976</b>
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	\$ 18,559,432	
Less accumulated depreciation	<u>(4,340,325)</u>	
Net governmental capital assets		14,219,107
Long-term liabilities, including revenue bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.		(1,398,372)
<b>Net Assets of Governmental Activities</b>		<b>\$ 14,152,711</b>

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, 2009

	General Fund	Infrastructure Fund	CDBG Grant Fund	Save Our Old School Fund	Community Redevelopment Agency Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property taxes	\$ 622,999	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 622,999
Discretionary sales surtax	-	489,359	-	-	-	-	489,359
Local option gas tax	-	-	-	-	-	143,959	143,959
Franchise fees	232,786	-	-	-	-	-	232,786
Utility taxes	239,709	-	-	-	-	-	239,709
Communications service tax	106,564	-	-	-	-	-	106,564
Intergovernmental	389,312	-	700,000	-	-	-	1,089,312
Charges for services	25,413	-	-	-	-	-	25,413
Fines and forfeitures	12,774	-	-	-	-	-	12,774
Miscellaneous	53,724	470	2,535	-	33,168	10,000	99,897
<b>Total Revenues</b>	<b>1,683,281</b>	<b>489,829</b>	<b>702,535</b>	<b>-</b>	<b>33,168</b>	<b>153,959</b>	<b>3,062,772</b>
<b>Expenditures</b>							
Current operating:							
General government	752,892	917	-	1,021	111,353	10,489	876,672
Public safety	717,108	-	-	-	-	-	717,108
Transportation	481,231	-	-	-	-	212,667	693,898
Culture and recreation	80,635	-	-	-	-	-	80,635
Capital outlay	3,850	151,311	903,130	1,594,616	-	1,482	2,654,389
<b>Total Expenditures</b>	<b>2,035,716</b>	<b>152,228</b>	<b>903,130</b>	<b>1,595,637</b>	<b>111,353</b>	<b>224,638</b>	<b>5,022,702</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(352,435)</b>	<b>337,601</b>	<b>(200,595)</b>	<b>(1,595,637)</b>	<b>(78,185)</b>	<b>(70,679)</b>	<b>(1,959,930)</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	324,420	-	203,103	1,563,610	47,714	6,030	2,144,877
Transfers out	(58,514)	(1,772,743)	-	-	(10,740)	(47,100)	(1,889,097)
Debt Proceeds	-	1,398,372	-	-	-	-	1,398,372
<b>Net Other Financing Sources (Uses)</b>	<b>265,906</b>	<b>(374,371)</b>	<b>203,103</b>	<b>1,563,610</b>	<b>36,974</b>	<b>(41,070)</b>	<b>1,654,152</b>
<b>Net Changes in Fund Balances</b>	<b>(86,529)</b>	<b>(36,770)</b>	<b>2,508</b>	<b>(32,027)</b>	<b>(41,211)</b>	<b>(111,749)</b>	<b>(305,778)</b>
<b>Fund Balance (Deficit), beginning of year</b>	<b>628,704</b>	<b>469,251</b>	<b>(2,508)</b>	<b>(1,956)</b>	<b>120,411</b>	<b>423,850</b>	<b>1,637,752</b>
<b>Fund Balance (Deficit), end of year</b>	<b>\$ 542,175</b>	<b>\$ 432,481</b>	<b>\$ -</b>	<b>\$ (33,983)</b>	<b>\$ 79,200</b>	<b>\$ 312,101</b>	<b>\$ 1,331,974</b>

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, 2009

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ (305,778)</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	\$ 2,654,389	
Less current year depreciation	<u>(670,224)</u>	
		1,984,165
The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, has any effect on the statement of activities.		(1,398,372)
<b>Change in Net Assets of Governmental Activities</b>		<b>\$ 280,015</b>

See accompanying notes to the financial statements

City of Fellsmere, Florida  
Statement of Net Assets - Business-type Activities - Enterprise Funds

