

CITY OF FELLOSMERE, FLORIDA

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because 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 16.

HIGHLIGHTS

Financial Highlights

- The City's assets exceeded its liabilities at the close of the fiscal year 2011 by \$21,010,880 (net assets). Of this amount, \$225,628 (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 \$604,801, resulting from increases of \$379,994 from governmental activities and \$224,807 from business-type activities.
- Governmental funds reported combined ending fund balances of \$959,682. Approximately 6% of this amount, \$56,837, is unassigned and available for spending at the City's discretion, a decrease of \$357,589 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$56,837 or 11% of the total general fund balance.
- General fund revenue decreased by \$57,150 or 3% and expenditures increased by \$138,366 or 7%.
- The City's total debt increased by \$94,893 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 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 19. 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 16. 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 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 16-17 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 remaining 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 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 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, Community Development Block Grant V Fund, Community Redevelopment Agency fund, and the Save Our Old School 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 57.

The City adopts an annual appropriated budget for all governmental funds. Budgetary comparison statements have been provided for the General Fund, Infrastructure Fund, Special Projects Fund, Community Development Block Grant V Fund, Community Redevelopment Agency fund, and the Save Our Old School Fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary Funds

The City maintains three proprietary funds, all of which are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, 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 reported in the government-wide statements but those statements provide more detail and additional information, such as cash flows, for proprietary funds.

The City adopts an annual appropriated budget for each enterprise fund. The basic proprietary fund financial statements can be found on pages 23-26 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 27-49 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 \$21,010,880 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, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,456,579	\$ 2,326,710	\$1,243,759	\$1,751,959	\$ 2,700,338	\$ 4,078,669
Capital assets	16,879,830	15,762,328	7,030,454	6,567,283	23,910,284	22,329,611
Total Assets	18,336,409	18,089,038	8,274,213	8,319,242	26,610,622	26,408,280
Long-term liabilities	2,946,308	3,000,000	1,855,131	1,706,546	4,801,439	4,706,546
Other liabilities	600,912	679,843	197,391	615,812	798,303	1,295,655
Total Liabilities	3,547,220	3,679,843	2,052,522	2,322,358	5,599,742	6,002,201
Net Assets:						
Invested in capital assets, net of related debt	13,933,522	12,762,328	5,175,322	4,887,523	19,108,844	17,649,851
Restricted	421,514	154,840	1,254,894	1,323,275	1,676,408	1,478,115
Unrestricted	434,153	1,492,027	(208,525)	(213,914)	225,628	1,278,113
Total Net Assets	\$ 14,789,189	\$ 14,409,195	\$ 6,221,691	\$ 5,996,884	\$ 21,010,880	\$ 20,406,079

For more information, see the Statement of Net Assets on page 16.

By far the largest portion of the City's net assets (91%) 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

Statement of Net Assets (continued)

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 (\$1,676,408) represents resources that are subject to external restrictions on how they may be used. The remaining balance on unrestricted net assets (\$225,628) 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.

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, 2011 and 2010

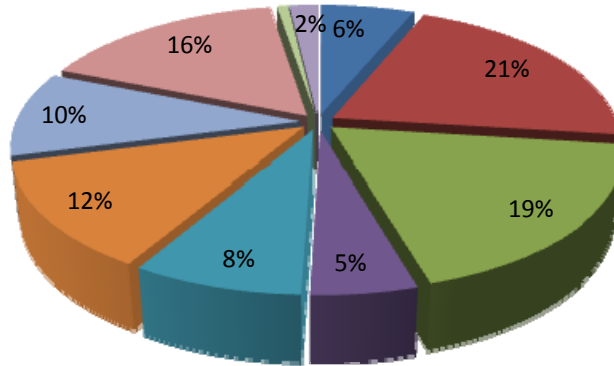
	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 22,845	\$ 21,353	\$ 1,038,686	\$ 1,084,749	\$ 1,061,531	\$ 1,106,102
Operating grants and contributions	1,500	52,233	15,000	15,000	16,500	67,233
Capital grants and contributions	928,945	176,850	349,167	966,513	1,278,112	1,143,363
General Revenues:						
Property taxes	498,670	585,477	-	-	498,670	585,477
Other taxes	1,619,514	1,571,096	-	-	1,619,514	1,571,096
Intergovernmental	101,862	100,957	-	-	101,862	100,957
Other	195,648	257,345	60,518	239,863	256,166	497,208
Total Revenues	<u>3,368,984</u>	<u>2,765,311</u>	<u>1,463,371</u>	<u>2,306,125</u>	<u>4,832,355</u>	<u>5,071,436</u>
Expenses:						
General government	1,165,818	935,719	-	-	1,165,818	935,719
Public safety	862,199	794,430	-	-	862,199	794,430
Transportation	822,485	707,944	-	-	822,485	707,944
Culture and recreation	209,257	404,978	-	-	209,257	404,978
Interest and fiscal charge	133,891	-	-	-	133,891	-
Water department	-	-	514,184	568,767	514,184	568,767
Community development	-	-	305,017	466,538	305,017	466,538
Wastewater services	-	-	214,703	192,668	214,703	192,668
Total Expenses	<u>3,193,650</u>	<u>2,843,071</u>	<u>1,033,904</u>	<u>1,227,973</u>	<u>4,227,554</u>	<u>4,071,044</u>
Change in Net Assets before Transfers	175,334	(77,760)	429,467	1,078,152	604,801	1,000,392
Transfers, net	<u>204,660</u>	<u>266,580</u>	<u>(204,660)</u>	<u>(266,580)</u>	-	-
Change in Net Assets	379,994	188,820	224,807	811,572	604,801	1,000,392
Net Assets, beginning	14,409,195	14,220,375	5,996,884	4,709,367	20,406,079	18,929,742
Capital contributions	-	-	-	475,945	-	475,945
Net Assets, ending	<u>\$ 14,789,189</u>	<u>\$ 14,409,195</u>	<u>\$ 6,221,691</u>	<u>\$ 5,996,884</u>	<u>\$ 21,010,880</u>	<u>\$ 20,406,079</u>

Business-type activities: Business-type activities increased the City's net assets by \$224,807. Key elements of this increase are as follows:

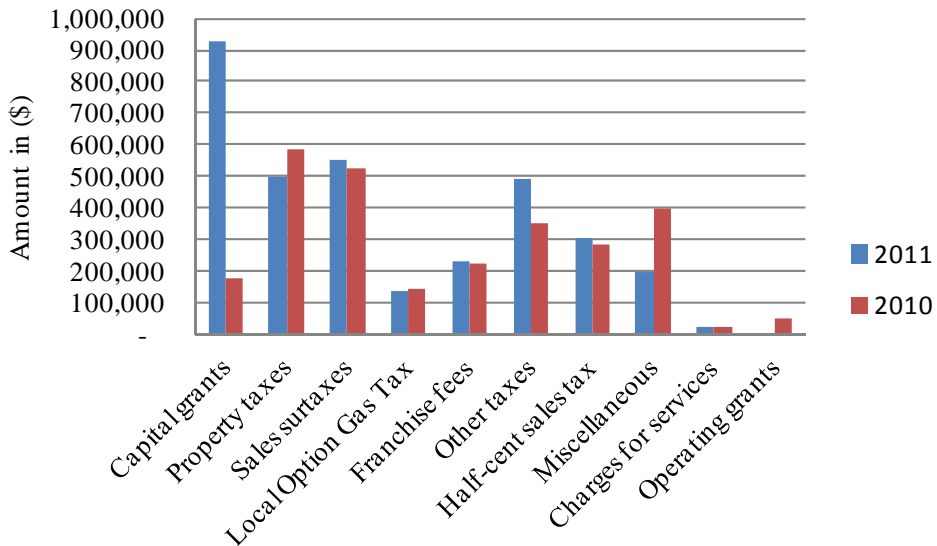
- The Water Department experienced an income before transfers out of \$600,151.
- The Community Development department experienced a loss before transfers of \$181,066.
- \$204,660 was transferred out of the business-type activities to the governmental funds.

