

City of Fellsmere,
Florida



Year Ended
September 30,
2012

Financial
Statements and
Single Audit Act
Compliance

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CITY OF FELLSMERE, FLORIDA

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

June 20, 2013

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Fellsmere, Florida* (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Fellsmere, Florida. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013, on our consideration of the City of Fellsmere, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rehmann Lohman LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

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

Because 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.

Financial Highlights

- The City's assets exceeded its liabilities at the close of the fiscal year 2012 by \$21,483,820 (net assets). The City's unrestricted net assets (which may be used to meet the City's ongoing obligations to citizens and creditors) amounted to a deficit of \$92,340.
- The City's total net assets increased by \$423,693, resulting from an increase of \$104,467 from governmental activities and increase of \$319,226 from business-type activities.
- Governmental funds reported combined ending fund balances of \$724,844. Approximately 26% of this amount, \$185,987, is unassigned and available for spending at the City's discretion, an increase of \$129,149 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$215,752 or 43% of the total general fund balance.
- General fund revenue increased by \$65,894 or 4% and expenditures decreased by \$113,970 or 5%.
- The City's total debt decreased by \$214,064 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

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

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

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

The City maintains thirteen 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, Community Development Block Grant V Fund, and Community Redevelopment Agency Fund, all of which are considered to be major funds. Data from several other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements.

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

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.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As previously stated, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,483,820 at the close of the most recent fiscal year.

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 775,425	\$ 1,456,579	\$ 1,234,782	\$ 1,293,006	\$ 2,010,207	\$ 2,749,585
Capital assets, net	17,167,659	16,879,830	7,307,175	7,030,454	24,474,834	23,910,284
Total assets	17,943,084	18,336,409	8,541,957	8,323,460	26,485,041	26,659,869
Long-term liabilities	2,998,847	3,050,324	1,697,130	1,859,717	4,695,977	4,910,041
Other liabilities	50,581	496,896	254,663	192,805	305,244	689,701
Total liabilities	3,049,428	3,547,220	1,951,793	2,052,522	5,001,221	5,599,742
Net assets:						
Invested in capital assets, net of related debt	14,277,140	13,933,522	5,614,338	5,175,322	19,891,478	19,108,844
Restricted	450,559	421,514	1,175,590	1,254,894	1,626,149	1,676,408
Unrestricted (deficit)	165,957	434,153	(199,764)	(159,278)	(33,807)	274,875
Total net assets	\$14,893,656	\$14,789,189	\$ 6,590,164	\$ 6,270,938	\$21,483,820	\$21,060,127

A substantial portion of the City's net assets (93%) reflects its investment in capital assets (i.e., land, buildings, other improvements, infrastructure improvements, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (\$1,684,682) represents resources that are subject to external restrictions on how they may be used. The City has an unrestricted net deficit of \$92,340. For governmental activities, the City has net assets of \$107,424 that 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 two categories of net assets, for the City as a whole and for the governmental funds.

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

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

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 19,829	\$ 22,845	\$ 1,102,590	\$ 1,087,933	\$ 1,122,419	\$ 1,110,778
Operating grants	1,050	1,500	223,922	15,000	224,972	16,500
Capital grants	539,951	928,945	200,000	349,167	739,951	1,278,112
General revenues:						
Property taxes	498,537	498,670	-	-	498,537	498,670
Other taxes	1,665,373	1,619,514	-	-	1,665,373	1,619,514
Intergovernmental	111,557	101,862	-	-	111,557	101,862
Other	213,528	195,648	-	60,518	213,528	256,166
Total revenues	3,049,825	3,368,984	1,526,512	1,512,618	4,576,337	4,881,602
Expenses:						
General government	1,056,384	1,165,818	-	-	1,056,384	1,165,818
Public safety	762,383	862,199	-	-	762,383	862,199
Transportation	941,969	822,485	-	-	941,969	822,485
Cultural and recreation	196,059	209,257	-	-	196,059	209,257
Interest and fiscal charges	131,793	133,891	-	-	131,793	133,891
Water department	-	-	529,532	514,184	529,532	514,184
Community and economic development	-	-	294,025	305,017	294,025	305,017
Wastewater services	-	-	240,499	214,703	240,499	214,703
Total expenses	3,088,588	3,193,650	1,064,056	1,033,904	4,152,644	4,227,554
Change in net assets, before transfers	(38,763)	175,334	462,456	478,714	423,693	654,048
Transfers	143,230	204,660	(143,230)	(204,660)	-	-
Change in net assets	104,467	379,994	319,226	274,054	423,693	654,048
Net assets:						
Beginning of year, as restated	14,789,189	14,409,195	6,270,938	5,996,884	21,060,127	20,406,079
End of year	\$14,893,656	\$14,789,189	\$ 6,590,164	\$ 6,270,938	\$21,483,820	\$21,060,127