September 30, 2009

	Public Water System	Community Development	Wastewater System	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 108,320	\$ 100	\$ -	\$ 108,420
Accounts receivable	28,893	-	5,707	34,600
Other receivables	69,397	354,791	559	424,747
Inventory	14,859	-	-	14,859
<b>Total Current Assets</b>	<b>221,469</b>	<b>354,891</b>	<b>6,266</b>	<b>582,626</b>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents	1,140,356	-	86,032	1,226,388
Capital assets, net of accumulated depreciation	3,879,908	13,145	1,123,462	5,016,515
<b>Total Noncurrent Assets</b>	<b>5,020,264</b>	<b>13,145</b>	<b>1,209,494</b>	<b>6,242,903</b>
<b>Total Assets</b>	<b>5,241,733</b>	<b>368,036</b>	<b>1,215,760</b>	<b>6,825,529</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	8,429	28,165	14,831	51,425
Customer and other deposits	70,294	67,863	19,738	157,895
Other liabilities	-	-	30,756	30,756
Due to other funds	-	107,744	156,517	264,261
Accrued interest on revenue bond and note	3,111	-	-	3,111
Long-term liabilities due within one year:				
Note payable	26,786	-	-	26,786
Revenue bond payable	35,000	-	-	35,000
<b>Total Current Liabilities</b>	<b>143,620</b>	<b>203,772</b>	<b>221,842</b>	<b>569,234</b>
<b>Noncurrent Liabilities</b>				
Note payable	133,928	-	-	133,928
Revenue bond payable	1,413,000	-	-	1,413,000
<b>Total Noncurrent Liabilities</b>	<b>1,546,928</b>	<b>-</b>	<b>-</b>	<b>1,546,928</b>
<b>Total Liabilities</b>	<b>1,690,548</b>	<b>203,772</b>	<b>221,842</b>	<b>2,116,162</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	2,271,194	13,145	1,123,462	3,407,801
Restricted:				
Revenue bond debt service	363,161	-	-	363,161
Renewal and replacement	706,901	-	66,294	773,195
Other restrictions	70,294	-	19,738	90,032
<b>Total restricted</b>	<b>1,140,356</b>	<b>-</b>	<b>86,032</b>	<b>1,226,388</b>
Unrestricted	139,635	151,119	(215,576)	75,178
<b>Total Net Assets</b>	<b>\$ 3,551,185</b>	<b>\$ 164,264</b>	<b>\$ 993,918</b>	<b>\$ 4,709,367</b>

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, 2009

	Public Water System	Community Development	Wastewater System	Total
<b>Operating Revenues</b>				
Charges for services	\$ 793,357	\$ -	\$ 190,925	\$ 984,282
Building permits, licenses and fees	-	133,707	-	133,707
Miscellaneous	34,640	134,580	559	169,779
<b>Total Operating Revenues</b>	<b>827,997</b>	<b>268,287</b>	<b>191,484</b>	<b>1,287,768</b>
<b>Operating Expenses</b>				
Personnel services	54,250	94,887	-	149,137
Materials, supplies, services and other	246,971	567,286	171,016	985,273
Depreciation	99,670	3,882	25,722	129,274
<b>Total Operating Expenses</b>	<b>400,891</b>	<b>666,055</b>	<b>196,738</b>	<b>1,263,684</b>
<b>Operating Income (Loss)</b>	<b>427,106</b>	<b>(397,768)</b>	<b>(5,254)</b>	<b>24,084</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	1,306	231	66	1,603
Interest expense	(74,594)	-	-	(74,594)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(73,288)</b>	<b>231</b>	<b>66</b>	<b>(72,991)</b>
<b>Income (Loss) Before Transfers</b>	<b>353,818</b>	<b>(397,537)</b>	<b>(5,188)</b>	<b>(48,907)</b>
Transfers In	-	10,800	-	10,800
Transfers Out	(127,500)	(73,980)	(65,100)	(266,580)
<b>Total transfers, net</b>	<b>(127,500)</b>	<b>(63,180)</b>	<b>(65,100)</b>	<b>(255,780)</b>
<b>Change in Net Assets</b>	<b>226,318</b>	<b>(460,717)</b>	<b>(70,288)</b>	<b>(304,687)</b>
<b>Net Assets , beginning of year</b>	<b>3,297,109</b>	<b>624,981</b>	<b>1,064,206</b>	<b>4,986,296</b>
Contributed Capital	27,758	-	-	27,758
<b>Net Assets, end of year</b>	<b>\$ 3,551,185</b>	<b>\$ 164,264</b>	<b>\$ 993,918</b>	<b>\$ 4,709,367</b>

See accompanying notes to the financial statements.