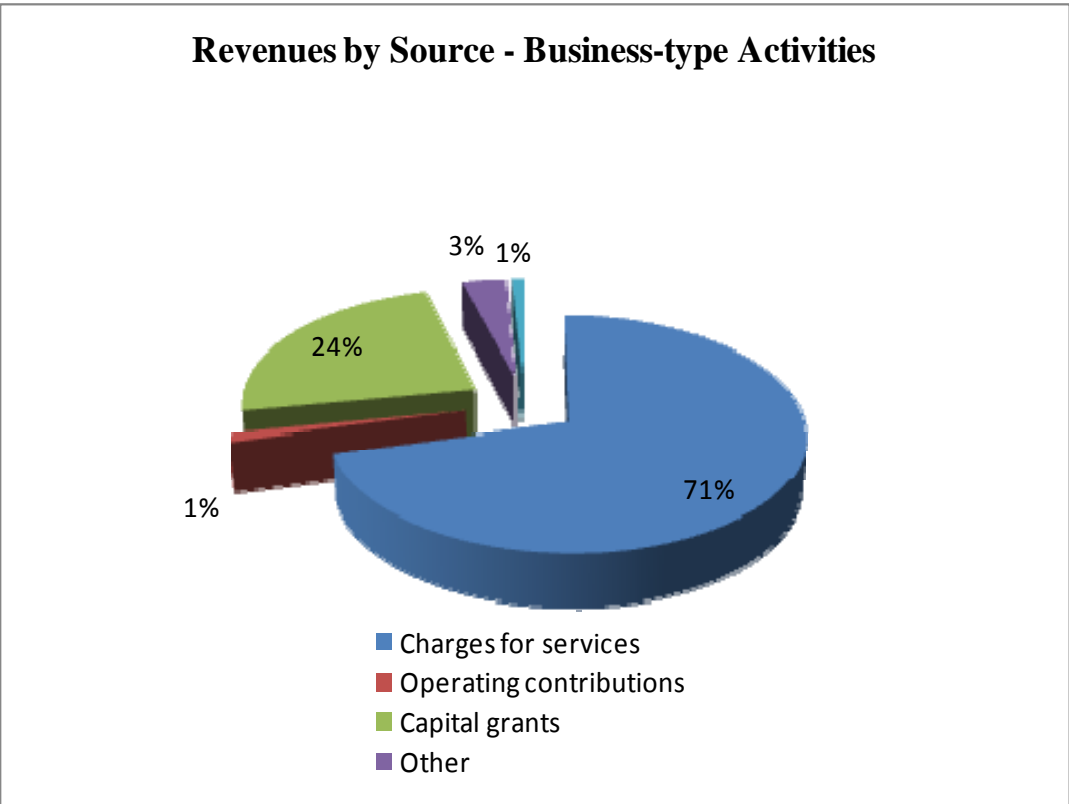
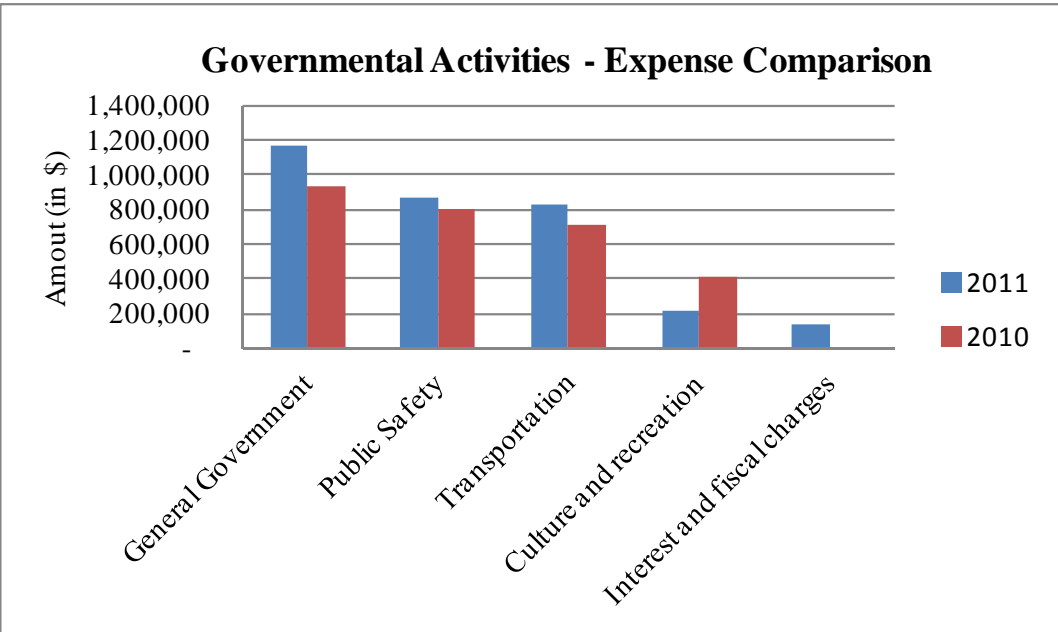
Revenues by Source - Governmental Activities

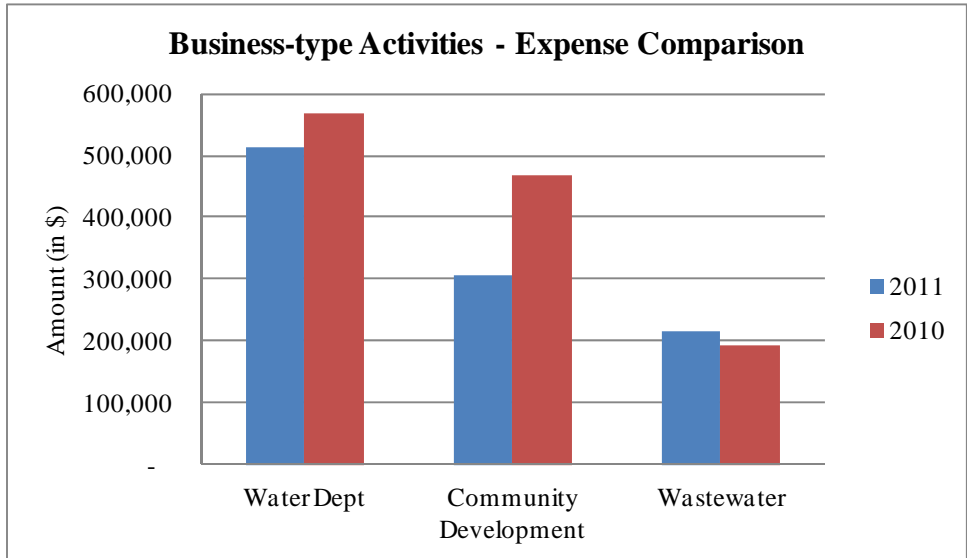
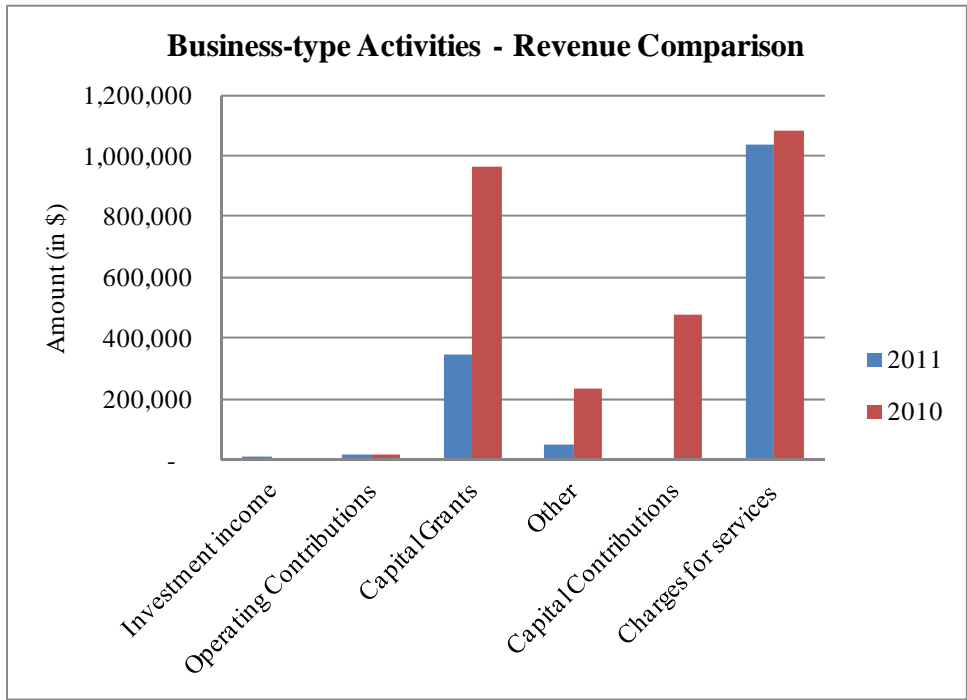
- Capital grants
- Sales surtaxes
- Franchise fees
- Half-cent sales tax
- Charges for services
- Property taxes
- Local Option Gas Tax
- Other taxes
- Miscellaneous
- Operating grants



Governmental Activities - Revenue Comparison







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 \$959,682, a decrease of \$782,125 in comparison with the prior year. An amount of \$56,837 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending.