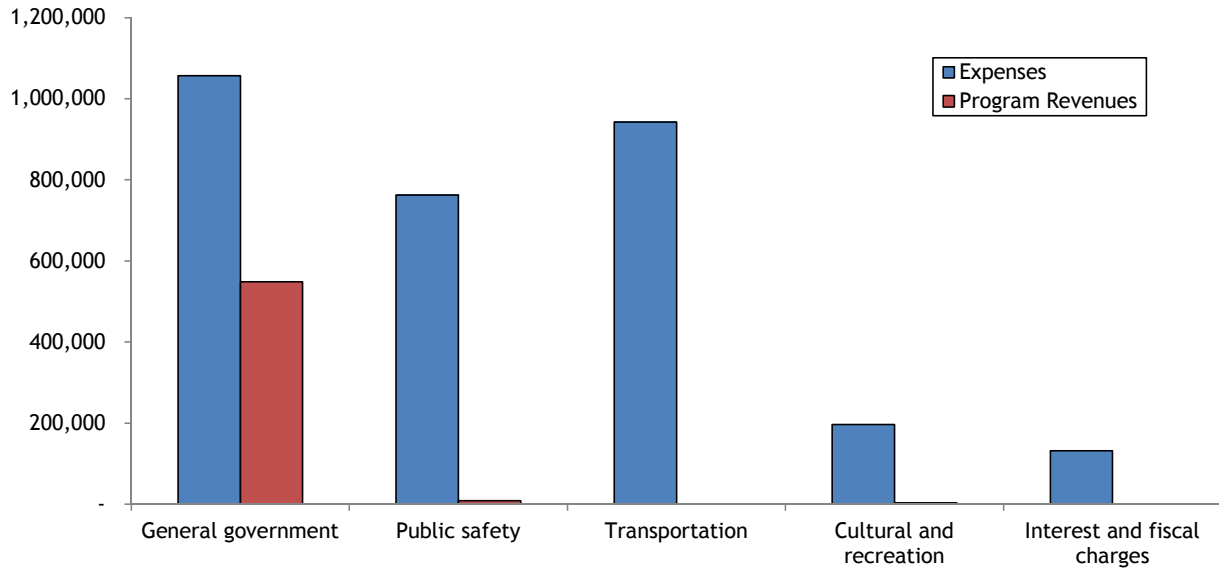
CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

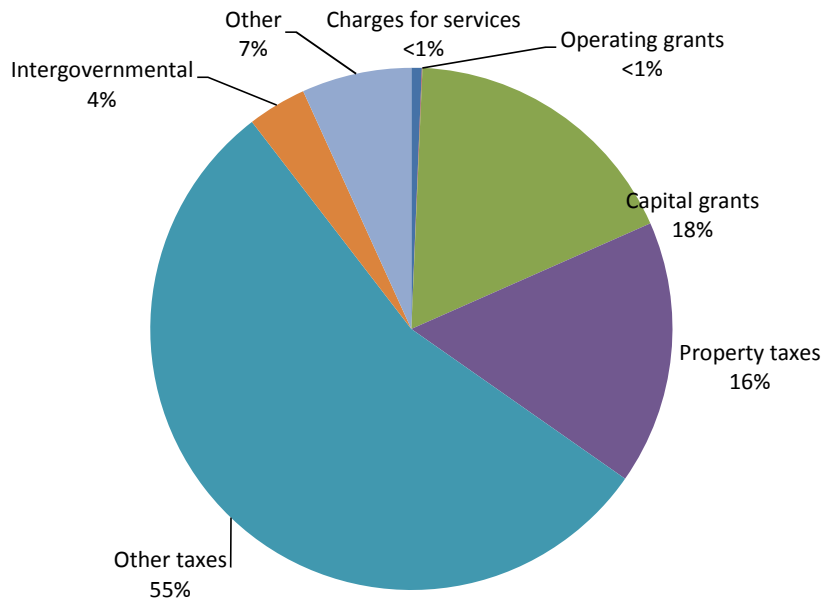
Governmental Activities. Governmental activities increased the City's net assets by \$104,467. Key elements of this increase are as follows:

- Miscellaneous revenue increased from 7% to 11% of total revenue.
- Capital grants increased due to the CDBG V, LWCF Trail Head Preserve, Fellsmere Inn and Willow Street Sidewalk Improvement Projects.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



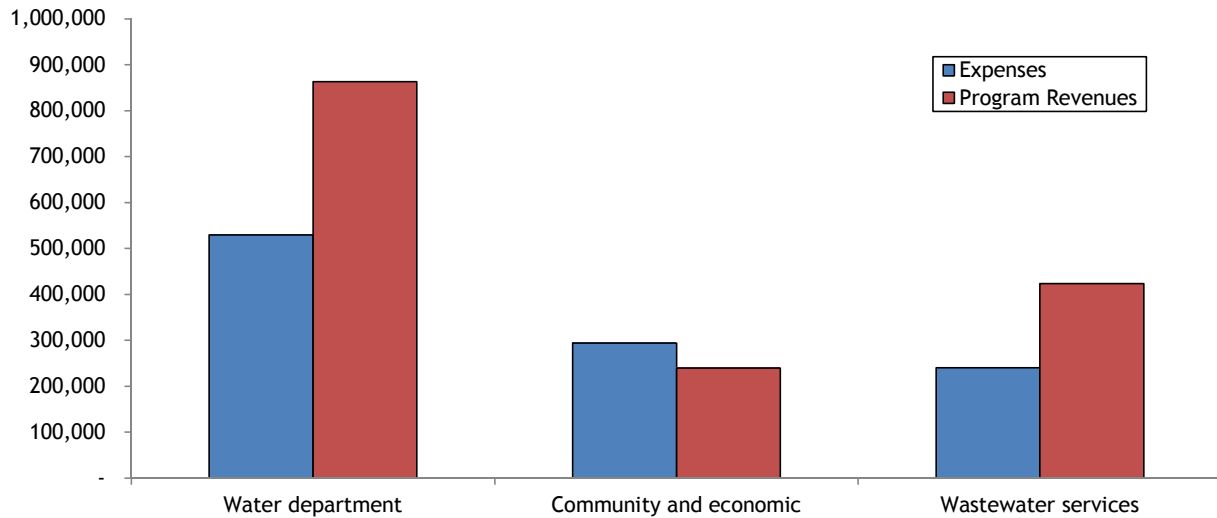
CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

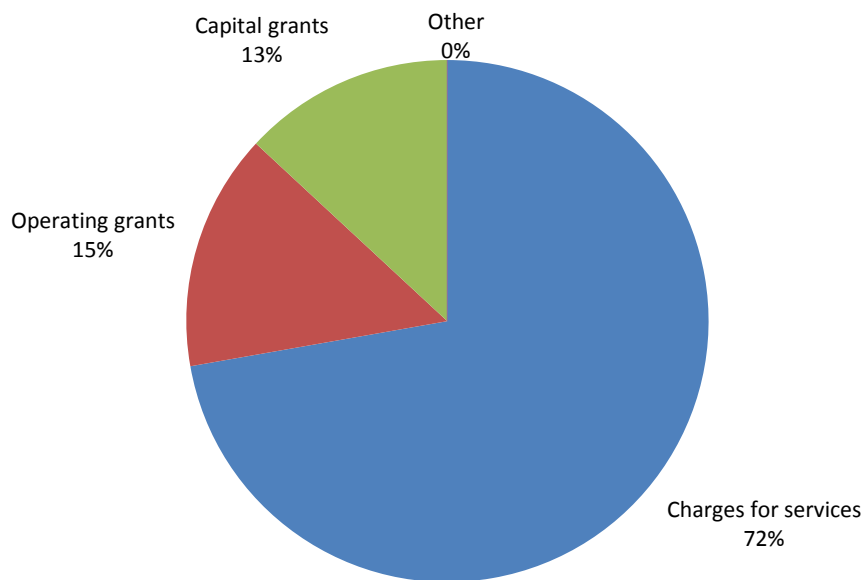
Business-type Activities. Business-type activities increased the City's net assets by \$319,226. Key elements of this increase are as follows:

- The Water Department experienced an income before transfers out of \$333,704.
- The Community Development department experienced a loss before transfers of \$54,453.
- A net amount of \$143,230 was transferred out of the business-type activities to the governmental funds.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

Financial Analysis of the City's Funds

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

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

As of the end of the recent fiscal year, the City's governmental funds reported combined ending fund balances of \$724,844, a decrease of \$234,839 in comparison with the prior year. An amount of \$185,987 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable or restricted 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 \$215,752, while the total fund balance reached \$497,819. 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 11% of total general fund expenditures, while total fund balance represents 25% of that same amount. The fund balance of the City's general fund decreased by \$3,217 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 \$199,764. The total for unrestricted net assets for each of these funds was \$375,702, (\$310,418) and (\$265,048), respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets. At the end of fiscal year 2012, the City had \$24,474,834 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 \$564,550 or 2% over last

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

- The Willow Street Sidewalk Improvement amounted to \$187,095.
- Improvements and roads and drainage additions through the CDBG Phase V grant amounted to \$1,192,269.

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

- New lines were purchased for the wastewater system at a cost of \$290,792.
- The City purchased several pieces of land through the application of water liens totaling \$67,283.

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 6,626,696	\$ 6,621,361	\$ 109,997	\$ 32,962	\$ 6,736,693	\$ 6,654,323
Construction in progress	365,714	632,851	217,450	151,092	583,164	783,943
Buildings	4,124,398	4,387,977	-	-	4,124,398	4,387,977
Improvements other than buildings	775,558	972,722	-	-	775,558	972,722
Machinery and equipment	202,566	246,241	6,979,728	6,846,400	7,182,294	7,092,641
Infrastructure	5,072,727	4,018,678	-	-	5,072,727	4,018,678
Total capital assets, net	\$17,167,659	\$16,879,830	\$ 7,307,175	\$ 7,030,454	\$24,474,834	\$23,910,284

Additional information on the City's capital assets can be found in Note 8 of this report.

Long-Term Debt. At the end of the 2012 fiscal year, the City of Fellsmere had total outstanding debt of \$4,695,977, a decrease of \$214,064 from 2011.

	General Obligation and Revenue Bonds					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Note payable, 2003	\$ -	\$ -	\$ -	\$ 107,143	\$ -	\$ 107,143
Water revenue bond, 1993	-	-	1,339,000	1,377,000	1,339,000	1,377,000
Capital improvement revenue bond, 2008	2,890,519	2,946,308	-	-	2,890,519	2,946,308
Construction notes	-	-	353,837	370,988	353,837	370,988
Compensated absences	108,328	104,016	4,293	4,586	112,621	108,602
Total long-term debt	\$ 2,998,847	\$ 3,050,324	\$ 1,697,130	\$ 1,859,717	\$ 4,695,977	\$ 4,910,041

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2013 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 2012 was 11.3%, down from 13.6% in the previous year, which is a positive sign and analogous to the economic pattern existing throughout the state and the nation.

During the most recently completed fiscal year, unassigned fund balance in the general fund increased to \$215,752. The City has appropriated \$425,000 for spending in the 2013 fiscal year budget. It was determined that the millage rate for the City would remain at 5.2455 mills.

The water and wastewater rates were each raised by 2.41% for the 2013 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.

CITY OF FELLSMERE, FLORIDA

Management's Discussion and Analysis

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to the City Finance Department, City of Fellsmere, 22 S. Orange Street, Fellsmere, Florida 32948-6714.