City of Fellsmere, Florida

Statement of Cash Flows - Business-type Activities - Enterprise Funds

Year ended September 30, 2009

	Public Water System	Community Development	Wastewater System	Total
<b>Cash Flows from Operating Activities</b>				
Cash received from customers	\$ 791,779	\$ 137,597	\$ 188,162	\$ 1,117,538
Cash received from others	34,640	159,218	-	193,858
Cash payments to suppliers	(250,229)	(575,017)	(167,515)	(992,761)
Cash payments to employees	(54,250)	(94,887)	-	(149,137)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>521,940</b>	<b>(173,289)</b>	<b>20,647</b>	<b>169,298</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Net transfers out to General Fund	(127,500)	(65,180)	(65,100)	(257,780)
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Interest paid on debt	(75,138)	-	-	(75,138)
Construction and purchase of capital assets	(1,9336)	-	(13,300)	(2,0666)
Principal paid on debt	(59,786)	-	-	(59,786)
Advance from general fund	-	107,744	48,517	156,261
<b>Net Cash Provided by (Used) for Capital and Related Financing Activities</b>	<b>(254,260)</b>	<b>107,744</b>	<b>35,217</b>	<b>(111,299)</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	1,506	231	66	1,803
Contributed capital	27,758	-	-	27,758
<b>Net Cash Provided by Investing Activities</b>	<b>29,064</b>	<b>231</b>	<b>66</b>	<b>29,361</b>
Net increase (decrease) in cash and cash equivalents	169,244	(128,494)	(9,170)	(68,420)
<b>Cash and Cash Equivalents, beginning of year</b>	<b>1,079,812</b>	<b>128,594</b>	<b>93,102</b>	<b>1,301,508</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 1,248,676</b>	<b>\$ 100</b>	<b>\$ 86,032</b>	<b>\$ 1,334,808</b>
<b>Classified as:</b>				
Cash and cash equivalents	\$ 108,320	\$ 100	\$ -	\$ 108,420
Restricted cash and cash equivalents	1,140,356	-	86,032	1,226,388
<b>Total</b>	<b>\$ 1,248,676</b>	<b>\$ 100</b>	<b>\$ 86,032</b>	<b>\$ 1,334,808</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Operating income (loss)	\$ 427,106	\$ (197,768)	\$ (3,254)	\$ -24,684
Adjustments to reconcile the operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	69,670	3,882	25,722	129,274
Changes in assets and liabilities				
Accounts receivable	(5,860)	24,638	(1,591)	17,187
Inventories	19	-	-	19
Prepaid expenses	423	(1,175)	-	(752)
Accounts payable and accrued expenses	(3,740)	(8,906)	3,501	(9,145)
Customer and other deposits	8,282	3,640	(1,731)	10,191
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ 521,940</b>	<b>\$ (173,289)</b>	<b>\$ 20,647</b>	<b>\$ 169,298</b>

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, 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 Trust Fund (CRA), which was created in November 2005, is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. Additionally, the CRA is governed by the five members of the City Council. For financial reporting purposes the CRA is reported as a blended component unit as if it were part of the City's operations. Separately audited financial statements for the Community Redevelopment Agency are not available.

**Basis of Presentation**

*Government-Wide Financial Statements:*

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

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



**Note 1 - Summary of Significant Accounting Policies** (continued)

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

*Fund Financial Statements:*

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

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

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

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

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

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

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.

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

**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 1<sup>st</sup>. The operating budget includes the proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to October 1<sup>st</sup>, 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.

**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, 2009. 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, 2009.

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 2008 and are uncollected as of September 30, 2009, are immaterial and therefore not recorded as a receivable

**Other Receivable**

Other receivables recorded in various funds, represents reimbursements due to the City for legal, engineering and, planning expenses incurred by the City, on behalf of local developers.

**Inventories**

Inventory within the Enterprise Fund at September 30, 2009, 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

**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 more than five years. Such assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. 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, 2009, the millage rate the City assessed was approximately 4.43 mills.



**Note 1 - Summary of Significant Accounting Policies** (continued)

The tax levy of the City is established by the City Council prior to October 1<sup>st</sup> 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 1<sup>st</sup> 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, 2008, upon which the 2008 - 2009 levy was based, was approximately \$146,000 million.

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

On or prior to June 1<sup>st</sup> 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.



**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, 2009, restricted cash of \$270,846 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 \$98,611 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 \$107,612 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, 2009, in the Enterprise Fund, consists of unspent water and wastewater system impact fees and interest earned on these funds of \$773,194. 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 \$363,161 and customer deposits of the water and wastewater systems totaling \$90,033.

**Note 3 - Due from Other Entities**

At September 30, 2009, amounts due from other entities in the General Fund consisted of utility taxes due from local utility companies totaling \$15,543 and other receivables totaling \$32,855. Amounts due from other entities in the Infrastructure Special Revenue Fund represents amount due from a local bank on the capital improvement bond, totaling \$141,555.