The general fund is the main operating fund of the City. At the end of the most recent fiscal year, unassigned fund balance of the general fund was \$56,837, while the total fund balance reached \$501,035. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 3% of total general fund expenditures, while total fund balance represents 24% of that same amount. The fund balance of the City's general fund decreased by \$176,852 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 \$208,524. The total for unrestricted net assets for each of these funds was \$286,508, (\$231,469) and (\$263,563), respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City's business-type activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the City had \$23,910,284 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 \$1,580,673 or 7% over last year. This represents a 7% increase for both the governmental activities and the business-type activities.

Table 3
Capital Assets, Net of Depreciation
as of September 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 6,621,361	\$ 5,980,317	\$ 32,962	\$ 10,357	\$ 6,654,323	\$ 5,990,674
Buildings	4,387,977	403,293	-	-	4,387,977	403,293
Improvements other than buildings	972,722	1,082,627	-	-	972,722	1,082,627
Machinery and equipment	246,241	324,618	6,846,400	5,015,855	7,092,641	5,340,473
Infrastructure	4,018,678	4,262,201	-	-	4,018,678	4,262,201
Construction in progress	632,851	3,709,272	151,092	1,541,071	783,943	5,250,343
Total	\$ 16,879,830	\$ 15,762,328	\$ 7,030,454	\$ 6,567,283	\$ 23,910,284	\$ 22,329,611

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

- Various vehicles and equipment were purchased for \$21,621.
- The Save Our Old School Project was completed and capitalized at \$4,226,888 of which \$488,533 was expended in the current year.
- Improvements and roads and drainage additions amounted to \$58,363.
- The City received a donation of land worth \$392,340.

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

- Water plan expansion of \$1,852,256, of which \$459,440 was expended in the current year.
- New water lines were purchased for the water system at a cost of \$132,987.

Long-Term Debt

At the end of the 2011 fiscal year, the City of Fellsmere had total outstanding debt of \$4,801,439, an increase of \$94,893 from 2010.

Table 4
Debt
as of September 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Note payable, Series 2003 (backed by water system revenues)	\$ -	\$ -	\$ 107,143	\$ 133,929	\$ 107,143	\$ 133,929
Water revenue bond, Series 1993	-	-	1,377,000	1,413,000	1,377,000	1,413,000
Capital improvement revenue bond, Series 2008	2,946,308	3,000,000	-	-	2,946,308	3,000,000
FDEP note payable - SRF	-	-	219,607	-	219,607	-
FDEP note payable - companion	-	-	151,381	159,617	151,381	159,617
	<u>\$ 2,946,308</u>	<u>\$ 3,000,000</u>	<u>\$ 1,855,131</u>	<u>\$ 1,706,546</u>	<u>\$ 4,801,439</u>	<u>\$ 4,706,546</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 2012 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 September 2011 was 13.6%, down from 15.4% in the previous year, which is a positive sign and analogous to the economic patter existing throughout the state and the nation.

During the most recently completed fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$434,153. The City has appropriated \$400,000 of this amount for spending in the 2012 fiscal year budget. Even with this appropriation, it was determined that the millage rate for the City would need to be increased to 5.2455 mills.

The water and wastewater rates were each raised by 1.18% for the 2012 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 South Cypress Street, Fellsmere, Florida 32948-6714.

CITY OF FELLSMERE, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 144,259	\$ 180,915	\$ 325,174
Receivables	20,442	203,351	223,793
Due from other governmental units	583,080	-	583,080
Advance to other funds	409,982	(409,982)	-
Prepaid items	54,918	-	54,918
Inventory	-	14,580	14,580
Temporarily restricted assets:			
Cash and cash equivalents	243,898	1,254,895	1,498,793
Capital assets not being depreciated:			
Land	6,621,361	32,962	6,654,323
Construction in progress	632,851	151,092	783,943
Capital assets (net of accumulated depreciation):			
Buildings	4,387,977	-	4,387,977
Improvements other than buildings	972,722	-	972,722
Machinery and equipment	246,241	6,846,400	7,092,641
Infrastructure	4,018,678	-	4,018,678
Total assets	<u>18,336,409</u>	<u>8,274,213</u>	<u>26,610,622</u>
LIABILITIES			
Accounts payable and other current liabilities	418,951	23,402	442,353
Accrued interest payable	-	1,982	1,982
Accrued wages and benefits payable	14,791	-	14,791
Compensated absences	104,016	4,586	108,602
Other liabilities	-	115	115
Unearned revenues	63,154	63,862	127,016
Customers and other deposits	-	103,444	103,444
Non-current liabilities:			
Due within one year			
Notes payable	-	40,849	40,849
Revenue bond payable	-	38,000	38,000
Capital improvements revenue bond payable	55,789	-	55,789
Due in more than one year			
Notes payable	-	437,282	437,282
Revenue bond payable	-	1,339,000	1,339,000
Capital improvements revenue bond payable	2,890,519	-	2,890,519
Total liabilities	<u>3,547,220</u>	<u>2,052,522</u>	<u>5,599,742</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,933,522	5,175,322	19,108,844
Restricted for:			
Debt service	-	433,806	433,806
Renewal and replacement	393,699	719,644	1,113,343
Cemetery care - expendable	27,815	-	27,815
Other purposes	-	101,444	101,444
Unrestricted	434,153	(208,525)	225,628
Total net assets	<u>\$ 14,789,189</u>	<u>\$ 6,221,691</u>	<u>\$ 21,010,880</u>

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

CITY OF FELLSMERE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<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	\$ 1,165,818	\$ 4,433	\$ -	\$ 928,945
Public safety	862,199	10,555	1,000	-
Transportation	822,485	-	-	-
Cultural/recreation	209,257	7,857	500	-
Interest and fiscal charges	133,891	-	-	-
Total governmental activities	<u>3,193,650</u>	<u>22,845</u>	<u>1,500</u>	<u>928,945</u>
Business-type activities:				
Water department	514,184	731,467	-	349,167
Community development	305,017	82,155	15,000	-
Wastewater services	214,703	225,064	-	-
Total business-type activities	<u>1,033,904</u>	<u>1,038,686</u>	<u>15,000</u>	<u>349,167</u>
Total government	<u>\$ 4,227,554</u>	<u>\$ 1,061,531</u>	<u>\$ 16,500</u>	<u>\$ 1,278,112</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

 Total general revenues

Transfers

 Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

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

Governmental Activities	Business-type Activities	Total
\$ (232,440)	\$ -	\$ (232,440)
(850,644)	-	(850,644)
(822,485)	-	(822,485)
(200,900)	-	(200,900)
(133,891)	-	(133,891)
(2,240,360)	-	(2,240,360)
-	566,450	566,450
-	(207,862)	(207,862)
-	10,361	10,361
-	368,949	368,949
\$ (2,240,360)	\$ 368,949	\$ (1,871,411)
\$ 498,670	\$ -	\$ 498,670
551,732	-	551,732
137,463	-	137,463
230,243	-	230,243
268,297	-	268,297
82,300	-	82,300
40,920	-	40,920
303,087	-	303,087
5,472	11,525	16,997
101,862	-	101,862
195,648	48,993	244,641
2,415,694	60,518	2,476,212
204,660	(204,660)	-
2,620,354	(144,142)	2,476,212
379,994	224,807	604,801
14,409,195	5,996,884	20,406,079
\$ 14,789,189	\$ 6,221,691	\$ 21,010,880

CITY OF FELLSMERE, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General</u>	<u>Infrastructure</u>	<u>Special Projects</u>
ASSETS			
Cash and cash equivalents	\$ 10,565	\$ -	\$ 133,694
Accounts receivable	20,442	-	-
Restricted cash and cash equivalents	-	53,598	-
Due from other governments	71,832	87,561	-
Prepaid items	54,918	-	-
Advance to other funds	361,465	48,517	-
Total assets	<u>\$ 519,222</u>	<u>\$ 189,676</u>	<u>\$ 133,694</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,700	\$ -	\$ 7,287
Wages payable	14,791	-	-
Deferred revenues	1,695	-	61,459
Total liabilities	<u>18,186</u>	<u>-</u>	<u>68,746</u>
Fund balances:			
Nonspendable	416,383	48,517	-
Restricted	-	141,159	-
Committed	27,815	-	64,948
Unassigned	56,838	-	-
Total fund balances	<u>501,036</u>	<u>189,676</u>	<u>64,948</u>
Total liabilities and fund balances	<u>\$ 519,222</u>	<u>\$ 189,676</u>	<u>\$ 133,694</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	Community Development Block Grant V	Save Our Old School	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 144,259
-	-	-	-	20,442
4,550	-	-	185,750	243,898
-	276,642	-	147,045	583,080
-	-	-	-	54,918
-	-	-	-	409,982
<u>\$ 4,550</u>	<u>\$ 276,642</u>	<u>\$ -</u>	<u>\$ 332,795</u>	<u>\$ 1,456,579</u>

