

CITY OF FELLOSMERE, FLORIDA
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010



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Independent Auditors' Report

The Honorable Mayor and Members of 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 as of and for the year ended September 30, 2010, 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 of Fellsmere, Florida's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2010, 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 May 18, 2011 on our consideration of the City of Fellsmere'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.



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The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
Page two

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fellsmere's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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.

The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, the Florida Single Audit Act, and Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements of the City of Fellsmere, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
May 18, 2011

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 of the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements beginning on page 15.

HIGHLIGHTS

Financial Highlights

- The assets of the City of Fellsmere exceeded its liabilities at the close of the fiscal year 2010 by \$20,406,079 (net assets). Of this amount, \$1,278,113 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,476,337, resulting from increases of \$188,820 from governmental activities and \$1,287,517 from business-type activities.
- Governmental funds reported combined ending fund balances of \$1,741,808. Approximately 32% of this amount, \$564,032, is unassigned and available for spending at the City's discretion (unrestricted), an increase of \$158,533 from the prior fiscal year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$564,972 or 83% of the total general fund balance.
- General fund revenue increased by \$5,665 or .03% and expenditures decreased by \$79,162 or 4%.
- The City's total debt increased by \$1,699,460 during the current fiscal year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15, 16, and 17) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds. The remaining statements provide financial information about the activities for which the City acts as a trustee or agent for the benefit of those outside of the government.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Our analysis of the City as a whole begins on page 15. The government-wide financial statements are designed to provide readers with a broad view of the City of Fellsmere's finances. The Statement of Net Assets and the Statement of Activities report information about the City as

GOVERNMENT-WIDE FINANCIAL STATEMENTS - (continued)

a whole and about its activities in a way that helps answer the question of whether the financial position of the City is improving or deteriorating. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities are those which are principally supported by taxes and intergovernmental revenues. Most of the City's basic services are reported here, including the general government, public safety, public works, culture and recreation, and general administration.
- Business-type activities are those that are intended to recover all or a significant portion of their costs through user fees and charges. The City's water, wastewater, and community development operations are reported here.

The government-wide financial statements can be found on pages 15 - 17 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

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps

Governmental Funds (continued)

you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations at the bottom of the fund financial statements.

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, special projects fund, save our old school fund and the community redevelopment agency fund, all of which are considered to be major funds. Data from several other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements beginning on page 55.

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, special projects 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 18-21 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 are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Fellsmere adopts an annual appropriated budget for each enterprise fund. The basic proprietary fund financial statements can be found on pages 22-25 of this report.

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 statements can be found on pages 26-48 of this report.

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

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 \$20,406,079 at the close of the most recent fiscal year. An increase occurred in both the net assets of governmental-type activities and the business-type activities. Our analysis focuses on net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

Table 1
Statement of Net Assets
as of September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,580,529	\$ 2,153,662	\$ 2,142,922	\$ 1,809,014	\$ 4,723,451	\$ 3,962,676
Capital assets	15,762,328	14,219,107	6,567,283	5,016,515	22,329,611	19,235,622
Total Assets	18,342,857	16,372,769	8,710,205	6,825,529	27,053,062	23,198,298
Long-term liabilities	3,000,000	1,398,372	1,706,546	1,546,928	4,706,546	2,945,300
Other liabilities	933,662	754,022	1,006,775	569,234	1,940,437	1,323,256
Total Liabilities	3,933,662	2,152,394	2,713,321	2,116,162	6,646,983	4,268,556
Net Assets:						
Invested in capital assets, net of related debt	12,762,328	12,820,735	4,887,523	3,407,801	17,649,851	16,228,536
Restricted	154,840	926,477	1,323,275	1,226,388	1,478,115	2,152,865
Unrestricted	1,492,027	473,163	(213,914)	75,178	1,278,113	548,341
Total Net Assets	\$ 14,409,195	\$ 14,220,375	\$ 5,996,884	\$ 4,709,367	\$ 20,406,079	\$ 18,929,742

For more information, see the Statement of Net Assets on page 15.

Statement of Net Assets (continued)

By far the largest portion of the City's net assets (86%) reflects its investment in capital assets (i.e., land, buildings, other improvements, infrastructure improvements, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (\$1,478,115) represents resources that are subject to external restrictions on how they may be used. The remaining balance on unrestricted net assets (\$1,278,113) 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, for the City as a whole, for the governmental funds, as well as for its business-type activities.

The City's net assets increased by \$1,476,337 during the current fiscal year.

Changes in Net Assets

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

Table 2
Changes in Net Assets
as of September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 21,353	\$ 38,187	\$ 1,084,749	\$ 1,117,989	\$ 1,106,102	\$ 1,156,176
Operating grants and contributions	52,233	34,633	15,000	-	67,233	34,633
Capital grants and contributions	176,850	700,000	966,513	-	1,143,363	700,000
General Revenues:						
Property taxes	585,477	622,999	-	-	585,477	622,999
Other taxes	1,571,096	1,480,723	-	-	1,571,096	1,480,723
Intergovernmental	100,957	85,929	-	-	100,957	85,929
Other	318,910	99,897	239,863	171,382	558,773	271,279
Total Revenues	2,826,876	3,062,368	2,306,125	1,289,371	5,133,001	4,351,739
Expenses:						
General government	855,828	897,658	-	-	855,828	897,658
Public safety	784,264	771,078	-	-	784,264	771,078
Transportation	902,926	1,037,940	-	-	902,926	1,037,940
Culture and recreation	300,053	331,861	-	-	300,053	331,861
Water department	-	-	568,767	475,485	568,767	475,485
Community development	-	-	466,538	666,055	466,538	666,055
Wastewater services	-	-	192,668	196,738	192,668	196,738
Total Expenses	2,843,071	3,038,537	1,227,973	1,338,278	4,071,044	4,376,815
Change in Net Assets before Transfers	(16,195)	23,831	1,078,152	(48,907)	1,061,957	(25,076)
Transfers, net	205,015	255,780	(266,580)	(255,780)	(61,565)	-
Change in Net Assets	188,820	279,611	811,572	(304,687)	1,000,392	(25,076)
Net Assets, beginning	14,220,375	13,940,764	4,709,367	4,986,296	18,929,742	18,927,060
Capital contributions	-	-	475,945	27,758	475,945	27,758
Net Assets, ending	\$ 14,409,195	\$ 14,220,375	\$ 5,996,884	\$ 4,709,367	\$ 20,406,079	\$ 18,929,742

Business-type activities: Business-type activities increased the City's net assets by \$1,287,517. Key elements of this increase are as follows:

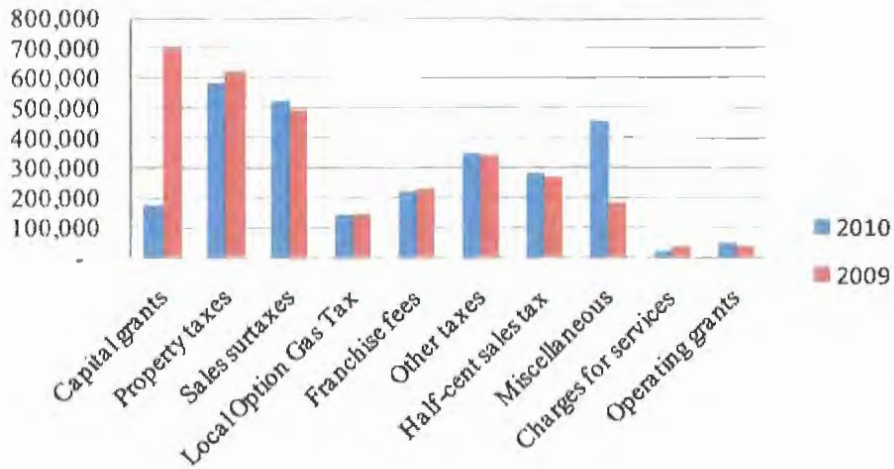
- The Water Department experienced an income before capital contributions and transfers out of \$1,183,069.
- Capital contributions of fixed assets totaled \$475,945.