**Note 4 - Due from Other Governmental Units**

Amounts due from other governmental units includes the following at September 30, 2009

	General Fund	Special Revenue Funds	Total
State of Florida - Dept. of Revenue (various tax revenue)	\$ 28,457	\$ 67,939	\$ 96,396
State of Florida Department of Community Affairs	-	70,000	70,000
Federal Emergency Management Agency	-	150,853	150,853
Other local sources	8,446	-	8,446
	\$ 36,903	\$ 288,792	\$ 325,695



City of Fellsmere, Florida  
Notes to Financial Statements (continued)

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

Governmental activities	Balance September 30, 2008	Additions	Deletions	Balance September 30, 2009
Capital assets not being depreciated:				
Land	\$ 5,799,617	\$ 3,850	\$ -	\$ 5,803,467
Construction in progress	255,062	1,520,232	-	1,775,294
Total capital assets not being depreciated	6,054,679	1,524,082	-	7,578,761
Other capital assets.				
Buildings and improvements	1,105,667	-	-	1,105,667
Improvements other than buildings	2,553,821	4,138	-	2,557,959
Equipment, fixtures & furnishings	1,182,493	140,586	-	1,323,079
Infrastructure improvements	5,008,383	985,583	-	5,993,966
Total other capital assets, at historical cost	9,850,364	1,130,307	-	10,980,671
Less accumulated depreciation for:				
Buildings and improvements	(597,334)	(52,663)	-	(649,997)
Improvements other than buildings	(1,072,209)	(247,983)	-	(1,320,192)
Equipment, fixtures & furnishings	(827,124)	(110,946)	-	(938,070)
Infrastructure improvements	(1,173,434)	(258,632)	-	(1,432,066)
Total accumulated depreciation	(3,670,101)	(670,224) *	-	(4,340,325)
Other capital assets, net	6,180,263	460,083	-	6,640,346
Governmental activities capital assets, net	\$ 12,234,942	\$ 1,984,165	\$ -	\$ 14,219,107



Note 5 - Capital Assets (continued)

Business-type activities	Balance September 30, 2008	Additions	Deletions	Balance September 30, 2009
Capital assets not being depreciated:				
Land	\$ 10,357	\$ -	\$ -	\$ 10,357
Construction in progress	312,014	57,631	-	369,645
Total capital assets not being depreciated	322,371	57,631	-	380,002
Other capital assets:				
Water plant	930,571	-	-	930,571
Water lines	3,183,591	75,004	-	3,258,595
Water tank	411,683	-	-	411,683
Wastewater lines	1,286,101	-	-	1,286,101
Vehicle and equipment	71,195	-	-	71,195
Equipment	24,682	-	-	24,682
Total other capital assets, at historical cost	5,907,823	75,004	-	5,982,827
Less accumulated depreciation for:				
Water plant	(190,865)	(18,611)	-	(209,476)
Water lines	(705,764)	(64,474)	-	(770,238)
Water tank	(112,527)	(8,234)	-	(120,761)
Wastewater lines	(150,217)	(25,722)	-	(175,939)
Vehicle and equipment	(50,012)	(8,351)	-	(58,363)
Equipment	(7,655)	(3,882)	-	(11,537)
Total accumulated depreciation	(1,217,040)	(129,274) *	-	(1,346,314)
Other capital assets, net	4,690,783	(54,270)	-	4,636,513
Business-type activities capital assets, net	\$ 5,013,154	\$ 3,361	\$ -	\$ 5,016,515

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

Governmental Activities	
General government	\$ 20,986
Public safety	53,970
Transportation	344,042
Culture and recreation	251,226
	\$ 670,224
Business-type Activities	
Public water system	\$ 99,670
Wastewater system	25,722
Community development	3,882
	\$ 129,274

**Note 6 – Deferred Compensation Plan**

Beginning 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 13% of employee salaries and wages for 2009. Total City contributions to the plan amounted to \$77,745 for the fiscal year ended September 30, 2009. 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 – Governmental Money Purchase Plan and Trust**

Beginning October 1, 2008, the City established a governmental money purchase plan created in accordance with Internal Revenue Code Sec. 401(a). The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is limited to charter officers and department heads (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for 2009. Total City contributions to the plan amounted to \$50,749 for the fiscal year ended September 30, 2009. The money purchase plan is not available to employees until termination, retirement, death, or financial hardship.

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

**Note 8 - Note Payable**

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

	Principal Outstanding 2008	Additions	Reductions	Principal Outstanding 2009
Public Water System - note payable	\$ 187,500	\$ -	\$ 26,786	\$ 160,714

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.