\$ -	\$ 278,862	\$ -	\$ 131,102	\$ 418,951
-	-	-	-	14,791
-	-	-	-	63,154
<u>-</u>	<u>278,862</u>	<u>-</u>	<u>131,102</u>	<u>496,896</u>

-	-	-	-	464,900
4,550	(2,220)	-	201,693	345,182
-	-	-	-	92,763
-	-	-	-	56,838
<u>4,550</u>	<u>(2,220)</u>	<u>-</u>	<u>201,693</u>	<u>959,683</u>
<u>\$ 4,550</u>	<u>\$ 276,642</u>	<u>\$ -</u>	<u>\$ 332,795</u>	

16,879,830
(104,016)
(2,946,308)
\$ 14,789,189

CITY OF FELLSMERE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>General</u>	<u>Infrastructure</u>	<u>Special Projects</u>	<u>Community Redevelopment Agency</u>
REVENUES:				
Taxes:				
Property	\$ 498,670	\$ -	\$ -	\$ -
Public utility	268,297	-	-	-
Sales	-	551,732	-	-
Motor fuel	-	-	-	-
Communications services	82,300	-	-	-
Franchise fees	230,243	-	-	-
Intergovernmental	446,869	-	-	-
Charges for services	21,701	-	-	-
Fines	1,145	-	-	-
Investment earnings	5,174	271	-	26
Contributions and donations	500	-	-	-
Other revenue	76,898	-	172,154	17,790
Total revenues	<u>1,631,797</u>	<u>552,003</u>	<u>172,154</u>	<u>17,816</u>
EXPENDITURES:				
Current:				
General government	822,341	291	7,287	51,136
Public safety	800,897	-	-	-
Transportation	421,665	-	-	-
Culture and recreation	47,398	-	-	-
Debt service:				
Principal	-	53,692	-	-
Interest and fiscal charges	-	133,891	-	-
Capital outlay	<u>2,619</u>	<u>13,786</u>	<u>139,654</u>	<u>5,217</u>
Total expenditures	<u>2,094,920</u>	<u>201,660</u>	<u>146,941</u>	<u>56,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(463,123)</u>	<u>350,343</u>	<u>25,213</u>	<u>(38,537)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	327,265	-	-	25,513
Transfers out	<u>(40,993)</u>	<u>(798,707)</u>	<u>(1,250)</u>	<u>(40,992)</u>
Total other financing sources (uses)	<u>286,272</u>	<u>(798,707)</u>	<u>(1,250)</u>	<u>(15,479)</u>
Net changes in fund balances	(176,851)	(448,364)	23,963	(54,016)
Fund balances - beginning	<u>677,887</u>	<u>638,040</u>	<u>40,985</u>	<u>58,566</u>
Fund balances - ending	<u>\$ 501,036</u>	<u>\$ 189,676</u>	<u>\$ 64,948</u>	<u>\$ 4,550</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 to financial statements are an integral part of these financial statements.

Community Development Block Grant V	Save Our Old School	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 498,670
-	-	-	268,297
-	-	-	551,732
-	-	137,463	137,463
-	-	-	82,300
-	-	-	230,243
276,641	-	259,963	983,473
-	-	-	21,701
-	-	-	1,145
-	-	-	5,471
-	-	-	500
-	-	(62,448)	204,394
<u>276,641</u>	<u>-</u>	<u>334,978</u>	<u>2,985,389</u>
-	-	1,250	882,305
-	-	-	800,897
-	-	37,237	458,902
-	-	-	47,398
-	-	-	53,692
-	-	-	133,891
<u>357,684</u>	<u>488,532</u>	<u>587,596</u>	<u>1,595,088</u>
<u>357,684</u>	<u>488,532</u>	<u>626,083</u>	<u>3,972,173</u>
<u>(81,043)</u>	<u>(488,532)</u>	<u>(291,105)</u>	<u>(986,784)</u>
78,823	400,587	322,547	1,154,735
-	(24,650)	(43,483)	(950,075)
<u>78,823</u>	<u>375,937</u>	<u>279,064</u>	<u>204,660</u>
(2,220)	(112,595)	(12,041)	(782,124)
-	112,595	213,734	1,741,807
<u>\$ (2,220)</u>	<u>\$ -</u>	<u>\$ 201,693</u>	<u>\$ 959,683</u>
			(782,124)
		1,595,088	
Depreciation expense		<u>(869,927)</u>	725,161
			53,692
			(9,075)
			<u>392,340</u>
			<u>\$ 379,994</u>

CITY OF FELLSMERE, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 180,814	\$ 101	\$ -	\$ 180,915
Restricted cash, cash equivalents and investments:				
Reserves	1,190,088	-	64,807	1,254,895
Accounts receivable	58,389	132,577	12,385	203,351
Advance to other funds	124,221	-	(124,221)	-
Inventory	14,580	-	-	14,580
Total current assets	<u>1,568,092</u>	<u>132,678</u>	<u>(47,029)</u>	<u>1,653,741</u>
Noncurrent assets:				
Capital assets:				
Land	32,962	-	-	32,962
Machinery and equipment	6,819,213	24,682	1,635,560	8,479,455
Construction in progress	111,951	-	39,141	151,092
Less accumulated depreciation	<u>(1,378,800)</u>	<u>(19,301)</u>	<u>(234,955)</u>	<u>(1,633,056)</u>
Total noncurrent assets	<u>5,585,326</u>	<u>5,381</u>	<u>1,439,746</u>	<u>7,030,453</u>
Total assets	<u>7,153,418</u>	<u>138,059</u>	<u>1,392,717</u>	<u>8,684,194</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	9,591	1,260	12,665	23,516
Due to other funds	-	296,665	113,317	409,982
Unearned revenues	79,198	62,362	25,746	167,306
Accrued compensated absences	725	3,861	-	4,586
Interest payable	1,982	-	-	1,982
Notes and loans payable	40,849	-	-	40,849
Matured bonds payable	38,000	-	-	38,000
Total current liabilities	<u>170,345</u>	<u>364,148</u>	<u>151,728</u>	<u>686,221</u>
Noncurrent liabilities:				
Notes and loans payable	80,357	-	-	80,357
Bonds payable (net of unamortized premium and deferred amount on refunding)	1,695,925	-	-	1,695,925
Total noncurrent liabilities	<u>1,776,282</u>	<u>-</u>	<u>-</u>	<u>1,776,282</u>
Total liabilities	<u>1,946,627</u>	<u>364,148</u>	<u>151,728</u>	<u>2,462,503</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,730,195	5,381	1,439,746	5,175,322
Restricted for:				
Revenue bond debt service	433,806	-	-	433,806
Renewal and replacement	677,084	-	42,560	719,644
Other purposes	79,198	-	22,246	101,444
Unrestricted	286,508	(231,470)	(263,563)	(208,525)
Total net assets	<u>\$ 5,206,791</u>	<u>\$ (226,089)</u>	<u>\$ 1,240,989</u>	<u>\$ 6,221,691</u>

The accompanying notes to financial statements 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, 2011

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
Operating revenues:				
Intergovernmental	\$ 349,167	\$ -	\$ -	\$ 349,167
Charges for services	718,162	-	223,447	941,609
Building permits, licenses, fees	-	51,922	-	51,922
Taxes	-	30,233	-	30,233
Contributions and donations		15,000		15,000
Other revenue	35,502	26,796	1,617	63,915
Total operating revenues	1,102,831	123,951	225,064	1,451,846
Operating expenses:				
Salaries, wages and employee benefits	58,295	169,253	-	227,548
Contractual services, materials and supplies	260,411	131,883	181,993	574,287
Depreciation	119,134	3,882	32,711	155,727
Total operating expenses	437,840	305,018	214,704	957,562
Operating income (loss)	664,991	(181,067)	10,360	494,284
Nonoperating revenues (expenses):				
Interest income	11,503	-	22	11,525
Interest expense	(76,342)	-	-	(76,342)
Total nonoperating revenues (expenses)	(64,839)	-	22	(64,817)
Income/(Loss) before capital contributions and transfers	600,152	(181,067)	10,382	429,467
Transfer in	-	23,040	-	23,040
Transfer out	(126,600)	(45,000)	(56,100)	(227,700)
Change in net assets	473,552	(203,027)	(45,718)	224,807
Total net assets - beginning	4,733,239	(23,062)	1,286,707	5,996,884
Total net assets - ending	<u>\$ 5,206,791</u>	<u>\$ (226,089)</u>	<u>\$ 1,240,989</u>	<u>\$ 6,221,691</u>