Revenues by Source - Governmental Activities

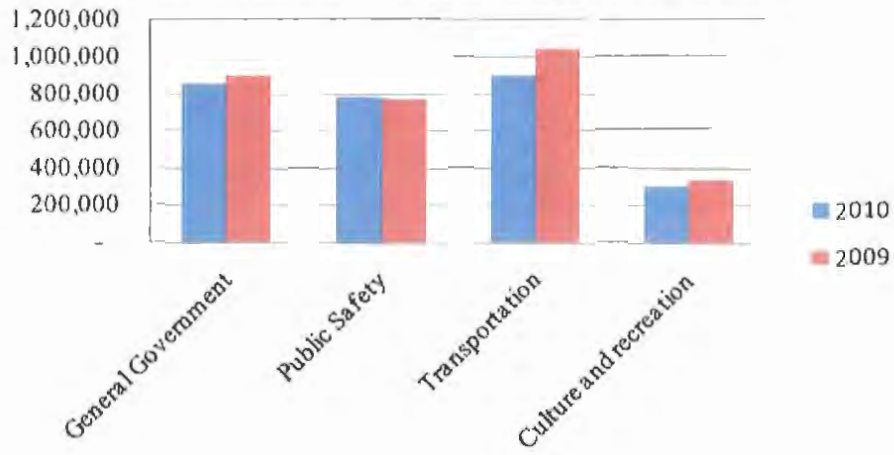
- Capital grants
- Sales surtaxes
- Franchise fees
- Half-cent sales tax
- Charges for services
- Property taxes
- Local Option Gas Tax
- Other taxes
- Miscellaneous
- Operating grants



Governmental Activities - Revenue Comparison

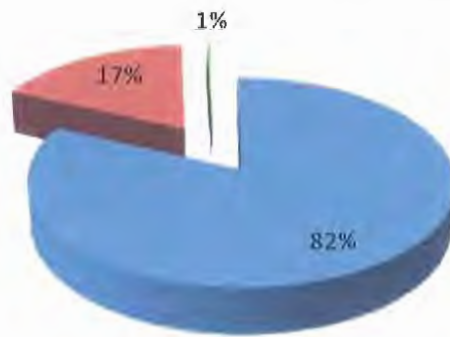


Governmental Activities - Expense Comparison

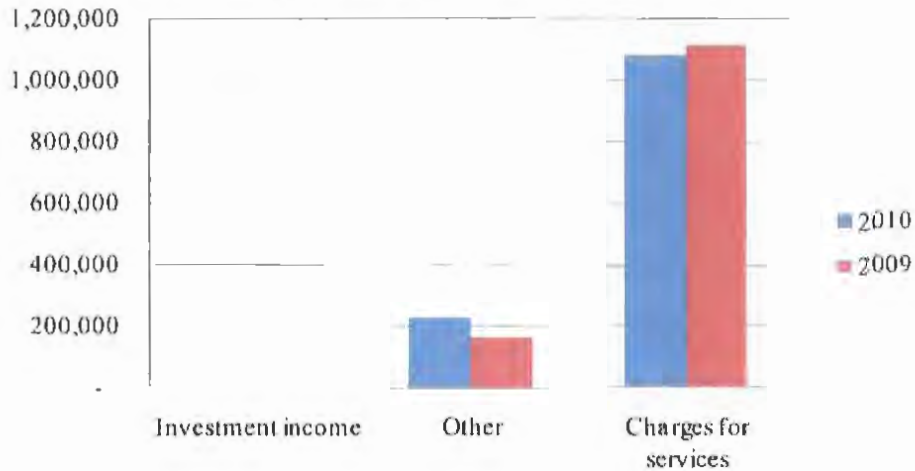


Revenues by Source - Business-type Activities

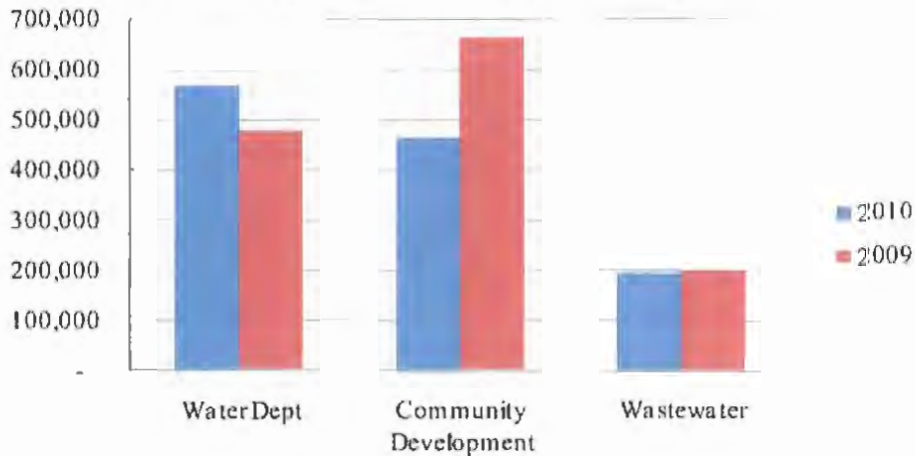
■ Charges for services ■ Other ■ Investment Income



Business-type Activities - Revenue Comparison



Business-type Activities - Expense Comparison



FINANCIAL ANALYSIS OF THE GOVERNMENT'S 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 regarding 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 recent fiscal year, the City's governmental funds reported combined ending fund balances of \$1,741,808, an increase of \$258,089 in comparison with the prior year. An amount of \$564,032 constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed or is legally restricted for a variety of uses.

The general fund is the main operating fund of the City. At the end of the most recent fiscal year, unreserved, undesignated fund balance of the general fund was \$564,972, while the total fund balance reached \$677,887. 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 29% of total general fund expenditures, while total fund balance represents 35% of that same amount. The fund balance of the City's general fund increased by \$21,316 during the current fiscal year.

Proprietary Funds

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

Unrestricted net assets of the City's water, community development, and wastewater enterprise funds amounted to a deficit of \$213,914. The total for unrestricted net assets for each of these funds was \$67,121, \$(32,325) and (\$248,710), 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 amended its annual budget one time. The budget amendment was approved shortly before year end, and included adjustments to the Community Development Department resulting from reorganization within that department.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the City had \$22,329,611 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net increase (including additions and deductions) of \$3,093,991 or 16% over last year. This represents an 11% increase for governmental activities and a 31% increase for business-type activities.

Table 3
Capital Assets, Net of Depreciation
as of September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 5,980,317	\$ 5,803,467	\$ 10,357	\$ 10,357	\$ 5,990,674	\$ 5,813,824
Buildings	403,293	455,670	-	721,095	403,293	1,176,765
Improvements other than buildings	1,082,627	1,237,767	-	3,889,441	1,082,627	5,127,208
Machinery and equipment	324,618	385,009	5,015,855	25,977	5,340,473	410,986
Infrastructure	4,262,201	4,561,900	-	-	4,262,201	4,561,900
Construction in progress	3,709,272	1,775,294	1,541,071	369,645	5,250,343	2,144,939
Total	\$15,762,328	\$14,219,107	\$ 6,567,283	\$ 5,016,515	\$22,329,611	\$19,235,622

Governmental activities had the following major increases during the fiscal year:

- Various vehicles and equipment were purchased for \$56,518.
- A number of projects were begun and continued during the fiscal year ended 2010. The increase to the Save Our Old School project was \$1,949,308.
- Improvements, road and drainage additions amounted to \$87,626.
- The City received a donation of land worth \$176,850.

Business-type activities had the following major increases during the fiscal year:

- New connections for the water system for the most recent fiscal year were \$160,898.
- New connections for the wastewater system for the most recent fiscal year were \$349,459.
- The City embarked on a major project to expand the water plant, with funding primarily from an American Recovery and Reinvestment Act ("ARRA") grant from the Department of Environmental Protection. Construction in progress for business-type activities at the end of the fiscal year, including this project, was \$1,171,426.

Long-Term Debt

At the end of the 2010 fiscal year, the City of Fellsmere had total outstanding debt of \$4,706,546, an increase from 2009 of \$1,699,459. Of this increase, \$1,601,628 or 94% is related to additional debt for renovations on the old school building.

Table 4
Debt
as of September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Note payable, Series 2003 (backed by water system revenues)	\$ -	\$ -	\$ 133,929	\$ 160,715	\$ 133,929	\$ 160,715
Water revenue bond, Series 1993	-	-	1,413,000	1,448,000	1,413,000	1,448,000
Capital improvement revenue bond, Series 2008	3,000,000	1,398,372	-	-	3,000,000	1,398,372
FDEP Construction note payable	-	-	159,617	-	159,617	-
	<u>\$ 3,000,000</u>	<u>\$ 1,398,372</u>	<u>\$ 1,706,546</u>	<u>\$ 1,608,715</u>	<u>\$ 4,706,546</u>	<u>\$ 3,007,087</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for 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 2010 was 15.4%, up from 14.9% in 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 increased to \$564,972. The City has appropriated \$375,000 of this amount for spending in the 2011 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise ad valorem taxes during the 2011 fiscal year.