City of Fellsmere, Florida  
Notes to Financial Statements (continued)

Note 8 - Note Payable (continued)

Amounts needed for the planned extended repayment of the note at September 30, 2009, are as follows:

Fiscal year ending September 30,	Total Payment	Interest Portion of Payment	Principal Portion of Payment
2010	\$ 33,321	\$ 6,535	\$ 26,786
2011	32,014	5,228	26,786
2012	30,709	3,924	26,785
2013	29,398	2,613	26,785
2014 - 2015	57,491	3,919	53,572
	\$ 182,933	\$ 22,219	\$ 160,714

Note 9 - 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 2008	Additions	Reductions	Principal Outstanding 2009
Revenue bond payable	\$ 1,481,000	\$ -	\$ 33,000	\$ 1,448,000

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, 2009, are as follows:

Fiscal year ending September 30,	Total Payment	Interest Portion of Payment	Principal Portion of Payment
2010	\$ 100,160	\$ 65,160	\$ 35,000
2011	99,585	63,585	36,000
2012	99,965	61,965	38,000
2013	100,255	60,255	40,000
2014 - 2033	1,997,445	698,445	1,299,000
	\$ 2,397,410	\$ 949,410	\$ 1,448,000

**Note 10 – Capital Improvement Revenue Bond**

In December 2008, the City authorized a \$3,000,000, 30 year capital improvement revenue bond Series 2008 in order to fund the renovation of the Historic Fellsmere School Building. The Bond was purchased by a local financial institution, at a stated interest rate of 4.5%. Interest is payable monthly, with principal payments to commence on July 1, 2010. The bonds provide for a pledge of receipts from the one-cent infrastructure sales surtax, and upon the expiration of the sales surtax, the bond will be further secured by proceeds of the City's half-cent sales tax. At September 30, 2009, the City had requested a total draw on the bond funds by \$1,398,372.

Under the assumption the entire bond will be issued, the annual requirements to amortize the debt outstanding as of September 30, 2009, are as follows:

Fiscal year ending September 30,	Total Payment	Interest Portion of Payment	Principal Portion of Payment
2010	\$ 59,967	\$ 33,651	\$ 26,316
2011	236,909	131,645	105,264
2012	232,172	126,908	105,264
2013	227,435	122,171	105,264
2014 - 2033	4,172,877	1,497,877	2,675,000
	<b>\$ 4,929,360</b>	<b>\$ 1,912,252</b>	<b>\$ 3,017,108</b>

**Note 11 - 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, 2009.

**Note 12 - 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.

**Note 13– 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:

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

At December 31, 2008, 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 14 - 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 15 - Construction Commitments**

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. At September 30, 2009, approximately \$1,502,650 of costs had been incurred and accepted by the City, of this amount approximately \$1,353,400 has been capitalized, and the remaining \$150,250, is considered by the City to be contingent, and is not currently reflected in the financial statements.

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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 664,860	\$ 664,860	\$ 622,999	\$ (41,861)
Franchise fees	203,570	203,570	232,786	29,216
Utility taxes	210,690	210,690	239,709	29,019
Communication service tax	100,790	100,790	106,564	5,774
Intergovernmental	491,210	491,210	389,312	(101,898)
Charges for services	41,300	41,300	25,413	(15,887)
Fines and forfeitures	27,800	27,800	12,774	(15,026)
Miscellaneous	102,320	102,320	53,724	(48,596)
<b>Total Revenues</b>	<b>1,842,540</b>	<b>1,842,540</b>	<b>1,683,281</b>	<b>(159,259)</b>
<b>Expenditures</b>				
Current operating:				
General government	1,094,830	1,094,830	752,892	341,938
Public safety	795,660	795,660	717,108	78,552
Transportation	493,030	493,030	481,231	11,799
Culture and recreation	88,180	88,180	80,635	7,545
Capital outlay	-	-	3,850	(3,850)
<b>Total Expenditures</b>	<b>2,471,700</b>	<b>2,471,700</b>	<b>2,035,716</b>	<b>435,984</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(629,160)</b>	<b>(629,160)</b>	<b>(352,435)</b>	<b>276,725</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	677,320	677,320	324,420	(352,900)
Transfers out	(48,160)	(48,160)	(58,514)	(10,354)
<b>Net Other Financing Sources (Uses)</b>	<b>629,160</b>	<b>629,160</b>	<b>265,906</b>	<b>(363,254)</b>
<b>Net Changes in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(86,529)</b>	<b>\$ (86,529)</b>
<b>Fund Balance, beginning of year</b>			<b>628,704</b>	
<b>Fund Balance, end of year</b>			<b>\$ 542,175</b>	