BASIC FINANCIAL STATEMENTS

CITY OF FELLSMERE, FLORIDA

Statement of Net Assets

September 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 103,362	\$ 2,480	\$ 105,842
Receivables	26,403	256,218	282,621
Due from other governmental units	320,987	22,398	343,385
Internal balances	234,930	(234,930)	-
Prepaid items	6,952	-	6,952
Inventories	-	13,026	13,026
Restricted assets:			
Cash and cash equivalents	82,791	1,175,590	1,258,381
Capital assets not being depreciated	6,992,410	327,447	7,319,857
Capital assets being depreciated, net	10,175,249	6,979,728	17,154,977
Total assets	17,943,084	8,541,957	26,485,041
Liabilities			
Accounts payable and accrued liabilities	36,563	51,178	87,741
Unearned revenues	14,018	203,485	217,503
Long-term debt:			
Due within one year	80,387	55,364	135,751
Due in more than one year	2,918,460	1,641,766	4,560,226
Total liabilities	3,049,428	1,951,793	5,001,221
Net assets			
Invested in capital assets, net of related debt	14,277,140	5,614,338	19,891,478
Restricted for:			
Debt service	-	438,555	438,555
Renewal and replacement	162,160	630,121	792,281
Cemetery care	30,915	-	30,915
Other purposes	257,484	106,914	364,398
Unrestricted (deficit)	165,957	(199,764)	(33,807)
Total net assets	\$ 14,893,656	\$ 6,590,164	\$ 21,483,820

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

CITY OF FELLSMERE, FLORIDA

Statement of Activities

For the Year Ended September 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,056,384	\$ 8,699	\$ -	\$ 539,951	\$ (507,734)
Public safety	762,383	7,865	1,000	-	(753,518)
Transportation	941,969	-	-	-	(941,969)
Cultural and recreation	196,059	3,265	50	-	(192,744)
Interest and fiscal charges	131,793	-	-	-	(131,793)
Total governmental activities	3,088,588	19,829	1,050	539,951	(2,527,758)
Business-type activities:					
Water department	529,532	726,501	136,735	-	333,704
Community development	294,025	158,617	80,955	-	(54,453)
Wastewater services	240,499	217,472	6,232	200,000	183,205
Total business-type activities	1,064,056	1,102,590	223,922	200,000	462,456
Total primary government	\$ 4,152,644	\$ 1,122,419	\$ 224,972	\$ 739,951	\$ (2,065,302)

continued...

CITY OF FELLSMERE, FLORIDA

Statement of Activities

For the Year Ended September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net revenue (expense)	\$ (2,527,758)	\$ 462,456	\$ (2,065,302)
General revenues and transfers:			
Taxes:			
Property	498,537	-	498,537
Discretionary sales	586,330	-	586,330
Local option gas	133,599	-	133,599
Franchise	227,474	-	227,474
Utility	284,751	-	284,751
Communications services	74,138	-	74,138
Eighth cent motor fuel	42,451	-	42,451
Half cent sales	316,630	-	316,630
Unrestricted investment earnings	6,224	-	6,224
Intergovernmental	111,557	-	111,557
Miscellaneous	207,304	-	207,304
Transfers	143,230	(143,230)	-
Total general revenues and transfers	2,632,225	(143,230)	2,488,995
Change in net assets	104,467	319,226	423,693
Net assets, beginning of year, as restated	14,789,189	6,270,938	21,060,127
Net assets, end of year	\$ 14,893,656	\$ 6,590,164	\$ 21,483,820

concluded

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

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CITY OF FELLSMERE, FLORIDA

Balance Sheet

Governmental Funds
September 30, 2012

	General	Infrastructure	Community Development Block Grant V	Community Redevelopment Agency	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 30,811	\$ -	\$ -	\$ -	\$ 72,551	\$ 103,362
Restricted cash and cash equivalents	-	14,370	-	835	67,586	82,791
Accounts receivable	26,403	-	-	-	-	26,403
Due from other governments	74,053	94,481	-	-	152,453	320,987
Due from other funds	145,682	-	-	-	-	145,682
Advance to other funds	244,200	-	-	-	-	244,200
Prepaid items	6,952	-	-	-	-	6,952
Total assets	\$ 528,101	\$ 108,851	\$ -	\$ 835	\$ 292,590	\$ 930,377
Liabilities						
Accounts payable	\$ 5,955	\$ -	\$ -	\$ -	\$ 6,281	\$ 12,236
Accrued liabilities	24,327	-	-	-	-	24,327
Due to other funds	-	-	-	30,600	124,352	154,952
Deferred revenues	-	-	-	-	14,018	14,018
Total liabilities	30,282	-	-	30,600	144,651	205,533
Fund balances						
Nonspendable	251,152	-	-	-	-	251,152
Restricted	30,915	108,851	-	-	147,939	287,705
Unassigned (deficit)	215,752	-	-	(29,765)	-	185,987
Total fund balances	497,819	108,851	-	(29,765)	147,939	724,844
Total liabilities and fund balances	\$ 528,101	\$ 108,851	\$ -	\$ 835	\$ 292,590	\$ 930,377