The water and wastewater rates were raised by .56% and 4.0%, respectively for the 2011 fiscal year budget. These rates were 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, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 654,535	\$ 302	\$ 654,837
Receivables	454,376	804,780	1,259,156
Due from other governmental units	243,000	-	243,000
Advance to other funds	390,963	(390,963)	-
Prepaid items	108,611	156	108,767
Inventory	-	14,407	14,407
Temporarily restricted assets:			
Cash and cash equivalents	475,225	1,323,275	1,798,500
Capital assets not being depreciated:			
Land	5,980,317	10,357	5,990,674
Construction in progress	3,709,272	1,541,071	5,250,343
Capital assets (net of accumulated depreciation):			
Buildings	403,293	-	403,293
Improvements other than buildings	1,082,627	-	1,082,627
Machinery and equipment	324,618	5,015,857	5,340,475
Infrastructure	4,262,201	-	4,262,201
Total assets	<u>18,089,038</u>	<u>8,319,242</u>	<u>26,408,280</u>
LIABILITIES			
Accounts payable and other current liabilities	573,484	484,572	1,058,056
Accrued interest payable	-	2,560	2,560
Accrued wages and benefits payable	9,768	-	9,768
Compensated absences	94,941	-	94,941
Other liabilities	-	96	96
Unearned revenues	1,650	30,951	32,601
Customers and other deposits	-	97,633	97,633
Non-current liabilities:			
Due within one year			
Note payable	-	26,786	26,786
Revenue bond payable	-	36,000	36,000
Capital improvements revenue bond payable	53,692	-	53,692
Due in more than one year			
Note payable	-	107,143	107,143
Revenue bond payable	-	1,377,000	1,377,000
Construction loan payable	-	159,617	159,617
Capital improvements revenue bond payable	2,946,308	-	2,946,308
Total liabilities	<u>3,679,843</u>	<u>2,322,358</u>	<u>6,002,201</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,762,328	4,887,523	17,649,851
Restricted for:			
Advance to other funds	86,400	-	86,400
Debt service	-	397,572	397,572
Renewal and replacement	-	830,070	830,070
Cemetery care - expendable	26,515	-	26,515
Other purposes	41,925	95,633	137,558
Unrestricted	1,492,027	(213,914)	1,278,113
Total net assets	<u>\$ 14,409,195</u>	<u>\$ 5,996,884</u>	<u>\$ 20,406,079</u>

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

City of Fellsmere, Florida
Statement of Activities
For the Year Ended September 30, 2010

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 935,719	\$ 7,090	\$ -	\$ 176,850
Public safety	794,430	11,403	52,049	-
Transportation	707,944	-	-	-
Cultural/recreation	404,978	2,860	184	-
Total governmental activities	<u>2,843,071</u>	<u>21,353</u>	<u>52,233</u>	<u>176,850</u>
Business-type activities:				
Water department	568,767	776,882	-	966,513
Community development	466,538	106,813	15,000	-
Wastewater services	192,668	201,054	-	-
Total business-type activities	<u>1,227,973</u>	<u>1,084,749</u>	<u>15,000</u>	<u>966,513</u>
Total government	<u>\$ 4,071,044</u>	<u>\$ 1,106,102</u>	<u>\$ 67,233</u>	<u>\$ 1,143,363</u>

General Revenues:

Taxes:

- Property taxes, levied for general purposes
- Discretionary sales surtax
- Local option gas tax
- Franchise fees
- Utility taxes
- Communications services tax
- Eighth cent motor fuel tax
- Half cent sales tax

Investment earnings

Intergovernmental

Miscellaneous

Contributed capital from developer

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (751,779)	\$ -	\$ (751,779)
(730,978)	-	(730,978)
(707,944)	-	(707,944)
(401,934)	-	(401,934)
<u>(2,592,635)</u>	<u>-</u>	<u>(2,592,635)</u>
-	1,174,628	1,174,628
-	(344,725)	(344,725)
-	8,386	8,386
-	838,289	838,289
<u>\$ (2,592,635)</u>	<u>\$ 838,289</u>	<u>\$ (1,754,346)</u>
\$ 585,477	\$ -	\$ 585,477
523,731	-	523,731
141,202	-	141,202
226,198	-	226,198
257,073	-	257,073
95,903	-	95,903
41,337	-	41,337
285,652	-	285,652
4,348	7,460	11,808
100,957	-	100,957
252,997	232,403	485,400
-	475,945	475,945
<u>2,514,875</u>	<u>715,808</u>	<u>3,230,683</u>
<u>266,580</u>	<u>(266,580)</u>	<u>-</u>
<u>2,781,455</u>	<u>449,228</u>	<u>3,230,683</u>
188,820	1,287,517	1,476,337
14,220,375	4,709,367	18,929,742
<u>\$ 14,409,195</u>	<u>\$ 5,996,884</u>	<u>\$ 20,406,079</u>

City of Fellsmere, Florida
Balance Sheet
Governmental Funds
September 30, 2010

	<u>General</u>	<u>Infrastructure</u>	<u>Special Projects</u>
ASSETS			
Cash and cash equivalents	\$ 412,437	\$ -	\$ 242,098
Accounts receivable	17,812	253,819	-
Restricted cash and cash equivalents	-	246,846	-
Due from other governments	70,438	86,631	-
Prepaid items	108,611	-	-
Advance to other funds	86,400	304,563	-
Total assets	<u>695,698</u>	<u>891,859</u>	<u>242,098</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	8,043	-	-
Wages payable	9,768	-	-
Due to other funds	-	253,819	-
Deferred revenues	-	-	201,113
Total liabilities	<u>17,811</u>	<u>253,819</u>	<u>201,113</u>
Fund balances:			
Reserved for:			
Encumbrance	-	-	41,925
Advance to other funds	86,400	-	-
Cemetery care	26,515	-	-
Unreserved:			
Designated for infrastructure projects	-	638,040	-
Designated for transportation expenditures	-	-	-
Designated for community redevelopment	-	-	-
Designated for capital improvements	-	-	-
Unreserved, undesignated	564,972	-	(940)
Total fund balances	<u>677,887</u>	<u>638,040</u>	<u>40,985</u>
Total liabilities and fund balances	<u>\$ 695,698</u>	<u>\$ 891,859</u>	<u>\$ 242,098</u>

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

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

Accrued compensated absences are not financial uses and therefore are not reported in the funds.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net assets of governmental activities

Community Redevelopment Agency	Save Our Old School	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 654,535
-	182,744	-	454,375
58,566	-	169,814	475,226
-	-	85,931	243,000
-	-	-	108,611
-	253,819	-	644,782
<u>58,566</u>	<u>436,563</u>	<u>255,745</u>	<u>2,580,529</u>
-	323,967	42,011	374,021
-	-	-	9,768
-	-	-	253,819
-	-	-	201,113
<u>-</u>	<u>323,967</u>	<u>42,011</u>	<u>838,721</u>
-	-	-	41,925
-	-	-	86,400
-	-	-	26,515
-	-	-	638,040
-	-	213,734	213,734
58,566	-	-	58,566
-	112,596	-	112,596
-	-	-	564,032
<u>58,566</u>	<u>112,596</u>	<u>213,734</u>	<u>1,741,808</u>
<u>\$ 58,566</u>	<u>\$ 436,563</u>	<u>\$ 255,745</u>	

15,762,328
(94,941)
(3,000,000)
\$ 14,409,195

City of Fellsmere, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

	General	Infrastructure	Special Projects	Community Redevelopment Agency
REVENUES:				
Taxes:				
Property	\$ 585,473	\$ -	\$ -	\$ -
Public utility	257,073	-	-	-
Sales	-	523,731	-	-
Motor fuel	-	-	-	-
Communications services	95,903	-	-	-
Franchise fees	226,198	-	-	-
Intergovernmental	479,995	-	-	-
Charges for services	9,950	-	-	-
Fines	11,403	-	-	-
Investment earnings	3,918	376	-	54
Contributions and donations	184	-	-	-
Other revenue	18,849	-	25,000	39,237
Total revenues	<u>1,688,946</u>	<u>524,107</u>	<u>25,000</u>	<u>39,291</u>
EXPENDITURES:				
Current:				
General government	721,838	153	-	87,178
Public safety	730,668	-	-	-
Transportation	425,304	-	-	-
Culture and recreation	33,218	-	-	-
Debt Service:				
Capital outlay	45,526	14,692	-	-
Total expenditures	<u>1,956,554</u>	<u>14,845</u>	<u>-</u>	<u>87,178</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(267,608)</u>	<u>509,262</u>	<u>25,000</u>	<u>(47,887)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	334,507	-	-	48,733
Transfers out	(45,583)	(1,942,678)	-	(21,480)
Debt proceeds	-	1,601,628	-	-
Total other financing sources (uses)	<u>288,924</u>	<u>(341,050)</u>	<u>-</u>	<u>27,253</u>
Net changes in fund balances	21,316	168,212	25,000	(20,634)
Fund balances - beginning	656,571	469,828	15,985	79,200
Fund balances - ending	<u>\$ 677,887</u>	<u>\$ 638,040</u>	<u>\$ 40,985</u>	<u>\$ 58,566</u>

Net change in fund balances - total governmental funds

Amount reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

The issuance of long-term debt provides current financial resources to the governmental funds, and the repayment of debt consumes the current financial resources. Neither transaction has any effect on the statement of activities.

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

The donation of land does not provide current financial resources to the governmental funds.