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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Discretionary sales surtax	\$ 538,390	\$ 538,390	\$ 489,359	\$ (49,031)
Miscellaneous	15,000	15,000	470	(14,530)
<b>Total Revenues</b>	<b>553,390</b>	<b>553,390</b>	<b>489,829</b>	<b>(63,561)</b>
<b>Expenditures</b>				
Current operating:				
General government	272,300	272,300	917	271,383
Capital outlay	181,700	181,700	151,311	30,389
<b>Total Expenditures</b>	<b>454,000</b>	<b>454,000</b>	<b>152,228</b>	<b>301,772</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>99,390</b>	<b>99,390</b>	<b>337,601</b>	<b>238,211</b>
<b>Other Financing Sources (Uses)</b>				
Appropriation of beginning fund balance	535,000	535,000	-	(535,000)
Debt proceeds	3,500,000	3,500,000	1,398,372	(2,101,628)
Transfers out	(4,134,390)	(4,134,390)	(1,772,743)	2,361,647
<b>Net Other Financing Sources (Uses)</b>	<b>(99,390)</b>	<b>(99,390)</b>	<b>(374,371)</b>	<b>(274,981)</b>
<b>Net Changes in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(36,770)</b>	<b>\$ (36,770)</b>
<b>Fund Balance, beginning of year</b>			<b>469,251</b>	
<b>Fund Balance, end of year</b>			<b>\$ 432,481</b>	



City of Fellsmere, Florida  
 Schedule of Revenues, Expenditures and Changes in  
 Fund Balances - Governmental Funds  
 Budget and Actual - CDBG Phase IV Grant

Year ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 700,000	\$ 700,000	\$ 700,000	\$ -
Miscellaneous	-	-	2,535	2,535
<b>Total Revenues</b>	<b>700,000</b>	<b>700,000</b>	<b>702,535</b>	<b>2,535</b>
<b>Expenditures</b>				
Transportation	1,040,000	1,040,000	-	1,040,000
Capital outlay	-	-	903,130	(903,130)
<b>Total Expenditures</b>	<b>1,040,000</b>	<b>1,040,000</b>	<b>903,130</b>	<b>136,870</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(340,000)</b>	<b>(340,000)</b>	<b>(200,595)</b>	<b>139,405</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	350,000	350,000	203,103	(146,897)
Transfers out	(10,000)	(10,000)	-	10,000
<b>Net Other Financing Sources (Uses)</b>	<b>340,000</b>	<b>340,000</b>	<b>203,103</b>	<b>(136,897)</b>
<b>Net Changes in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>2,508</b>	<b>\$ 2,508</b>
<b>Fund Balance, beginning of year</b>			<b>(2,508)</b>	
<b>Fund Balance, end of year</b>			<b>\$ -</b>	

City of Fellsmere, Florida  
 Schedule of Revenues, Expenditures and Changes in  
 Fund Balances - Governmental Funds  
 Budget and Actual - Save Our Old School Fund

Year ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	-	-	-	-
<b>Expenditures</b>				
General government	-	-	1,021	(1,021)
Capital outlay	3,500,000	3,500,000	1,594,616	1,905,384
<b>Total Expenditures</b>	3,500,000	3,500,000	1,595,637	1,904,363
<b>Excess (Deficit) of Revenues over Expenditures</b>	(3,500,000)	(3,500,000)	(1,595,637)	(1,904,363)
<b>Other Financing Sources (Uses)</b>				
Transfers in	3,500,000	3,500,000	1,563,610	(1,936,390)
Transfers out	-	-	-	-
<b>Net Other Financing Sources (Uses)</b>	3,500,000	3,500,000	1,563,610	(1,936,390)
<b>Net Changes in Fund Balance</b>	\$ -	\$ -	(32,027)	\$ (32,027)
<b>Fund Balance, beginning of year</b>			(1,956)	
<b>Fund Balance, end of year</b>			\$ (33,983)	