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

CITY OF FELLOSMERE, FLORIDA

Reconciliation

Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
September 30, 2012

Fund balances - total governmental funds	\$ 724,844
Amounts reported for <i>governmental activities</i> 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 fund statement.	
Capital assets not being depreciated	6,992,410
Capital assets being depreciated, net	10,175,249
Accrued compensated absences are not financial uses and, therefore, are not reported in the fund statement.	
Accrued compensated absences	(108,328)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Capital improvement revenue bonds payable	<u>(2,890,519)</u>
Net assets of governmental activities	<u>\$ 14,893,656</u>

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

CITY OF FELLSMERE, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2012

	General	Infrastructure	Community Development Block Grant V	Community Redevelopment Agency	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property	\$ 498,537	\$ -	\$ -	\$ -	\$ -	\$ 498,537
Public utility	284,751	-	-	-	-	284,751
Sales	-	586,330	-	-	-	586,330
Motor fuel	-	-	-	-	133,599	133,599
Communications services	74,138	-	-	-	-	74,138
Franchise fees	227,474	-	-	-	-	227,474
Intergovernmental	471,638	-	423,358	-	116,593	1,011,589
Charges for services	11,964	-	-	-	-	11,964
Fines	7,865	-	-	-	-	7,865
Investment earnings	6,215	9	-	-	-	6,224
Contributions and donations	50	-	-	-	-	50
Other revenue	115,059	-	-	10,954	81,291	207,304
Total revenues	1,697,691	586,339	423,358	10,954	331,483	3,049,825
Expenditures						
Current:						
General government	764,902	300	-	13,193	7,605	786,000
Public safety	749,589	-	-	-	-	749,589
Transportation	424,767	-	-	-	80,127	504,894
Culture and recreation	41,692	-	-	-	-	41,692
Debt service:						
Principal	-	55,789	-	-	-	55,789
Interest and fiscal charges	-	131,793	-	-	-	131,793
Capital outlay	-	31,910	774,580	8,666	342,981	1,158,137
Total expenditures	1,980,950	219,792	774,580	21,859	430,713	3,427,894
Revenues over (under) expenditures	(283,259)	366,547	(351,222)	(10,905)	(99,230)	(378,069)
Other financing sources (uses)						
Transfers in	312,912	-	353,442	17,390	152,619	836,363
Transfers out	(32,870)	(447,372)	-	(40,800)	(172,091)	(693,133)
Total other financing sources (uses)	280,042	(447,372)	353,442	(23,410)	(19,472)	143,230
Net changes in fund balances	(3,217)	(80,825)	2,220	(34,315)	(118,702)	(234,839)
Fund balances (deficit), beginning of year	501,036	189,676	(2,220)	4,550	266,641	959,683
Fund balances (deficit), end of year	\$ 497,819	\$ 108,851	\$ -	\$ (29,765)	\$ 147,939	\$ 724,844

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

CITY OF FELLSMERE, FLORIDA

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended September 30, 2012

Net change in fund balances - total governmental funds \$ (234,839)

Amounts reported for *governmental activities* in the statement of activities are different

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

Capital outlay	1,158,137
Depreciation expense	(870,308)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term liabilities	55,789
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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 governmental funds.

Change in the accrual for compensated absences	<u>(4,312)</u>
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Change in net assets of governmental activities	<u>\$ 104,467</u>
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The accompanying notes are an integral part of these basic financial statements.