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

CITY OF FELLSMERE, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise Funds			Totals
	Water Department	Community Development	Wastewater Service	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 1,667,135	\$ 336,967	\$ 218,244	\$ 2,222,346
Cash payments to suppliers	(712,480)	(145,754)	(284,541)	(1,142,775)
Cash payments for employee services	(58,295)	(169,253)	-	(227,548)
Net cash provided (used) by operating activities	<u>896,360</u>	<u>21,960</u>	<u>(66,297)</u>	<u>852,023</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advance to other funds	(124,221)	-	124,221	-
Transfer to other fund	(126,600)	(45,000)	(56,100)	(227,700)
Transfer from other fund	-	23,040	-	23,040
Net cash provided (used) by noncapital financing activities	<u>(250,821)</u>	<u>(21,960)</u>	<u>68,121</u>	<u>(204,660)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(616,060)	-	(2,837)	(618,897)
Receipt from notes payable	219,084	-	-	219,084
Principal paid on long term debt	(70,499)	-	-	(70,499)
Interest paid on revenue bonds and notes payable	(76,341)	-	-	(76,341)
Net cash provided (used) by capital and related financing activities	<u>(543,816)</u>	<u>-</u>	<u>(2,837)</u>	<u>(546,653)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	11,500	-	24	11,524
Net cash provided by investing activities	<u>11,500</u>	<u>-</u>	<u>24</u>	<u>11,524</u>
Net increase (decrease) in cash and cash equivalents	113,223	-	(989)	112,234
Cash and cash equivalents, October 1, 2010	1,257,679	101	65,796	1,323,576
Cash and cash equivalents, September 30, 2011	<u>\$ 1,370,902</u>	<u>\$ 101</u>	<u>\$ 64,807</u>	<u>\$ 1,435,810</u>

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

CITY OF FELLOSMERE, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(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)	\$ 664,991	\$ (181,067)	\$ 10,360	\$ 494,284
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	119,134	3,882	32,711	155,727
(Increase) Decrease in assets:				
Accounts receivable	11,883	48,571	(6,820)	53,634
Due from other governments	547,761	35	-	547,796
Inventories	(173)	-	-	(173)
Prepaid expenses	46	113	-	159
Increase (Decrease) in liabilities:				
Accounts payable	(451,942)	(13,984)	(102,548)	(568,474)
Unearned revenues	4,660	32,910	-	37,570
Due to other funds	-	131,500	-	131,500
Total adjustments	231,369	203,027	(76,657)	357,739
Net cash provided (used) by operating activities	<u>896,360</u>	<u>21,960</u>	<u>(66,297)</u>	<u>852,023</u>
Cash and cash equivalents reconciliation:				
Current assets:				
Cash and cash equivalents	180,814	101	-	180,915
Restricted assets:				
Cash and cash equivalents	1,190,088	-	64,807	1,254,895
Cash and cash equivalents at September 30	<u>\$ 1,370,902</u>	<u>\$ 101</u>	<u>\$ 64,807</u>	<u>\$ 1,435,810</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 5,220.

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 net assets” or invested in capital assets, net of related debt.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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 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 segments 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 measureable 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 measureable. 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 measureable 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 FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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

The *Community Development Block Grant V fund* accounts for the activities of the Small Cities Community Development Block Grant.

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

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 FELLOSMERE, 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, 2011.

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 considered nonspendable 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 \$64,800 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 FELLOSMERE, 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, 2011, as all receivables are considered collectible.

5. Inventory and Prepaid Items

Inventory at September 30, 2011 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 FELLSMERE, 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

GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions, is effective for periods beginning after June 15, 2010, with early implementation encouraged. The City chose to implement the statement for the year ended September 30, 2011. It establishes criteria for classifying fund balances into specifically defined classifications. These classifications are explained as follows:

Nonspendable - amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact.

Restricted - amounts where constraints have been placed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, which is the City Council, in the form of a resolution or an ordinance.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Assigned - amounts that are constrained by government's intent to be used for specific purposes but are either restricted or committed.

Unassigned - amounts representing fund balance that has not been restricted, committed or assigned to specific purposes within the general fund and potential negative balances in other funds that occur due to expenditures in excess of amounts restricted, committed or assigned to those purposes.

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.

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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

The City Council is authorized to amend the budget to utilize excess funds, to increase appropriations, to transfer funds, or for other purposes, as necessary. The final adoption of the City budget complies with the “Truth in Millage” Statute of Florida that mandates two public hearings prior to the adoption of the ad valorem tax millage rate and budget. Prior to October 1 of each year, the public hearings are held, and the Council adopts the final budget and establishes the ad valorem tax millage rate.

The budget may be formally amended by the City Council at any time during the fiscal year; however, in practice it is rarely amended. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, using the modified accrual basis of accounting. Within the 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, 2011. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

III. DETAIL NOTES ON ALL FUNDS

A. Deposits

At September 30, 2011, the carrying amount of the City’s deposits with banks was \$1,823,883 and the bank balance was \$1,830,608. 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, 2011, restricted cash of \$53,597 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 \$4,550 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 \$179,000 in unspent local option gas tax funds.

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

B. Restricted Cash - continued

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. Restricted cash also includes \$6,750 in unspent FDEP Trail Head Preserve LWCF funds. Under Florida law, these funds may be used only for park improvements.

Restricted cash in the Enterprise Fund at September 30, 2011 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$677,084 and \$42,560, 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 \$433,806 and customer deposits of the water and wastewater systems of \$79,198 and \$22,246, respectively.

C. Receivable and Payable Balances

Receivables at September 30, 2011 were as follows:

	<u>Accounts Receivable</u>	<u>Due From Other Governments</u>	<u>Total</u>
Governmental Activities:			
General	\$ 20,442	\$ 71,832	\$ 92,274
Infrastructure	-	87,561	87,561
Community Block Grant V	-	276,642	276,642
Local Option Gas Tax	-	22,693	22,693
FDEP Wetlands Park LWCF	-	124,352	124,352
	<u>\$ 20,442</u>	<u>\$ 583,080</u>	<u>603,522</u>
Business-Type Activities			
Water Department	\$ 58,389	\$ -	\$ 58,389
Wastewater Service	12,385	-	12,385
Community Development	132,577	-	132,577
	<u>\$ 203,351</u>	<u>\$ -</u>	<u>\$ 203,351</u>

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

C. Receivable and Payable Balances - continued

All receivables were anticipated to be collected.

The U.S. National Parks Service has approved a grant which will be passed through to the City from the Florida Department of Environmental Protection to purchase land that was available to the City through a bank foreclosure sale. The land was purchased in anticipation of receiving the matching grant. The written grant agreement has not been received by the City as of the date of the issuance of the audited financial statements but the funds are expected to be received within one year from the end of the fiscal period. The City has recorded the revenue and due from other governments for the amount expected to be received.

Payables at September 30, 2011 were as follows:

	Vendors and accruals	IRC Capacity Charge	Deposits	Total
Governmental Activities:				
General Fund	\$ 120,507	\$ -	\$ 1,695	\$ 122,202
FDEP Trail Head Pres LWCF	6,750	-	-	6,750
FDEP Wetlands Park LWCF	124,352	-	-	124,352
CDBG Phase V	278,862	-	-	278,862
Special Projects	7,287	-	61,459	68,746
	<u>\$ 537,758</u>	<u>\$ -</u>	<u>\$ 63,154</u>	<u>\$ 600,912</u>
Business-Type Activities				
Water Department	\$ 12,303	\$ -	\$ 79,198	\$ 91,501
Wastewater Service	12,663	-	25,746	38,409
Community Development	5,119	33,304	29,058	67,481
	<u>\$ 30,085</u>	<u>\$ 33,304</u>	<u>\$ 134,002</u>	<u>\$ 197,391</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, 2011, there was \$63,154 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, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,980,317	\$ 641,044	\$ -	\$ 6,621,361
Construction in progress	3,709,272	556,719	(3,633,140)	632,851
Total capital assets, not being depreciated	<u>9,689,589</u>	<u>1,197,763</u>	<u>(3,633,140)</u>	<u>7,254,212</u>
Capital assets, being depreciated:				
Buildings	1,105,667	4,226,889	-	5,332,556
Improvements other than buildings	2,645,586	115,933	-	2,761,520
Machinery and equipment	1,379,596	21,621	-	1,401,216
Infrastructure	5,993,966	58,363	-	6,052,329
Total capital assets, being depreciated	<u>11,124,815</u>	<u>4,422,806</u>	<u>-</u>	<u>15,547,621</u>
Less accumulated depreciation for:				
Buildings	(702,374)	(242,205)	-	(944,579)
Improvements other than buildings	(1,562,959)	(225,838)	-	(1,788,797)
Machinery and equipment	(1,054,978)	(99,998)	-	(1,154,976)
Infrastructure	(1,731,765)	(301,886)	-	(2,033,651)
Total accumulated depreciation	<u>(5,052,076)</u>	<u>(869,927)</u>	<u>-</u>	<u>(5,922,003)</u>
Total capital assets, being depreciated, net	<u>6,072,739</u>	<u>3,552,879</u>	<u>-</u>	<u>9,625,618</u>
Governmental activities capital assets, net	<u><u>\$ 15,762,328</u></u>	<u><u>\$ 4,750,642</u></u>	<u><u>\$ (3,633,140)</u></u>	<u><u>\$ 16,879,830</u></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	\$ 22,605	\$ -	\$ 32,962
Construction in progress	1,541,071	2,837	(1,392,816)	151,092
Total capital assets, not being depreciated	<u>1,551,428</u>	<u>25,442</u>	<u>(1,392,816)</u>	<u>184,054</u>
Capital assets, being depreciated:				
Water Plant	930,571	1,852,258	-	2,782,829
Water Lines	3,419,493	132,987	-	3,552,480
Water Tank	411,683	-	-	411,683
Vehicle & Equipment	71,195	1,027	-	72,222
Equipment	24,682	-	-	24,682
Wastewater Lines	1,635,560	-	-	1,635,560
Total capital assets, being depreciated	<u>6,493,184</u>	<u>1,986,272</u>	<u>-</u>	<u>8,479,456</u>
Less accumulated depreciation for:				
Water Plant	(228,088)	(37,134)	-	(265,222)
Water Lines	(835,946)	(70,116)	-	(906,062)
Water Tank	(128,995)	(8,234)	-	(137,229)
Vehicle & Equipment	(66,637)	(3,650)	-	(70,287)
Equipment	(15,419)	(3,882)	-	(19,301)
Wastewater Lines	(202,244)	(32,711)	-	(234,955)
Total accumulated depreciation	<u>(1,477,329)</u>	<u>(155,727)</u>	<u>-</u>	<u>(1,633,056)</u>
Total capital assets, being depreciated, net	<u>5,015,855</u>	<u>1,830,545</u>	<u>-</u>	<u>6,846,400</u>
Business-type activities capital assets, net	<u>\$ 6,567,283</u>	<u>\$ 1,855,987</u>	<u>\$ (1,392,816)</u>	<u>\$ 7,030,454</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	\$ 283,181
Public safety	61,302
Transportation	363,585
Cultural and recreation	<u>161,859</u>
Total depreciation expense - governmental activities	<u><u>\$ 869,927</u></u>
Business-type activities	
Water department	\$ 119,134
Wastewater service	32,711
Community development	<u>3,882</u>
Total depreciation expense - business-type activities	<u><u>\$ 155,727</u></u>

Construction Commitments

The City has various construction commitments outstanding at September 30, 2011. The major commitments include the following:

Project	Spent to-date	Remaining commitment	Major funding source
CDBG Phase V	\$ 357,684	\$ 642,316	Grant
FDEP LWCF Trail Head Preserve	53,210	346,790	Grant
Willow Street Improvement	140,594	35,000	Developer
Well Field Expansion	110,151	148,500	Impact Fees
Fellsmere Inn W/W	39,141	220,000	Grant
	<u><u>\$ 700,780</u></u>	<u><u>\$ 1,392,606</u></u>	

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

E. Advances

Advance balances at September 30, 2011 consisted of the following amounts:

Funds advanced to			
Funds advanced from	Wastewater service	Community development	Total
General	\$ 64,800	\$ 296,665	\$ 361,465
Infrastructure	48,517	-	48,517
Water Department	124,221	-	124,221
	\$ 237,538	\$ 296,665	\$ 534,203

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	Transfers Out								
	General	Infrastructure	Special Projects	CRA	Save Our School	LOGT	Water Department	Wastewater Service	Community Development
General	\$ -	\$ -	\$ -	\$ 36,412	\$ 24,650	\$ 43,483	\$ 124,080	\$ 53,640	\$ 45,000
CRA	25,513	-	-	-	-	-	-	-	-
Save Our Old School	-	400,587	-	-	-	-	-	-	-
CDBG Phase V	-	78,823	-	-	-	-	-	-	-
FEMA Hazard Mit	-	4,120	-	-	-	-	-	-	-
EECBG	-	16	-	-	-	-	-	-	-
U & C Forrestry	-	-	1,250	-	-	-	-	-	-
FRDAP Grant Park	-	140,161	-	-	-	-	-	-	-
HC& J Stormwater	-	2,199	-	-	-	-	-	-	-
FRDAP Trail Head	-	3,199	-	-	-	-	-	-	-
FRDAP LWCF	-	45,250	-	-	-	-	-	-	-
FDEP Wetlands	-	124,352	-	-	-	-	-	-	-
Marian Fell Library	-	-	-	2,000	-	-	-	-	-
Comm Develop	15,480	-	-	2,580	-	-	2,520	2,460	-

CITY OF FELLSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

III. DETAIL NOTES ON ALL FUNDS - (continued)

G. Long-Term Obligations

a. 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.

b. 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 \$304,000 in 2011.

c. 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)

d. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities as of September 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital improvement bond	\$ 3,000,000	\$ -	\$ (53,692)	\$ 2,946,308	\$ 55,789
	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ (53,692)</u>	<u>\$ 2,946,308</u>	<u>\$ 55,789</u>
Business-type activities					
Note	\$ 133,929	\$ -	\$ (26,786)	\$ 107,143	\$ 26,786
Construction notes	159,617	219,084	(7,713)	370,988	14,063
Revenue bond	1,413,000	-	(36,000)	1,377,000	38,000
	<u>\$ 1,706,546</u>	<u>\$ 219,084</u>	<u>\$ (70,499)</u>	<u>\$ 1,855,131</u>	<u>\$ 78,849</u>

e. Debt Service Requirements to Maturity

The annual requirement to amortize all bonded debt outstanding at September 30, 2011, including interest requirements, is as follows:

Fiscal Year	Capital Improvement		Note Payable		Construction Notes Payable		Revenue Bond		Interest
	Bond	Interest	Payable	Interest	Notes Payable	Interest	Bond		
2012	\$ 55,789	\$ 131,793	\$ 26,786	\$ 4,858	\$ 14,063	\$ 9,549	\$ 38,000	\$ 61,965	
2013	58,721	128,861	26,786	3,270	14,952	9,156	40,000	60,255	
2014	61,419	126,164	26,786	1,963	15,356	8,752	42,000	58,455	
2015	64,240	123,342	26,785	655	15,771	8,337	43,000	56,565	
2016	66,892	120,690			15,797	7,911	45,000	54,630	
Thereafter	2,639,247	1,550,122	-	-	295,049	59,005	1,169,000	528,795	
	<u>\$ 2,946,308</u>	<u>\$ 2,180,972</u>	<u>\$ 107,143</u>	<u>\$ 10,746</u>	<u>\$ 370,988</u>	<u>\$ 102,710</u>	<u>\$ 1,377,000</u>	<u>\$ 820,665</u>	

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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, 2011, 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.

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, 2011, upon which the 2010 – 2011 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.

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

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 13% of employee salaries and wages for employees who contributed 4% in 2011 for 2011. Employer and employee contributions to the plan were \$89,640 and \$65,170, respectively in 2011. 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.

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 13% of employee salaries and wages for employees who contributed 4% in 2011. 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 \$58,138 for the fiscal year ended September 30, 2011. 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.

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

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, 2011, the City credited \$3,500 to each employee's account, or \$5,250 for employees with dependent coverage, which amounted to \$127,750. 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 percentage (as determined by the City Council) of the employee's remaining balance in the health reimbursement account is swept from that account into the retirement health savings plan. For the year ended September 30, 2011, the percent contributed to the retirement health savings account was 15% of each employee's remaining balance in the health reimbursement account, which amounted to \$38,539.

The retirement health savings account is administered by an independent plan administrator who also manages the associated funds. All amounts deposited into the fund, all property and rights purchased with those amounts, and all income attributable to those accounts are solely the property and rights of the City employees and their beneficiaries, and are not accessible by the City or its creditors. Neither the City nor the independent plan administrator have any liability for losses under the plan agreement, but they do have the duty of due care that would be required of any ordinary prudent investor.

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 and/or investments, as required by Florida Statutes, throughout the fiscal year ended September 30, 2011.