Change in net assets of governmental activities

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

Save Our Old School	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 585,473
-	-	257,073
-	-	523,731
-	128,370	128,370
-	-	95,903
-	-	226,198
-	-	479,995
-	-	9,950
-	-	11,403
-	-	4,348
-	-	184
182,744	-	265,830
<u>182,744</u>	<u>128,370</u>	<u>2,588,458</u>

9,817	-	818,986
-	-	730,668
-	112,280	537,584
-	-	33,218
<u>1,880,609</u>	<u>137,295</u>	<u>2,078,122</u>
<u>1,890,426</u>	<u>249,575</u>	<u>4,198,578</u>
<u>(1,707,682)</u>	<u>(121,205)</u>	<u>(1,610,120)</u>
1,854,260	101,250	2,338,750
-	(62,429)	(2,072,170)
-	-	1,601,628
<u>1,854,260</u>	<u>38,821</u>	<u>1,868,208</u>
146,578	(82,384)	258,088
(33,982)	296,118	1,483,720
<u>\$ 112,596</u>	<u>\$ 213,734</u>	<u>\$ 1,741,808</u>

258,088

	2,078,122	
Depreciation expense	<u>(711,751)</u>	1,366,371
		(1,601,628)
		(10,861)
		<u>176,850</u>
		<u>\$ 188,820</u>

City of Fellsmere, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2010

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 200	\$ 101	\$ -	\$ 301
Investments	-	-	-	-
Restricted cash, cash equivalents and investments:				
Reserves	1,257,479	-	65,796	1,323,275
Accounts receivable	70,271	181,148	5,565	256,984
Due from other governments	547,761	35	-	547,796
Inventory	14,407	-	-	14,407
Prepaid items	47	112	-	159
Total current assets	<u>1,890,165</u>	<u>181,396</u>	<u>71,361</u>	<u>2,142,922</u>
Noncurrent assets:				
Capital assets:				
Land	10,357	-	-	10,357
Machinery and equipment	4,832,942	24,682	1,635,560	6,493,184
Construction in progress	1,504,767	-	36,304	1,541,071
Less accumulated depreciation	<u>(1,259,666)</u>	<u>(15,419)</u>	<u>(202,244)</u>	<u>(1,477,329)</u>
Total noncurrent assets	<u>5,088,400</u>	<u>9,263</u>	<u>1,469,620</u>	<u>6,567,283</u>
Total assets	<u>6,978,565</u>	<u>190,659</u>	<u>1,540,981</u>	<u>8,710,205</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	460,804	14,311	3,882	478,997
Due to other funds	-	165,165	225,798	390,963
Unearned revenues	74,538	29,451	24,595	128,584
Accrued compensated absences	877	4,794	-	5,671
Interest payable	2,560	-	-	2,560
Notes and loans payable	26,786	-	-	26,786
Matured bonds payable	36,000	-	-	36,000
Total current liabilities	<u>601,565</u>	<u>213,721</u>	<u>254,275</u>	<u>1,069,561</u>
Noncurrent liabilities:				
Notes and loans payable	266,760	-	-	266,760
Bonds payable (net of unamortized premium and deferred amount on refunding)	-	-	-	-
	1,377,000	-	-	1,377,000
Total noncurrent liabilities	<u>1,643,760</u>	<u>-</u>	<u>-</u>	<u>1,643,760</u>
Total liabilities	<u>2,245,325</u>	<u>213,721</u>	<u>254,275</u>	<u>2,713,321</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,408,640	9,263	1,469,620	4,887,523
Restricted for:				
Revenue bond debt service	397,572	-	-	397,572
Renewal and replacement	785,369	-	44,701	830,070
Other purposes	74,538	-	21,095	95,633
Unrestricted	67,121	(32,325)	(248,710)	(213,914)
Total net assets	<u>\$ 4,733,240</u>	<u>\$ (23,062)</u>	<u>\$ 1,286,706</u>	<u>\$ 5,996,884</u>

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

City of Fellsmere, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
Operating revenues:				
Intergovernmental	\$ 966,513	\$ -	\$ -	\$ 966,513
Charges for services	776,882	-	201,054	977,936
Building permits, licenses, fees	-	84,897	-	84,897
Taxes	-	21,917	-	21,917
Grants	-	15,000	-	15,000
Other revenue	1,046	231,357	-	232,403
Total operating revenues	1,744,441	353,171	201,054	2,298,666
Operating expenses:				
Salaries, wages and employee benefits	53,343	133,501	-	186,844
Contractual services, materials and supplies	342,793	329,155	166,364	838,312
Depreciation	100,827	3,882	26,304	131,013
Total operating expenses	496,963	466,538	192,668	1,156,169
Operating income (loss)	1,247,478	(113,367)	8,386	1,142,497
Nonoperating revenues (expenses):				
Interest income	7,395	22	43	7,460
Interest expense	(71,804)	-	-	(71,804)
Total nonoperating revenues (expenses)	(64,409)	22	43	(64,344)
Income/(loss) before capital contributions and transfers	1,183,069	(113,345)	8,429	1,078,153
Transfer out	(127,500)	(73,980)	(65,100)	(266,580)
Capital contributions	126,486	-	349,459	475,945
Change in net assets	1,182,055	(187,325)	292,788	1,287,518
Total net assets - beginning	3,551,185	164,264	993,918	4,709,367
Total net assets - ending	\$ 4,733,240	\$ (23,061)	\$ 1,286,706	\$ 5,996,885

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

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 1,228,942	\$ 488,367	\$ 201,755	\$ 1,919,064
Cash payments to suppliers	48,528	(280,906)	(133,931)	(366,309)
Cash payments for employee services	(53,343)	(133,501)	-	(186,844)
Net cash provided (used) by operating activities	<u>1,224,127</u>	<u>73,960</u>	<u>67,824</u>	<u>1,365,911</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Capital contributions	126,486	-	349,460	475,946
Transfer to other fund	(127,500)	(73,980)	(65,100)	(266,580)
Net cash provided (used) by noncapital financing activities	<u>(1,014)</u>	<u>(73,980)</u>	<u>284,360</u>	<u>209,366</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(1,309,320)	-	(372,463)	(1,681,783)
Receipt from capital grants	159,617	-	-	159,617
Interest paid on revenue bonds	(71,803)	-	-	(71,803)
Net cash provided (used) by capital and related financing activities	<u>(1,221,506)</u>	<u>-</u>	<u>(372,463)</u>	<u>(1,593,969)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	7,395	22	43	7,460
Net cash provided by investing activities	<u>7,395</u>	<u>22</u>	<u>43</u>	<u>7,460</u>
Net increase (decrease) in cash and cash equivalents	9,002	2	(20,236)	(11,232)
Cash and cash equivalents, October 1, 2009	<u>1,248,677</u>	<u>100</u>	<u>86,032</u>	<u>1,334,809</u>
Cash and cash equivalents, September 30, 2010	<u>\$ 1,257,679</u>	<u>\$ 102</u>	<u>\$ 65,796</u>	<u>\$ 1,323,577</u>

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

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010
(Continued)

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,247,478	\$ (113,367)	\$ 8,386	\$ 1,142,497
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	100,827	3,882	26,304	131,013
(Increase) Decrease in assets:				
Accounts receivable	28,019	173,643	701	202,363
Due from other governments	(547,761)	(35)	-	(547,796)
Inventories	452	-	-	452
Prepaid expenses	(47)	(112)	-	(159)
Increase (Decrease) in liabilities:				
Accounts payable	390,916	48,361	32,433	471,710
Unearned revenues	4,243	(38,412)	-	(34,169)
Total adjustments	(23,351)	187,327	59,438	223,414
Net cash provided (used) by operating activities	<u>1,224,127</u>	<u>73,960</u>	<u>67,824</u>	<u>1,365,911</u>
Cash and cash equivalents reconciliation:				
Current assets:				
Cash and cash equivalents	200	102	-	302
Restricted asset:				
Cash and cash equivalents	1,257,479	-	65,796	1,323,275
Cash and cash equivalents at September 30	<u>\$ 1,257,679</u>	<u>\$ 102</u>	<u>\$ 65,796</u>	<u>\$ 1,323,577</u>

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fellsmere, Florida (the "City"), located in Indian River County (the "County"), was incorporated in 1911. The City was created under the legal authority of Article VIII of the Florida Constitution, Florida Statutes' Chapter 165 and pursuant to the Laws of Florida 11480, Act of 1925. The City operates under a Council - manager form of government whereby the mayor is elected from the five members of Council. The City provides the following services: General and Administrative Services, Public Safety-Police, Public Works-Streets, Culture and Recreation, Water, Wastewater Systems, and Community Development. The City has a population of 5,310.

The financial statements of the City have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") as applied to governmental units. GAAP requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

A. Reporting Entity

In evaluating the City as a reporting entity, management has included all component units in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, Defining the Reporting Entity, and Statement No. 39, Determining Whether Certain Organizations Are Component Units - an Amendment of GASB No. 14. The Financial Reporting Entity consists of the City of Fellsmere (the primary government) and its blended component unit. Blended component units are legally separate organizations for which the City Council is financially accountable. The component unit discussed below is included in the City's reporting entity.

Blended Component Unit

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

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

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities), 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.