CITY OF FELLOSMERE, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property	\$ 505,840	\$ 505,840	\$ 498,537	\$ (7,303)
Public utility	276,120	276,120	284,751	8,631
Communications services	88,000	88,000	74,138	(13,862)
Franchise fees	241,330	241,330	227,474	(13,856)
Intergovernmental	460,320	460,320	471,638	11,318
Charges for services	18,500	18,500	11,964	(6,536)
Fines	10,100	10,100	7,865	(2,235)
Investment earnings	4,500	4,500	6,215	1,715
Contributions and donations	1,000	1,000	50	(950)
Other revenue	62,650	62,650	115,059	52,409
Total revenues	1,668,360	1,668,360	1,697,691	29,331
Expenditures				
Current:				
General government	1,212,700	1,212,700	764,902	(447,798)
Public safety	764,440	764,440	749,589	(14,851)
Transportation	400,410	400,410	424,767	24,357
Culture and recreation	42,500	42,500	41,692	(808)
Total expenditures	2,420,050	2,420,050	1,980,950	(439,100)
Revenues over (under) expenditures	(751,690)	(751,690)	(283,259)	468,431
Other financing sources (uses)				
Transfers in	791,410	791,410	312,912	(478,498)
Transfers out	(39,720)	(39,720)	(32,870)	6,850
Total other financing sources (uses)	751,690	751,690	280,042	(471,648)
Net changes in fund balances	-	-	(3,217)	(3,217)
Fund balances, beginning of year	501,036	501,036	501,036	-
Fund balances, end of year	\$ 501,036	\$ 501,036	\$ 497,819	\$ (3,217)

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

CITY OF FELLSMERE, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Infrastructure Fund
 For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Sales	\$ 588,200	\$ 588,200	\$ 586,330	\$ (1,870)
Investment earnings	500	500	9	(491)
Total revenues	588,700	588,700	586,339	(2,361)
Expenditures				
Current:				
General government	200	200	300	100
Debt service:				
Principal	55,790	55,790	55,789	(1)
Interest expense and fiscal charges	131,800	131,800	131,793	(7)
Capital outlay	53,410	53,410	31,910	(21,500)
Total expenditures	241,200	241,200	219,792	(21,408)
Revenues over expenditures	347,500	347,500	366,547	19,047
Other financing uses				
Transfers out	(697,500)	(697,500)	(447,372)	250,128
Net changes in fund balances	(350,000)	(350,000)	(80,825)	269,175
Fund balances, beginning of year	189,676	189,676	189,676	-
Fund balances, end of year	<u>\$ (160,324)</u>	<u>\$ (160,324)</u>	<u>\$ 108,851</u>	<u>\$ 269,175</u>

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

CITY OF FELLOSMERE, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Community Development Block Grant V Fund
 For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental	\$ -	\$ -	\$ 423,358	\$ 423,358
Expenditures				
Capital outlay	-	-	774,580	774,580
Revenues over (under) expenditures	-	-	(351,222)	(351,222)
Other financing sources				
Transfers in	-	-	353,442	353,442
Net changes in fund balances (deficit)	-	-	2,220	2,220
Fund balances, beginning of year	(2,220)	(2,220)	(2,220)	-
Fund balances, end of year	<u>\$ (2,220)</u>	<u>\$ (2,220)</u>	<u>\$ -</u>	<u>\$ 2,220</u>

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

CITY OF FELLOSMERE, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Community Redevelopment Agency Fund
 For the Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Other revenue	\$ 16,900	\$ 16,900	\$ 10,954	\$ (5,946)
Expenditures				
Current:				
General government	35,540	35,540	13,193	(22,347)
Capital outlay	-	-	8,666	8,666
Total expenditures	35,540	35,540	21,859	(13,681)
Revenues over (under) expenditures	(18,640)	(18,640)	(10,905)	7,735
Other financing sources (uses)				
Transfers in	59,240	59,240	17,390	(41,850)
Transfers out	(40,800)	(40,800)	(40,800)	-
Total other financing sources (uses)	18,440	18,440	(23,410)	(41,850)
Net changes in fund balances (deficit)	(200)	(200)	(34,315)	(34,115)
Fund balances, beginning of year	4,550	4,550	4,550	-
Fund balances (deficit), end of year	\$ 4,350	\$ 4,350	\$ (29,765)	\$ (34,115)