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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Miscellaneous	\$ 84,020	\$ 84,020	\$ 33,168	\$ (50,852)
<b>Total Revenues</b>	<b>84,020</b>	<b>84,020</b>	<b>33,168</b>	<b>(50,852)</b>
<b>Expenditures</b>				
Current operating:				
General government	178,000	178,000	111,353	66,647
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>178,000</b>	<b>178,000</b>	<b>111,353</b>	<b>66,647</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(93,980)</b>	<b>(93,980)</b>	<b>(78,185)</b>	<b>15,795</b>
<b>Other Financing Sources (Uses)</b>				
Appropriation of beginning fund balance	104,720	104,720	-	(104,720)
Transfers in	-	-	47,714	47,714
Transfers out	(10,740)	(10,740)	(10,740)	-
<b>Net Other Financing Sources (Uses)</b>	<b>93,980</b>	<b>93,980</b>	<b>36,974</b>	<b>(57,006)</b>
<b>Net Changes in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(41,211)</b>	<b>\$ (41,211)</b>
Fund Balance, beginning of year			120,411	
Fund Balance, end of year			\$ 79,200	



**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, 2009

	Local Option Gas Tax	Other Special Projects	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Local option gas tax	\$ 143,959	\$ -	\$ 143,959
Miscellaneous	-	10,000	10,000
<b>Total Revenues</b>	<b>143,959</b>	<b>10,000</b>	<b>153,959</b>
<b>Expenditures</b>			
Current operating:			
General government	-	10,489	10,489
Transportation	212,667	-	212,667
Capital outlay	-	1,482	1,482
<b>Total Expenditures</b>	<b>212,667</b>	<b>11,971</b>	<b>224,638</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(68,708)</b>	<b>(1,971)</b>	<b>(70,679)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	6,030	6,030
Transfers out	(47,100)	-	(47,100)
<b>Net Other Financing Sources (Uses)</b>	<b>(47,100)</b>	<b>6,030</b>	<b>(41,070)</b>
<b>Net Changes in Fund Balances</b>	<b>(115,808)</b>	<b>4,059</b>	<b>(111,749)</b>
<b>Fund Balance, beginning of year</b>	<b>399,093</b>	<b>24,757</b>	<b>423,850</b>
<b>Fund Balance, end of year</b>	<b>\$ 283,285</b>	<b>\$ 28,816</b>	<b>\$ 312,101</b>

City of Fellsmere, Florida  
 Schedule of Expenditures of Federal Award Programs  
 Year ended September 30, 2009

Federal Agency/Pass-through Grantor/Project Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
State of Florida Department of Community Affairs - Florida Small Cities Community Development Block Grant Program			
Community Development Block Grant States Program *	14.228	08DB-T3-10-40-02-N 06	\$ 700,000

\* Denotes a major project



**City of Fellsmere, Florida**

Notes to Schedule of Expenditures of Federal Award Programs

September 30, 2009

**Note A – Basis of Presentation**

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

**Note B – Grant**

The City of Fellsmere, Florida received a federal grant passed through from the State of Florida. The grant provided \$700,000 toward road and drainage improvements within the City.





**KMETZ NUTTALL ELWELL GRAHAM, PLLC**  
*Certified Public Accountants*

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida (the City) as of and for the year ended September 30, 2009, which collectively comprise the City of Fellsmere, Florida's basic financial statements and have issued our report thereon dated June 10, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses. Reference item number 2009-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. Reference item number 2009-1.

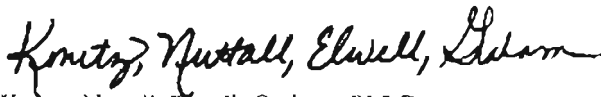


Compliance and Other Matters

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

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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants

June 10, 2010



**KMETZ NUTTALL ELWELL GRAHAM, PLLC**  
*Certified Public Accountants*

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

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

Compliance

We have audited the compliance of the City of Fellsmere, Florida (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City of Fellsmere, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fellsmere, Florida's management. Our responsibility is to express an opinion on the City of Fellsmere, Florida's compliance based on our audit.

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

In our opinion, the City of Fellsmere, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control over Compliance

The management of the City of Fellsmere, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fellsmere, Florida's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but 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 Federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants

June 10, 2010

City of Fellsmere, Florida  
 Schedule of Findings and Questioned Costs  
 Federal Programs  
 Year Ended September 30, 2009

**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 2009-1 is not considered a material weaknesses, however item number 2009-2 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 federal program are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major federal program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance with requirements applicable to the major Federal programs for the City of Fellsmere, Florida, expresses an unqualified opinion.
6. Our audit disclosed no findings or questioned costs relative to major federal award programs, as are required to be reported under OMB Circular A-133.
7. The programs tested as major federal programs include:
 

<u>Federal Program</u>	<u>Federal CFDA No.</u>
Florida Small Cities Community Development Block Grant (Paving)	14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.