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

GASB Statement No. 34, Basic Financial Statement and Management Discussion and Analysis for State and Local Governments, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

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.

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

1. Economic Resources Measurement Focus and Accrual Basis of Accounting

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

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

In applying the "susceptible to accrual" concept to intergovernmental revenues, pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions as amended by GASB Statement No. 36, Recipient Reporting of Certain Shared Nonexchange Revenues (the City may act as either a provider or a recipient), the provider should recognize liabilities and expenses, and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the statement of activities.

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

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Public Water System Proprietary Fund, the Wastewater System Proprietary Fund, and the Community Development Proprietary Fund are charges to customers for services. Operating expenses for the enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

2. Modified Accrual

Governmental fund financial statements are accounted for using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues, except grant revenues, to be available if they are collected within sixty (60) days of the end of the current fiscal period. The City considers grant revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. An exception to this general rule is principal and interest on general long-term obligations, which are recognized when due.

Property taxes, public utility taxes, franchise fees, sales and fuel taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports on the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

The *Save Our Old School fund* accounts for the financial resources used for renovation and reconstruction of the old school building.

The *Community Redevelopment Agency fund* accounts for the activities of the Community Redevelopment Agency Trust fund.

The *Special Projects fund* accounts for small grants for community improvements.

Additionally, the City reports on the following non-major governmental funds:

The *Local Option Gas Tax fund* accounts for financial resources of the gas tax revenues received by the City.

The City reports on the following major proprietary funds:

The *Public Water System fund* accounts for the activities in providing water services to the public.

The *Wastewater System fund* accounts for the activities in providing wastewater services to the public.

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

D. Assets, Liabilities and Fund Equity

1. Cash and Cash equivalents

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

2. Deposits

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

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

The City had deposits only with qualifying public depositories as of September 30, 2010.

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

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

3. Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Due to and from other funds are eliminated in the Statement of Net Assets.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable financial resources.

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 occur 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 five-year period.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

4. Accounts Receivable

Receivables consist of trade receivables, due from other governments, and an amount due on a construction loan, and are recorded at the net realizable value. The City has no allowance for doubtful accounts as of September 30, 2010, as all receivables are considered collectible.

5. Inventory and Prepaid Items

Inventory at September 30, 2010 consisted of various parts, materials, and supplies on hand in connection with the water system. This inventory is stated at cost, determined by the first-in, first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

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

7. Capital Assets

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

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

8. Compensated Absences

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

9. Long-Term Liabilities

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations for fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The nature and purpose of these reserves are explained as follows:

Reserved for debt service – represents, in accordance with legal restrictions, amounts for payment of principal and interest maturing in later years.

Reserved for renewal and replacement – represents amounts restricted for capital projects.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds that are earmarked for other purposes.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. Expenditures

Expenditures are recognized when incurred except for the following exception 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.

F. 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (continued)

The budget may be formally amended by the City Council at any time during the fiscal year; however, in practice it is rarely amended. In fiscal year 2010, the budget was amended once to reflect the reorganization of the Community Development Fund. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, 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 accrual amounts are presented in accordance with generally accepted accounting principles. There were no differences between both bases of presentation during the fiscal year ended September 30, 2010. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

III. DETAIL NOTES ON ALL FUNDS

A. Deposits

At September 30, 2010 the carrying amount of the City of Fellsmere’s deposits with banks was \$1,990,427 and the bank balance was \$2,170,431. All the deposits were covered by the FDIC or collateralized in accordance with the “Florida Security for Public Deposits Act”. Under the Act, every qualified public depository shall deposit with the Treasurer eligible collateral having a market value equal to 50% of the average daily balance for each month that all public deposits are in excess of any applicable deposit insurance. If the public deposits exceed the total amount of the regulatory capital accounts of a bank or the regulatory net worth of a savings association, the required collateral shall have a market value equal to 125% of the deposits.

B. Restricted Cash

At September 30, 2010, restricted cash of \$246,846 in the Special Revenue Fund consists of unspent infrastructure sales surtax funds and interest earned on these funds. Under Florida law, these funds may be used only for expenditures and costs associated with the construction, reconstruction or improvement of public domain (“infrastructure”) projects, or for the purchase of certain vehicles and equipment, with at least a five-year life expectancy. Restricted cash also includes \$58,566 in unspent community redevelopment agency trust funds. Under Florida law, these funds may be used only for the rehabilitation of slum or blighted areas within the City. Restricted cash also includes \$169,814 in unspent local option gas tax funds. Under Florida law, these funds may be used only for the purchase, construction, maintenance and operation of transportation facilities and road and street right-of-ways.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

B. Restricted Cash - continued

Restricted cash in the Enterprise Fund at September 30, 2010 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$785,369 and \$44,701, respectively. Under City adopted resolutions, these funds may be used only for extensions, enlargements, or additions to the capital assets of the water and wastewater systems. Restricted cash also consists of bond sinking fund reserve for the water system in the amount of \$397,572 and customer deposits of the water and wastewater systems of \$74,538 and \$21,095, respectively.

C. Receivable and Payable Balances

Receivables at September 30, 2010 were as follows:

	<u>Accounts Receivable</u>	<u>Due From Other Governments</u>	<u>Due on Construction Loan</u>	<u>Total</u>
Governmental Activities:				
General	\$ 17,813	\$ 70,438	\$ -	\$ 88,251
Infrastructure	-	86,631	253,819	340,450
Local Option Gas Tax	-	85,931	-	85,931
Save Our Old School	182,744	-	-	182,744
	<u>\$ 200,557</u>	<u>\$ 243,000</u>	<u>\$ 253,819</u>	<u>697,376</u>
Business-Type Activities				
Water Department	\$ 70,271	\$ 547,761	\$ -	\$ 618,032
Wastewater Service	5,565	-	-	5,565
Community Development	181,148	35	-	181,183
	<u>\$ 256,984</u>	<u>\$ 547,796</u>	<u>\$ -</u>	<u>\$ 804,780</u>

All receivables were anticipated to be collected.

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

Payables at September 30, 2010 were as follows:

	<u>Vendors</u>	<u>Accrued Salaries and Benefits</u>	<u>IRC Capacity Charge</u>	<u>Deposits</u>	<u>Total</u>
Governmental Activities:					
General fund	\$ 4,518	\$ 9,768	\$ -	\$ 1,875	\$ 16,161
Local Option Gas Tax	42,011	-	-	-	42,011
Special Projects	-	-	-	201,113	201,113
Save Our Old School	323,968	-	-	-	323,968
	<u>\$ 370,497</u>	<u>\$ 9,768</u>	<u>\$ -</u>	<u>\$ 202,988</u>	<u>\$ 583,253</u>
Business - Type Activities					
Water Department	\$ 161,666	\$ -	\$ -	\$ 70,294	\$ 231,960
Wastewater Service	3,882	-	30,756	19,738	54,376
Community Development	14,216	-	-	2,000	16,216
	<u>\$ 179,764</u>	<u>\$ -</u>	<u>\$ 30,756</u>	<u>\$ 92,032</u>	<u>\$ 302,552</u>

Governmental funds report deferred *revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2010, there was \$216,161 reported as unearned revenue.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,803,467	\$ 176,850	\$ -	\$ 5,980,317
Construction in progress	1,775,294	1,949,307	(15,329)	3,709,272
Total capital assets, not being depreciated	<u>7,578,761</u>	<u>2,126,157</u>	<u>(15,329)</u>	<u>9,689,589</u>
Capital assets, being depreciated:				
Buildings	1,105,667	-	-	1,105,667
Improvements other than buildings	2,557,960	87,626	-	2,645,586
Machinery and equipment	1,323,078	56,518	-	1,379,596
Infrastructure	5,993,966	-	-	5,993,966
Total capital assets, being depreciated	<u>10,980,671</u>	<u>144,144</u>	<u>-</u>	<u>11,124,815</u>
Less accumulated depreciation for:				
Buildings	(649,997)	(52,377)	-	(702,374)
Improvements other than buildings	(1,320,192)	(242,767)	-	(1,562,959)
Machinery and equipment	(938,070)	(116,908)	-	(1,054,978)
Infrastructure	(1,432,066)	(299,699)	-	(1,731,765)
Total accumulated depreciation	<u>(4,340,325)</u>	<u>(711,751)</u>	<u>-</u>	<u>(5,052,076)</u>
Total capital assets, being depreciated, net	6,640,346	(567,607)	-	6,072,739
Governmental activities capital assets, net	<u>\$14,219,107</u>	<u>\$ 1,558,550</u>	<u>\$ (15,329)</u>	<u>\$15,762,328</u>