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

CITY OF FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

F. Grantor Audits - continued

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 in a limited partnership, received as a donation in a prior year, described as follows:

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

At December 31, 2011, 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.

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 FELLOSMERE, FLORIDA
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION - (continued)

I. Fund Balances:

The balance sheet for governmental funds presents fund balances in specifically defined classifications, which are detailed as follows:

Nonspendable:	
Prepaid items	\$ 54,918
Advance to other funds	409,982
Total	<u>464,900</u>
Restricted	
Capital projects fund	138,939
Special projects funds	201,693
Community redevelopment	4,550
Total	<u>\$ 345,182</u>
Committed	
Brookside Cemetery	27,815
Special projects fund	64,948
Total	<u>\$ 92,763</u>
Unassigned	<u>\$ 56,838</u>

CITY OF FELLSMERE, FLORIDA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<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	\$ 525,670	\$ 525,670	\$ 498,666	\$ (27,004)
Public utility	272,810	272,810	268,297	(4,513)
Communications services	100,310	100,310	82,300	(18,010)
Franchise fees	239,580	239,580	230,243	(9,337)
Intergovernmental	561,460	561,460	446,869	(114,591)
Charges for services	35,660	35,660	21,701	(13,959)
Fines	2,470	2,470	1,145	(1,325)
Contributions and donations	1,500	1,500	500	(1,000)
Investment earnings	3,500	3,500	5,174	1,674
Other revenue	42,550	42,550	76,901	34,351
Total revenues	<u>1,785,510</u>	<u>1,785,510</u>	<u>1,631,796</u>	<u>(153,714)</u>
EXPENDITURES:				
Current:				
General government	1,204,590	1,204,590	822,341	382,249
Public safety	841,830	841,830	800,897	40,933
Transportation	405,210	405,210	421,665	(16,455)
Culture and recreation	48,580	48,580	47,398	1,182
Capital outlay	-	-	2,619	(2,619)
Total expenditures	<u>2,500,210</u>	<u>2,500,210</u>	<u>2,094,920</u>	<u>405,290</u>
Excess (Deficiency) of revenues over (under) expenditures	(714,700)	(714,700)	(463,124)	251,576
OTHER FINANCING SOURCES (USES):				
Transfers in	398,660	398,660	327,265	(71,395)
Transfers out	(58,960)	(58,960)	(40,993)	17,967
Total other financing sources (uses)	<u>339,700</u>	<u>339,700</u>	<u>286,272</u>	<u>(53,428)</u>
Net changes in fund balances	(375,000)	(375,000)	(176,852)	198,148
Fund balances - beginning	677,887	677,887	677,887	-
Fund balances - ending	<u>\$ 302,887</u>	<u>\$ 302,887</u>	<u>\$ 501,035</u>	<u>\$ 198,148</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, 2011

	<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	\$ 554,880	\$ 554,880	\$ 551,732	\$ (3,148)
Other revenue	1,000	1,000	271	(729)
Total revenues	<u>555,880</u>	<u>555,880</u>	<u>552,003</u>	<u>(3,877)</u>
EXPENDITURES:				
Current:				
General government	200	200	291	(91)
Debt service	182,410	182,410	187,583	(5,173)
Capital outlay	-	-	13,786	(13,786)
Total expenditures	<u>182,610</u>	<u>182,610</u>	<u>201,660</u>	<u>(19,050)</u>
Excess (Deficiency) of revenues over (under) expenditures	373,270	373,270	350,343	(22,927)
OTHER FINANCING SOURCES (USES):				
Transfers in	575,940	575,940	-	(575,940)
Transfers out	<u>(933,110)</u>	<u>(933,110)</u>	<u>(798,707)</u>	<u>134,403</u>
Total other financing sources (uses)	<u>(357,170)</u>	<u>(357,170)</u>	<u>(798,707)</u>	<u>(441,537)</u>
Net changes in fund balances	16,100	16,100	(448,364)	(464,464)
Fund balances - beginning	<u>638,040</u>	<u>638,040</u>	<u>638,040</u>	<u>-</u>
Fund balances - ending	<u>\$ 654,140</u>	<u>\$ 654,140</u>	<u>\$ 189,676</u>	<u>\$ (464,464)</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, 2011

	<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	\$ 35,000	\$ 35,000	\$ 172,154	\$ 137,154
Total revenues	<u>35,000</u>	<u>35,000</u>	<u>172,154</u>	<u>137,154</u>
EXPENDITURES:				
General government	43,390	43,390	7,287	36,103
Capital outlay	201,110	201,110	139,654	61,456
Total expenditures	<u>244,500</u>	<u>244,500</u>	<u>146,941</u>	<u>97,559</u>
Excess(Deficiency) of revenues over (under) expenditures	(209,500)	(209,500)	25,213	234,713
OTHER FINANCING SOURCES (USES):				
Transfers out	(7,500)	(7,500)	(1,250)	6,250
Total other financing sources (uses)	<u>(7,500)</u>	<u>(7,500)</u>	<u>(1,250)</u>	<u>6,250</u>
Net changes in fund balances	(217,000)	(217,000)	23,963	240,963
Fund balances - beginning	40,985	40,985	40,985	-
Fund balances - ending	<u>\$ (176,015)</u>	<u>\$ (176,015)</u>	<u>\$ 64,948</u>	<u>\$ 240,963</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, 2011

	<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	\$ 500	\$ 500	\$ 26	\$ (474)
Other revenue	19,510	19,510	17,790	(1,720)
Total revenues	<u>20,010</u>	<u>20,010</u>	<u>17,816</u>	<u>(2,194)</u>
EXPENDITURES:				
Current:				
General government	69,550	69,550	51,136	18,414
Capital outlay	-	-	5,217	(5,217)
Total expenditures	<u>69,550</u>	<u>69,550</u>	<u>56,353</u>	<u>13,197</u>
Excess (Deficiency) of revenues over (under) expenditures	(49,540)	(49,540)	(38,537)	11,003
OTHER FINANCING SOURCES (USES):				
Transfers in	27,980	27,980	25,513	(2,467)
Transfers out	<u>(28,440)</u>	<u>(28,440)</u>	<u>(40,992)</u>	<u>(12,552)</u>
Total other financing sources (uses)	<u>(460)</u>	<u>(460)</u>	<u>(15,479)</u>	<u>(15,019)</u>
Net changes in fund balances	(50,000)	(50,000)	(54,016)	(4,016)
Fund balances - beginning	58,566	58,566	58,566	-
Fund balances - ending	<u>\$ 8,566</u>	<u>\$ 8,566</u>	<u>\$ 4,550</u>	<u>\$ (4,016)</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 DEVELOPMENT BLOCK GRANT V FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<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:				
Intergovernmental revenues	\$ 700,000	\$ 700,000	\$ 276,641	\$ (423,359)
Total revenues	<u>700,000</u>	<u>700,000</u>	<u>276,641</u>	<u>(423,359)</u>
EXPENDITURES:				
General government	110,000	110,000	-	110,000
Capital outlay	<u>875,000</u>	<u>875,000</u>	<u>357,684</u>	<u>517,316</u>
Total expenditures	<u>985,000</u>	<u>985,000</u>	<u>357,684</u>	<u>627,316</u>
Excess (Deficiency) of revenues over (under) expenditures	(285,000)	(285,000)	(81,043)	203,957
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	78,823	78,823
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>78,823</u>	<u>93,823</u>
Net changes in fund balances	(300,000)	(300,000)	(2,220)	297,780
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ (2,220)</u>	<u>\$ 297,780</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 SCHOOL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<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)
Total revenues	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>
EXPENDITURES:				
General government	40,000	40,000	-	40,000
Capital outlay	210,000	210,000	488,532	(278,532)
Total expenditures	<u>250,000</u>	<u>250,000</u>	<u>488,532</u>	<u>(238,532)</u>
Excess (Deficiency) of revenues over (under) expenditures	(50,000)	(50,000)	(488,532)	(438,532)
OTHER FINANCING SOURCES (USES):				
Transfers in	50,000	50,000	400,587	350,587
Transfers out	-	-	(24,650)	(24,650)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>375,937</u>	<u>325,937</u>
Net changes in fund balances	-	-	(112,595)	(112,595)
Fund balances - beginning	112,595	112,595	112,595	-
Fund balances - ending	<u>\$ 112,595</u>	<u>\$ 112,595</u>	<u>\$ -</u>	<u>\$ (112,595)</u>

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

CITY OF FELLSMERE, FLORIDA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
BUDGET COMPARISONS
SEPTEMBER 30, 2011

A. Budgetary Basis

Annual budgets are adopted for all governmental funds. Since all accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. generally accepted accounting principles, reconciliations of the resultant timing differences have been provided on pages 51-56. All annual appropriations lapse at year-end.