**B. Findings - Financial Statements**

<u>Finding Number</u>	<u>Finding</u>	<u>Condition</u>
2009-1	Fiscal management is lacking certain accounting controls.	Based upon the results of observations made during our audit, we feel that the City lacks certain control and direction regarding the accounting system and overall fiscal management. In general, an accounting and information system should be designed to provide management with accurate and timely financial information to enable well-informed business decisions to be made.



### Context

- Community Development retained earnings balance was not in agreement with prior audit balance by \$1,245.
- Total of all due to / due from other funds were out of balance by approximately \$142,000.
- Accounts payable subsidiary ledger is not maintained. As a result a journal entry in the amount of \$10,631 was posted incompletely, resulting in an understatement in the Wastewater Service Funds accounts payable balance
- Fixed asset depreciation calculation was not appropriately reviewed. The depreciation software calculated a 13 month period, resulting in a miscalculation of approximately \$61,000.
- Miscellaneous accounts receivable subsidiary detail was not reconciled and did not agree to the general ledger control accounts which totaled approximately \$582,000.
- The monthly financial statements were not always presented to Council in a timely manner.

### Effect

Significant adjustments were required to the City's financial statements.

### Cause

Oversight and lack of proper accounting policies and procedures and lack of a month end or year end closing checklist. The Finance Director currently considers his closing journal entries each month to be a close out checklist, which we feel is inappropriate.

### Recommendation

We recommend that the Finance Director prepare and utilize a procedural checklist in preparation of month end adjusting journal entries and other closing procedures, in order to help prevent such oversights and to perhaps facilitate timely financial reporting.

### Views of Responsible Officials and Planned Corrective Actions

The community development retained earnings was not in agreement with prior audit balances because the difference goes back to fiscal 2008 resulting from the compensated absences adjustment. The opening retained earnings balance at 10/01/08 was exactly the same as of close at 09/30/08, and the AFR personal service amount was reduced to match the audited financials

The total of due to/due from out of balance was corrected in prior period number thirteen (13) as audit adjustment AA#1. This resulted from a week long discussion with the auditors regarding accrual of a bank loan draw down on construction in process.

An accounts payable subsidiary ledger "is" maintained and reconciled at least monthly and the \$10,631 was posted correctly as year end closing entry #63 booked at 09/30/09 by debiting expense account and crediting accounts payable.

The net asset depreciation software had a glitch resulting from an update put into the system resulting in the error which was identified and corrected in period number thirteen (13) as audit adjustments AA#2, AA#3, and AA#4.

Miscellaneous accounts receivable subsidiary detail was reconciled to the general ledger and was adjusted by some \$35,900 with closing entry #65 at 09/30/09 and by some \$134,300 in period number thirteen (13) as audit adjustment AA#5. An allowance for uncollectible accounts receivables was set up.

Monthly financial statements were not always presented to City Council in a timely manner because September is rarely closed prior to the end of November. October can not be closed until September is closed and likewise November can not be closed until October is closed. These are generally done in December.

2009-2

**Finding**

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**

Continued finding from prior year. Noted finding through inquiry and audit planning

**Effect**

There are conflicting duties that rest with a limited number of 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 2010 budget has a second account clerk included beginning in July or August 2010, however, redistribution of duties is very difficult to determine as the auditors have been repeatedly asked for a detail listing of "issues" and to date no specifics or recommendations have been made. They simply appear to be taking the high road to a repeated comment that City management feels is over reacting to and misinterpretation of stated regulations. In practice, three types of functions are commonly considered to be mutually incompatible; 1) Authorization of transactions, 2) Recordkeeping, and 3) custody of assets.

Ideally, then, no one individual should be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. The city manager authorizes, the accounting clerk records, and the finance director and applicable department head have custody of the assets attributable to their respective departments.

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



**City of Fellsmere, Florida  
Summary Schedule of Prior Audit Findings  
Major Federal Programs  
Year Ended September 30, 2009**

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





### 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, 2009, and have issued our report thereon dated April 30, 2010.

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 Federal Program and on Internal Control over Compliance, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 30, 2010, 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 three prior year comments: 2008-1, no corrective action has been taken; 2008-2, no corrective action has been taken and 2008-3, corrective action has been properly implemented.

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.

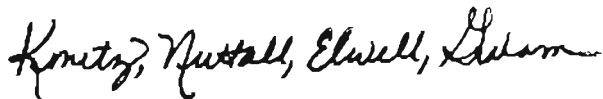
Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors. (1) violations of laws, rules, regulations, and contractual 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 Fellsmerc, 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, 2009, 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, 2009. 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing Standards generally accepted in the United States of America requires us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants

June 10, 2010