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 10,357	\$ -	\$ -	\$ 10,357
Construction in progress	369,645	1,171,426		1,541,071
Total capital assets, not being depreciated	<u>380,002</u>	<u>1,171,426</u>	<u>-</u>	<u>1,551,428</u>
Capital assets, being depreciated:				
Water Plant	930,571	-	-	930,571
Water Lines	3,258,595	160,898	-	3,419,493
Water Tank	411,683	-	-	411,683
Vehicle & Equipment	71,195	-	-	71,195
Equipment	24,682	-	-	24,682
Wastewater Lines	1,286,101	349,459	-	1,635,560
Total capital assets, being depreciated	<u>5,982,827</u>	<u>510,357</u>	<u>-</u>	<u>6,493,184</u>
Less accumulated depreciation for:				
Water Plant	(209,476)	(18,611)	-	(228,087)
Water Lines	(770,238)	(65,708)	-	(835,946)
Water Tank	(120,761)	(8,234)	-	(128,995)
Vehicle & Equipment	(58,363)	(8,274)	-	(66,637)
Equipment	(11,537)	(3,882)	-	(15,419)
Wastewater Lines	(175,939)	(26,304)	-	(202,243)
Total accumulated depreciation	<u>(1,346,314)</u>	<u>(131,013)</u>	<u>-</u>	<u>(1,477,327)</u>
Total capital assets, being depreciated, net	<u>4,636,513</u>	<u>379,344</u>	<u>-</u>	<u>5,015,857</u>
Business-type activities capital assets, net	<u>\$ 5,016,515</u>	<u>\$ 1,550,770</u>	<u>\$ -</u>	<u>\$ 6,567,285</u>

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

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

Governmental activities	
General government	\$ 22,278
Public safety	57,296
Transportation	365,342
Cultural and recreation	266,835
Total depreciation expense - governmental activities	\$ 711,751
Business-type activities	
Water department	\$ 100,827
Wastewater service	26,304
Community development	3,882
Total depreciation expense - business-type activities	\$ 131,013

Construction Commitments

The City has various construction commitments outstanding at September 30, 2010. The major commitments include the following:

Project	Spent to-date	Remaining commitment	Major funding source
Old school remodel	\$3,560,409	\$ 250,000	Note proceeds
Water plant expansion	1,435,842	79,644	Grant
	\$4,996,251	\$ 329,644	

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

E. Advances

Advance balances at September 30, 2010 consisted of the following amounts:

Funds advanced from	Funds advanced to			
	Wastewater service	Community development	Infrastructure	Total
General	\$ 86,400	\$ -	\$ -	\$ 86,400
Infrastructure	139,398	165,165	-	304,563
Save Our Old School	-	-	253,819	253,819
	<u>\$ 225,798</u>	<u>\$ 165,165</u>	<u>\$ 253,819</u>	<u>\$ 644,782</u>

F. Interfund Transfers

Transfers are used to 1) move revenues from the fund in which statute or budget requires them to be collected to the fund from which statute or budget requires them to be expended, and 2) utilize discretionary sales tax revenues for infrastructure improvements and equipment purchases when they must be accounted for in other funds. Following is a schedule of interfund transfers:

Transfers in	General	Infrastructure	Local Option Gas Tax	CRA	Water Department	Wastewater Service	Community Development
General	\$ -	\$ -	\$ 46,447	\$ 21,480	\$ 127,500	\$ 65,100	\$ 73,980
CDBG Phase V	-	60,004	-	-	-	-	-
EECBG	-	3,016	-	-	-	-	-
CRA	45,583	-	3,150	-	-	-	-
FRDAP Grant Park	-	13,227	-	-	-	-	-
HC&J Stormwater Pk Ext	-	4,761	-	-	-	-	-
FRDAP Trail Head Ext	-	4,761	-	-	-	-	-
FRDAP Trail Head Preserve	-	2,650	-	-	-	-	-
Save Our Old School	-	1,854,260	-	-	-	-	-

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

G. Long-Term Obligations

1. Notes Payable

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.

2. Revenue Bond Payable

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

The bond constitutes a special obligation of the City secured by a lien on and pledge of the gross revenues of the water system. Additionally, the bond is serviced by a deficiency pledge of the City's half-cent sales tax revenue to the extent needed each month to provide for any deficiency in water revenues. The City's half-cent sales tax revenue amounted to approximately \$285,000 in 2010.

3. Capital Improvement Revenue Bond

In December 2008, the City authorized a \$3,000,000, 30-year capital improvement revenue bond, Series 2008, to fund the renovation of the Historic Fellsmere School Building. The Bond was purchased by a local financial institution, at a stated interest rate of 4.5%. Interest is payable monthly, with principal payment 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. As of September 30, 2010, the City had requested a final draw on the bond funds. Repayment of the bonds began in October 2010.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

4. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities as of September 30, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital improvement bond	\$ 1,398,372	\$ 1,601,628	\$ -	\$ 3,000,000	\$ 53,692
	<u>\$ 1,398,372</u>	<u>\$ 1,601,628</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 53,692</u>
Business-type activities					
Note	\$ 160,714	\$ -	\$ (26,785)	\$ 133,929	\$ 26,786
Revenue bond	1,448,000	-	(35,000)	1,413,000	36,000
	<u>\$ 1,608,714</u>	<u>\$ -</u>	<u>\$ (61,785)</u>	<u>\$ 1,546,929</u>	<u>\$ 62,786</u>

5. Debt Service Requirements to Maturity

The annual requirement to amortize all bonded debt outstanding at September 30, 2010, including interest requirements, is as follows:

Fiscal Year	Note		Revenue		Capital Improvement	
	Payable	Interest	Bond	Interest	Bond	Interest
2011	\$ 26,786	\$ 5,884	\$ 36,000	\$ 63,585	\$ 53,692	\$ 133,891
2012	26,786	4,858	38,000	61,965	55,789	131,793
2013	26,786	3,270	40,000	60,255	58,721	128,861
2014	26,786	1,963	42,000	58,455	61,419	126,164
2015	26,785	655	43,000	56,565	64,240	123,342
Thereafter	-	-	1,214,000	583,425	2,706,139	1,670,812
	<u>\$ 133,929</u>	<u>\$ 16,630</u>	<u>\$ 1,413,000</u>	<u>\$ 884,250</u>	<u>\$ 3,000,000</u>	<u>\$ 2,314,863</u>

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

H. Correction of an Error

In the financial statements for the year ended September 30, 2009 an error was made in accounting for revenue accruals in the general fund. This error has been corrected and has had the following effect on fund balance:

Beginning fund balance, as previously reported	\$ 14,152,711
Adjustment for revenue accrual	<u>67,664</u>
Beginning fund balance, as corrected	<u>\$ 14,220,375</u>

Additionally, compensated absences were reported in the governmental funds, even though they do not represent financial uses. This error has been corrected, and the two adjustments had the following effect on the governmental fund balance:

Beginning fund balance, as previously reported	\$ 1,331,976
Adjustment for revenue accrual	67,664
Adjustment for accrued compensated absences	<u>84,080</u>
Beginning fund balance, as corrected	<u>\$ 1,483,720</u>

IV. OTHER INFORMATION

A. Property Taxes

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

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State that regulate tax assessments are designed to assure a consistent property valuation method. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2010, the millage rate assessed by the City was approximately 4.43 mills.

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

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

All property is reassessed according to its fair market value at January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes. The total assessed value at January 1, 2010, upon which the 2009 – 2010 levy was based, was approximately \$142.5 million.

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

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

B. 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 14% of employee salaries and wages for employees who contributed 4% in 2010 for 2010. Employer and employee contributions to the plan were \$86,514 and \$64,253, respectively in 2010. 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.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

C. 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 14% of employee salaries and wages for employees who contributed 4% in 2010. Although the charter officers and department heads may participate in both the deferred compensation plan and the governmental purchase plan and trust, the City will contribute to only one plan on their behalf. Total city contributions to the plan amounted to \$57,614 for the fiscal year ended September 30, 2010. 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.

D. Retirement Health Savings Plan

Beginning October 1, 2006 the City established a health reimbursement account and a retirement health savings plan for the benefit of the employees. Both accounts are administered by an independent plan administrator through administrative service agreements. The City credits a flat dollar amount to the health reimbursement account which will vary pursuant to the annual budget appropriation. That amount is then used to pay eligible health claims. For the year ended September 30, 2010, the City credited \$3,500 to each employee's account, which amounted to \$98,000. The City maintains control of the funds in the health reimbursement account and pays all claims as submitted by the plan administrator. All full-time employees participate in the plan. In October of each year, a percent (as determined by the City Council), of the employee's remaining balance in the health reimbursement account is swept from that account into the retirement health savings plan. In October 2009, the percent contributed to the retirement health savings account was 10% of each employee's remaining balance in the health reimbursement account, which amounted to \$16,583.

The retirement health savings account is administered by an independent plan administrator who also manages the associated funds. All amounts deposited into the fund, all property and rights purchased with those amounts, and all income attributable to those accounts are solely the property and rights of the City employees and their

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

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.

E. 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 government backed insurance programs (i.e., FDIC) or was collateralized by the respective financial institutions, investments, as required by Florida Statutes, throughout the fiscal year ended September 30, 2010.