B. Budgetary Information

The appropriated budget is prepared by fund, function, and department. Shifts in appropriations within fund totals may be done on the authority of the City Manager. Transfers of appropriations between funds require approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations made by the City Council) is the fund level. There were no budget adjustments during the year ended September 30, 2011.

C. Budgeted Expenditures Exceeded Revenues

Budgeted expenditures exceeded revenues in the General Fund, Special Projects Fund, Community Redevelopment Agency Fund, Community Development Block Grant V Fund, and the Local Option Gas Tax Fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and does not constitute a deficit.

**CITY OF FELLOSMERE, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>Special Revenue Fund</u>	<u>Capital Projects Funds</u>			<u>Total Other Governmental Funds</u>
	Local Option Gas Tax	FRDAP Trail Head Preserve LWCF	FDEP Wetlands Park LWCF	Total	
ASSETS					
Restricted cash and cash equivalents	\$ 179,000	\$ 6,750	\$ -	\$ 6,750	\$ 185,750
Due from other governments	22,693	-	124,352	124,352	147,045
Total assets	<u>\$ 201,693</u>	<u>\$ 6,750</u>	<u>\$ 124,352</u>	<u>\$ 131,102</u>	<u>\$ 332,795</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 6,750	\$ 124,352	\$ 131,102	\$ 131,102
Total liabilities	<u>-</u>	<u>6,750</u>	<u>124,352</u>	<u>131,102</u>	<u>131,102</u>
Fund balances:					
Restricted	201,693	-	-	-	201,693
Total fund balances	<u>201,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,693</u>
Total liabilities and fund balances	<u>\$ 201,693</u>	<u>\$ 6,750</u>	<u>\$ 124,352</u>	<u>\$ 131,102</u>	<u>\$ 332,795</u>

The accompanying notes to financial statements 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, 2011

	<u>Special Revenue Fund</u>				
	<u>Local Option Gas Tax</u>	<u>EECBG</u>	<u>FRDAP Grant Park</u>	<u>HC&J Stormwater Grant Park</u>	<u>FRDAP Trail Head Preserve</u>
REVENUES:					
Taxes:					
Motor fuel	\$ 137,463	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	135,611	-	-
Other revenue	(62,448)	-	-	-	-
Total revenues	<u>75,015</u>	<u>-</u>	<u>135,611</u>	<u>-</u>	<u>-</u>
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Transportation	37,237	-	-	-	-
Capital outlay	6,336	16	275,772	2,199	3,199
Total expenditures	<u>43,573</u>	<u>16</u>	<u>275,772</u>	<u>2,199</u>	<u>3,199</u>
Excess (deficiency) of revenues over (under) expenditures	<u>31,442</u>	<u>(16)</u>	<u>(140,161)</u>	<u>(2,199)</u>	<u>(3,199)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	16	140,161	2,199	3,199
Transfers out	(43,483)	-	-	-	-
Total other financing sources (uses)	<u>(43,483)</u>	<u>16</u>	<u>140,161</u>	<u>2,199</u>	<u>3,199</u>
Net changes in fund balances	(12,041)	-	-	-	-
Fund balances - beginning	213,734	-	-	-	-
Fund balances - ending	<u>\$ 201,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF FELLSMERE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARD PROGRAMS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal / State Agency		Contract	
Pass-through Entity	CFDA	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	66.458	DW310300	\$ 410,875
ARRA - Capitalization Grants for Drinking Water			
State Revolving Fund	66.468	DW310301	152,050
U.S. Housing and Urban Development			
Indirect Programs:			
Passed through Florida Department of Economic Opportunity			
Small Cities Community Development Block Grant		11DB-15-10-	
	14.230	40-02-N02	276,642
U.S. National Parks Service			
Indirect Programs:			
Passed through Florida Land and Water Conservation Fund			
Land Acquisition - FCT II Park	37.020	Pending	124,352
U.S. Department of Justice			
Indirect Programs:			
Passed through Florida Department of Justice			
Local Law Enforcement Block Grant		2011-JAGD-	
	16.740	1NRI-1-B3-	
		057	1,000
TOTAL EXPENDITURES OF FEDERAL AWARDS:			\$ 964,919

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
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

State Agency		Contract	
Pass-through Entity	CSFA	Grant	
<u>State Project</u>	<u>No.</u>	<u>No.</u>	<u>Expenditures</u>
 Florida Department of Environmental Protection			
Direct Projects:			
Florida Recreation Development assistance			
Program Grant Park Improvements	37.020	A09199	\$ 135,611
 TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE:			 <u><u>\$ 135,611</u></u>

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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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:

<u>Name of Federal Program</u>	<u>Federal CFDA No.</u>
ARRA-Capitalization Grants for Drinking Water State Revolving Fund	66.458
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

No matters were reported.

CITY OF FELLSMERE, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AWARD 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 Award 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.

The City of

Fellsmere

Finance and Accounting Department
22 S. Orange Street
Fellsmere, FL 32948
772-571-1616 • 772-571-1901 Fax

April 9, 2012

Harris, Cotherman, Jones, Price & Associates, CPA's Chartered
5070 N Highway A1A, Suite 250
Vero Beach, FL 32963

Mr. Ross Cotherman, CPA:

Pursuant to *Rules of the Auditor General* section 10.558(1), the City of Fellsmere, Florida offers the following response to the management letter noted deficiency:

Control issue: Due to the small office environment in which the City operates, and the heavy reliance on the Finance Director, oversight by the City Manager and the City Council is vital to ensuring proper control over the financial reporting process.

Response: The City Manager and/or the City Council review the check register, monthly financial reports, and any other pertinent accounting and financial reports as may be deemed appropriate for the circumstance. The City Manager and/or Mayor is the second manual signature that is required on all checks issued. This appears to be an ongoing repeated comment that City management feels is an overreaction to stated regulations and with the current budget restraints is not likely to improve within the near future.

Sincerely,



Larry W. Napier, C.G.F.O.
Director of Finance and Accounting
Lwn/cma



**Harris, Cotherman,
Jones, Price & Associates**

Certified Public Accountants - Chartered

5070 North Highway A1A, Suite 250
Vero Beach, FL 32963
Tel 772-234-8484
Fax 772-234-8488



May 31, 2012

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

This letter serves as an addendum to the "Independent Auditors' Management Letter" dated May 4, 2012, and covering the City of Fellsmere, Florida's (the "City") fiscal year ended September 30, 2011.

The following comment is hereby retracted in its entirety from the above-referenced management letter:

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.

The following comment is hereby added to and incorporated in the above-referenced management letter:

In connection with our audit, we determined that the City met the condition described in Section 218.503(1)(e), Florida Statutes. The City reported an unassigned fund balance of \$56,838 in the general fund, a restricted net asset deficit of \$2,220 in the Community Development Block Grant V Fund and an unrestricted net asset deficit of \$208,525 as of September 30, 2011 for a total unassigned fund balance and unrestricted net asset deficit of \$153,907. The financial emergency condition met was a result of deteriorating financial conditions, due primarily to declining building permit revenues in the Community Development Fund.

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

Vero Beach, Florida
May 31, 2012



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MAY 01 2012

**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, 2011 and have issued our report thereon dated May 4, 2012.

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 4, 2012, 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: Due to the small office environment in which the City operates, and the heavy reliance on the Finance Director, oversight by the City Manager and the City Council is vital to ensuring proper control over the financial reporting process. 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.

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 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.



The Honorable Mayor and Members of City Council
City of Fellsmere, Florida
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We recommend that the City Manager continue his significant involvement in the financial matters of the City. This includes the current review of all invoices and signing of all 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.

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 the manner in which they have been addressed:

Control issue: The City lacks proper segregation of duties in its accounting function.

Status: In the past year, the City has hired a second accounting clerk, which has allowed them to separate some critical processes. Bank reconciliations and accounts payable reconciliations are now performed by clerk different from the clerk responsible for check generation. The City Council and City Manager have continued to remain vigilant and involved in the financial matters of the City. The City Council and City Manager review the check register and financial reports monthly. Additionally, the City Manager or Mayor provides the second manual signature on all checks issued.

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.

Status: In the past year, the City has implemented an in-house payroll system that allows for significantly more automation of that process. The City is currently exploring the feasibility of additional applications to alleviate most of the manual journal entries. The City continues to examine all of its processes to identify opportunities to automate.

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 Honorable Mayor and Members of City Council
City of Fellsmere, Florida
Page three

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 requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in 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 statements.

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.

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, 2011, 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, 2011.

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 4, 2012