F. 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. 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.

G. Donation of Limited Partnership Interests

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

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

At December 31, 2010, 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 or obligated to make any further capital contributions.

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

H. 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.

City of Fellsmere, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property	\$ 634,790	\$ 634,790	\$ 585,473	\$ (49,317)
Public utility	256,150	256,150	257,073	923
Communications services	114,980	114,980	95,903	(19,077)
Franchise fees	250,170	250,170	226,198	(23,972)
Intergovernmental	465,810	465,810	479,995	14,185
Grants	166,380	166,380	-	(166,380)
Charges for services	18,300	18,300	9,950	(8,350)
Fines	17,150	17,150	11,403	(5,747)
Contributions and donations	1,000	1,000	184	(816)
Investment earnings	4,000	4,000	3,918	(82)
Other revenue	148,880	148,880	18,849	(130,031)
Total revenues	<u>2,077,610</u>	<u>2,077,610</u>	<u>1,688,946</u>	<u>(388,664)</u>
EXPENDITURES:				
Current:				
General government	1,161,890	1,161,890	721,838	440,052
Public safety	768,930	768,930	730,668	38,262
Transportation	480,260	480,260	425,304	54,956
Culture and recreation	41,390	41,390	33,218	8,172
Capital outlay	72,900	72,900	45,526	27,374
Total expenditures	<u>2,525,370</u>	<u>2,525,370</u>	<u>1,956,554</u>	<u>568,816</u>
Excess (deficiency) of revenues over (under) expenditures	(447,760)	(447,760)	(267,608)	180,152
OTHER FINANCING SOURCES (USES)				
Transfers in	334,507	334,507	334,507	-
Transfers out	(47,000)	(47,000)	(45,583)	1,417
Total other financing sources	<u>287,507</u>	<u>287,507</u>	<u>288,924</u>	<u>1,417</u>
Net changes in fund balances	(160,253)	(160,253)	21,316	181,569
Fund balances - beginning	656,571	656,571	656,571	-
Fund balances - ending	<u>\$ 496,318</u>	<u>\$ 496,318</u>	<u>\$ 677,887</u>	<u>\$ 181,569</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual
Infrastructure Fund
For the Year Ended September 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Sales	\$ 510,000	\$ 510,000	\$ 523,731	\$ 13,731
Other revenue	2,000	2,000	376	(1,624)
Total revenues	<u>512,000</u>	<u>512,000</u>	<u>524,107</u>	<u>12,107</u>
EXPENDITURES:				
Current:				
General government	126,620	126,620	153	126,467
Debt service	30,400	30,400	-	30,400
Capital Outlay	15,000	15,000	14,692	308
Total expenditures	<u>172,020</u>	<u>172,020</u>	<u>14,845</u>	<u>157,175</u>
Excess (deficiency) of revenues over (under) expenditures	339,980	339,980	509,262	169,282
OTHER FINANCING SOURCES (USES)				
Transfers in	594,000	594,000	-	(594,000)
Transfers out	(2,866,430)	(2,866,430)	(1,942,678)	923,752
Debt proceeds	<u>1,932,450</u>	<u>1,932,450</u>	<u>1,601,628</u>	<u>(330,822)</u>
Total other financing sources (USES)	<u>(339,980)</u>	<u>(339,980)</u>	<u>(341,050)</u>	<u>(1,070)</u>
Net changes in fund balances	-	-	168,212	168,212
Fund balances - beginning	469,828	469,828	469,828	-
Fund balances - ending	<u>\$ 469,828</u>	<u>\$ 469,828</u>	<u>\$ 638,040</u>	<u>\$ 168,212</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual
Save Our Old School Fund
For the Year Ended September 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Other Federal grants	\$ 200,000	\$ 200,000	\$ -	\$ (200,000)
Other miscellaneous	107,400	107,400	182,744	75,344
Total revenues	<u>307,400</u>	<u>307,400</u>	<u>182,744</u>	<u>(124,656)</u>
EXPENDITURES:				
General government	97,600	97,600	9,817	87,783
Capital outlay	2,386,840	2,386,840	1,880,609	506,231
Total expenditures	<u>2,484,440</u>	<u>2,484,440</u>	<u>1,890,426</u>	<u>594,014</u>
Excess (deficiency) of revenues over (under) expenditures	(2,177,040)	(2,177,040)	(1,707,682)	469,358
OTHER FINANCING SOURCES (USES)				
Transfers in	2,202,040	2,202,040	1,854,260	(347,780)
Transfers out	(25,000)	(25,000)	-	25,000
Total other financing sources (uses)	<u>2,177,040</u>	<u>2,177,040</u>	<u>1,854,260</u>	<u>(322,780)</u>
Net changes in fund balances	-	-	146,578	146,578
Fund balances - beginning	(33,982)	(33,982)	(33,982)	-
Fund balances - ending	<u>\$ (33,982)</u>	<u>\$ (33,982)</u>	<u>\$ 112,596</u>	<u>\$ 146,578</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Projects Fund
For the Year Ended September 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Other revenue	\$ 1,500	\$ 1,500	\$ 25,000	\$ 23,500
Total revenues	<u>1,500</u>	<u>1,500</u>	<u>25,000</u>	<u>23,500</u>
EXPENDITURES:				
Transportation	201,110	201,110	-	201,110
Capital outlay	8,420	8,420	-	8,420
Total expenditures	<u>209,530</u>	<u>209,530</u>	<u>-</u>	<u>209,530</u>
Excess of revenues(deficiency) over (under) expenditures	(208,030)	(208,030)	25,000	233,030
OTHER FINANCING SOURCES (USES)				
Transfers in	208,030	208,030	-	(208,030)
Transfers out	-	-	-	-
Total other financing sources (USES)	<u>208,030</u>	<u>208,030</u>	<u>-</u>	<u>(208,030)</u>
Net changes in fund balances	-	-	25,000	25,000
Fund balances - beginning	-	-	15,985	15,985
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,985</u>	<u>\$ 40,985</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Redevelopment Agency Fund
For the Year Ended September 30, 2010

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	\$ 1,000	\$ 1,000	\$ 54	\$ (946)
Other revenue	77,370	77,370	39,237	(38,133)
Other nonoperating sources	-	-	-	-
Total revenues	<u>78,370</u>	<u>78,370</u>	<u>39,291</u>	<u>(39,079)</u>
EXPENDITURES:				
Current:				
General government	186,890	186,890	87,178	99,712
Capital outlay	-	-	-	-
Total expenditures	<u>186,890</u>	<u>186,890</u>	<u>87,178</u>	<u>99,712</u>
Excess (deficiency) of revenues over (under) expenditures	(108,520)	(108,520)	(47,887)	60,633
OTHER FINANCING SOURCES (USES)				
Transfers in	130,000	130,000	48,733	(81,267)
Transfers out	(21,480)	(21,480)	(21,480)	-
Total other financing sources (USES)	<u>108,520</u>	<u>108,520</u>	<u>27,253</u>	<u>(81,267)</u>
Net changes in fund balances	-	-	(20,634)	(20,634)
Fund balances - beginning	79,200	79,200	79,200	-
Fund balances - ending	<u>\$ 79,200</u>	<u>\$ 79,200</u>	<u>\$ 58,566</u>	<u>\$ (20,634)</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2010

	Local Option Gas Tax	Total Other Governmental Funds
ASSETS		
Restricted cash and cash equivalents	\$ 169,814	\$ 169,814
Due from other governments	85,931	85,931
Total assets	255,745	255,745
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	42,011	42,011
Total liabilities	42,011	42,011
Fund balances:		
Reserved for:		
Designated for transportation projects	213,734	213,734
Total fund balances	213,734	213,734
Total liabilities and fund balances	\$ 255,745	\$ 255,745

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Fellsmere, Florida
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended September 30, 2010

	<u>Special Revenue Funds</u>			<u>EECBG</u>
	<u>Community Development Block Grant V</u>	<u>Local Option Gas Tax</u>	<u>Total</u>	
REVENUES:				
Taxes:				
Motor fuel	\$ -	\$ 128,370	\$ 128,370	\$ -
Total revenues	<u>-</u>	<u>128,370</u>	<u>128,370</u>	<u>-</u>
EXPENDITURES:				
Current:				
Transportation	-	112,280	112,280	-
Capital outlay	60,004	48,877	108,881	3,016
Total expenditures	<u>60,004</u>	<u>161,157</u>	<u>221,161</u>	<u>3,016</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(60,004)</u>	<u>(32,787)</u>	<u>(92,791)</u>	<u>(3,016)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	60,004	12,832	72,836	3,016
Transfers out	-	(49,597)	(49,597)	-
Total other financing sources (uses)	<u>60,004</u>	<u>(36,765)</u>	<u>23,239</u>	<u>3,016</u>
Net changes in fund balances	-	(69,552)	(69,552)	-
Fund balances - beginning	-	283,286	283,286	-
Fund balances - ending	<u>\$ -</u>	<u>\$ 213,734</u>	<u>\$ 213,734</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this schedule



**Harris, Cotherman,
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Certified Public Accountants - Chartered

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**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***

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

We have audited the financial statements of the City of Fellsmere, Florida (the "City") as of and for the year ended September 30, 2010, and have issued our report thereon dated May 18, 2011. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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



**Harris, Cotherman,
Jones, Price & Associates**
Certified Public Accountants - Chartered

The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Fellsmere, Florida in a separate letter dated May 18, 2011.

This report is intended solely for the information and use of management, City Council, federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
May 18, 2011



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

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

Compliance

We have audited the compliance of the City of Fellsmere, Florida 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, 2010. The City of Fellsmere, Florida's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements 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 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*. These 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 or state project occurred. An audit includes examining, on a test basis, evidence about the City of Fellsmere, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fellsmere, Florida's compliance with those requirements.

In our opinion, the City of Fellsmere, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2010.



The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
Page two

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 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's internal control over compliance.

A *deficiency in internal control* 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 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 a more than remote likelihood that 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 the management, City Council, federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
May 18, 2011

City of Fellsmere, Florida
Schedule of Expenditures of Federal Awards Programs
and State Financial Assistance
For the Year Ended September 30, 2010

Federal / State Agency	CFDA	Contract	
Pass-through Entity	No.	Grant	
<u>Federal Program / State Project</u>	<u>No.</u>	<u>No.</u>	<u>Expenditures</u>

U.S. Environmental Protection Agency

Indirect Programs:

Passed through Florida Department of Environmental Protection

ARRA - Capitalization Grants for Drinking Water

State Revolving Fund	66.468	DW310300	\$ 1,064,115
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U.S. Department of Justice

Indirect Programs:

Passed through Florida Department of Justice

ARRA - Local Law Enforcement Block Grant	16.803	2010ARRC-INRI1W7	52,049
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TOTAL EXPENDITURES OF FEDERAL AWARDS:	\$ 1,116,164
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State Agency	CSFA	Contract	
Pass-through Entity	No.	Grant	
<u>State Project</u>	<u>No.</u>	<u>No.</u>	<u>Expenditures</u>

Florida Department of Health

Direct Projects:

Flouridation Grant	93.991	COH70	\$ 62,015
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TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE:	\$ 62,015
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The accompanying notes to schedule of expenditures of federal awards and state financial assistance are an integral part of this schedule.

CITY OF FELLSMERE, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE

The accounting policies and presentation of the Single Audit Report of the City of Fellsmere, Florida (the "City") have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of the *Audits of State, Local Governments and Non-Profit Organizations* and the Florida Single Audit Act.

A. REPORTING ENTITY

The reporting entity consists of the City of Fellsmere, the primary government, and each of its component units. The City includes a Schedule of Federal Awards Programs and State Financial Assistance in the Single Audit Section.

B. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards Programs and State Financial Assistance was prepared to include the activity of all federal awards and state financial assistance of the City of Fellsmere, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented on a modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considered revenues to be available if they are collected within one year after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**City of Fellsmere, Florida
 Schedule of Findings and Questioned Costs
 Federal Programs
 For the Fiscal Year Ended September 30, 2010**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' report issued:

Internal control over financial reporting:

Unqualified

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weaknesses? _____ Yes X None reported

Type of Auditors' report issued on compliance
for major programs and projects:

Unqualified

Identification of major programs:

Name of Federal Program

Federal CFDA No.

ARRA-Capitalization Grants for Drinking Water State Revolving Fund 66.468

Dollar threshold used to distinguish between Type A and
Type B programs

\$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - CURRENT YEAR FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS

No matters were reported.

SECTION IV - PRIOR YEAR FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS

Below are the findings from the prior year and our assessment of how they have been addressed:

Finding
Number

Finding

2009-1 Fiscal management is lacking certain controls.

Status

We found no instances of retained earnings balance not being in agreement with prior audit balance. Due to/due from other funds are all in balance. We found no instances of subsidiary ledger balances that were not maintained or were out of balance. Fixed asset depreciation appeared to be recorded correctly. Monthly financial statements appear to be presented to the City Council in a timely manner. Fiscal management controls appear to be effective and operating.

2009-2 Lack of segregation of duties

Status

Due to the inherent nature of the City's operations, there is a certain lack of separation of duties; however, we believe the City has enacted mitigating controls. It will always be important for the City Council to provide significant oversight. In addition to City Council oversight, the City has hired a third accounting person and is working to strengthen controls regarding segregation of duties.



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Independent Auditors' Management Letter

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

We have audited the financial statements of the City of Fellsmere, Florida as of and for the fiscal year ended September 30, 2010 and have issued our report thereon dated May 18, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Florida Single Audit Act. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance and Internal Control with Requirements Applicable to Each Major Program and State Project and on Internal Control Over Compliance in Accordance with OMB circular A-133 and Chapter 10.550, *Rules of the Auditor General*, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 18, 2011, 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 require that certain items be addressed in this letter.

The *Rules of the Auditor General* (Section 10.554(1)(i)3) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls.

Control issue: The City lacks proper segregation of duties in its accounting function due to the small office environment in which it operates. This issue is an expected consequence of the City's size and budgetary constraints. The City Council provides active review and oversight of the accounting function to mitigate the potential for material misstatement from fraud or error. While a lack of segregation of duties may be considered a material weakness, we feel the additional controls provided by the Council mitigate the risk of misstatement.

Recommended actions: We recommend that the City Council maintain its vigilance and oversight of the accounting and reporting functions. Because we consider this to be the most critical control over the City's accounts and financial statements, any change in the Council's oversight could result in a material weakness and the risk of material misstatement. Such procedures should include a continuation of the monthly financial statement and cash disbursement review. We also urge the Council to consider performing occasional and random inspections and/or observations of accounting



The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
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functions such as bank reconciliations, journal entries, inventory counts, credit card statements, deposits and checks, and general ledger posting. Adding an element of unpredictability in its oversight allows the Council to communicate to management its commitment to provide this control and to ensure management override of controls does not occur.

We recommend that the City Manager continue his significant involvement in the financial matters of the City. This includes the current 100% review of invoices and signing of checks. In addition, we recommend that the City Manager regularly review the bank statements directly, whether in an online format or via an unopened paper statement.

As the City's accounting department has recently expanded to include a second accounting clerk, there is newfound opportunity to improve on the segregation of duties issue. Where possible, cash disbursement and reconciliation functions should be separated. For example, generating A/P checks should be performed by one staff member, while reconciling the bank statement should be done by the other. Generally, any process currently in place should be reviewed for possible ways to separate the key functions.

Control issue: Due to the nature of the City's information technology systems all of the closing entries on a monthly and annual basis are performed via a manual journal entry process. This lack of automated processes presents a control issue, as extensive manual adjustments to the books and records can result in an increased potential for error and manipulation.

Recommended actions: While the cost of implementing a fully automated system may outweigh the benefit derived that from system, that we recommend that the City continually strive to implement a more automated accounting function.

The *Rules of the Auditor General* (Section 10.554(1)(i)1) require that we address in the management letter, if not already addressed in the auditors' reports on Compliance and Internal Control or Schedule of Findings and Questioned Costs, whether or not recommendations made in the preceding annual financial audit report have been followed.

Below are the findings from the prior year and our assessment of how they have been addressed:

Control issue: Fiscal management is lacking certain controls.

Status: We found no instances of retained earnings balance not being in agreement with prior audit balances. Due to/due from other funds are all in balance. We found no instances of subsidiary ledger balances that were not maintained or were out of balance. Fixed asset depreciation appeared to be recorded correctly. Monthly financial statements appear to be presented to the City Council in a timely manner.



The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
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Control issue: Lack of segregation of duties

Status: As noted in our findings above, due to the inherent nature of the City's operations, there is a certain lack of separation of duties; however, we believe the City has enacted mitigating controls. It will always be important for the City Council to provide significant oversight. In addition to City Council oversight, the City has hired a third accounting person and is working to strengthen controls regarding segregation of duties.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)2), the scope of 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.

The *Rules of the Auditor General* (Section 10.554(1)(i)4) requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material, but more than inconsequential. In connection with our audit we did not have any such findings.

The *Rules of the Auditor General* (Section 10.554(1)(i)5) provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both qualitative and quantitative factors: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; 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.

The *Rules of the Auditor General* (Section 10.554(1)(i)6) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The legal authority for the City of Fellsmere, Florida is disclosed in the notes to the financial statement.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)7.a), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the City of Fellsmere, Florida did not meet any of the financial emergency conditions described in Section 218.503(1), Florida Statutes.



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The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
Page four

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)7.b.), we determined that the annual financial report for the City of Fellsmere, Florida for the fiscal year ended September 30, 2010, filed with the 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, 2010.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)7.c. and 10.556(7)), 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 the same.

This report is intended solely for the information and use of the City of Fellsmere, Florida and management, federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Vero Beach, Florida
May 18, 2011