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

CITY OF FELLSMERE, FLORIDA

Statement of Net Assets

Proprietary Funds
September 30, 2012

	Enterprise Funds			
	Water Department	Community Development	Wastewater Service	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,957	\$ 523	\$ -	\$ 2,480
Restricted cash and cash equivalents	1,134,957	-	40,633	1,175,590
Accounts receivable	90,835	144,985	20,398	256,218
Due from other governments	-	-	22,398	22,398
Due from other funds	-	9,270	-	9,270
Inventories	13,026	-	-	13,026
Total current assets	<u>1,240,775</u>	<u>154,778</u>	<u>83,429</u>	<u>1,478,982</u>
Noncurrent assets:				
Advance to other funds	360,000	-	-	360,000
Capital assets:				
Land	100,246	9,751	-	109,997
Construction in progress	217,450	-	-	217,450
Machinery and equipment	6,830,181	31,645	1,926,352	8,788,178
Less accumulated depreciation	(1,515,145)	(23,700)	(269,605)	(1,808,450)
Total noncurrent assets	<u>5,992,732</u>	<u>17,696</u>	<u>1,656,747</u>	<u>7,667,175</u>
Total assets	<u>7,233,507</u>	<u>172,474</u>	<u>1,740,176</u>	<u>9,146,157</u>
Liabilities				
Current liabilities:				
Accounts payable	4,475	9,481	36,009	49,965
Accrued liabilities	294	495	-	789
Accrued interest payable	424	-	-	424
Unearned revenues	84,599	91,251	27,635	203,485
Accrued compensated absences	32	397	-	429
Current portion of long-term debt	54,935	-	-	54,935
Total current liabilities	<u>144,759</u>	<u>101,624</u>	<u>63,644</u>	<u>310,027</u>
Noncurrent liabilities:				
Accrued compensated absences	292	3,572	-	3,864
Advances from other funds	-	360,000	244,200	604,200
Long-term debt, net of current portion	1,637,902	-	-	1,637,902
Total noncurrent liabilities	<u>1,638,194</u>	<u>363,572</u>	<u>244,200</u>	<u>2,245,966</u>
Total liabilities	<u>1,782,953</u>	<u>465,196</u>	<u>307,844</u>	<u>2,555,993</u>
Net assets				
Invested in capital assets, net of related debt	3,939,895	17,696	1,656,747	5,614,338
Restricted for:				
Revenue bond debt service	438,555	-	-	438,555
Renewal and replacement	613,623	-	16,498	630,121
Other purposes	82,779	-	24,135	106,914
Unrestricted	375,702	(310,418)	(265,048)	(199,764)
Total net assets	<u>\$ 5,450,554</u>	<u>\$ (292,722)</u>	<u>\$ 1,432,332</u>	<u>\$ 6,590,164</u>

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

CITY OF FELLSMERE, FLORIDA

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended September 30, 2012

	Enterprise Funds			Total
	Water Department	Community Development	Wastewater Service	
Operating revenues				
Intergovernmental	\$ -	\$ -	\$ 200,000	\$ 200,000
Charges for services	726,501	-	217,472	943,973
Building permits, licenses, fees	-	158,617	-	158,617
Contributions and donations	-	25,000	-	25,000
Other revenue	121,090	55,955	6,232	183,277
Total operating revenues	847,591	239,572	423,704	1,510,867
Operating expenses				
Salaries, wages and employee benefits	54,294	164,670	-	218,964
Contractual services, materials and supplies	263,241	124,956	205,849	594,046
Depreciation	136,345	4,399	34,650	175,394
Total operating expenses	453,880	294,025	240,499	988,404
Operating income (loss)	393,711	(54,453)	183,205	522,463
Nonoperating revenues (expenses)				
Interest income	15,645	-	-	15,645
Interest expense	(75,652)	-	-	(75,652)
Total nonoperating revenues (expenses)	(60,007)	-	-	(60,007)
Income (loss) before transfers	333,704	(54,453)	183,205	462,456
Transfers in	-	32,820	51,650	84,470
Transfers out	(126,600)	(45,000)	(56,100)	(227,700)
Change in net assets	207,104	(66,633)	178,755	319,226
Net assets, beginning of year, as restated	5,243,450	(226,089)	1,253,577	6,270,938
Net assets, end of year	\$ 5,450,554	\$ (292,722)	\$ 1,432,332	\$ 6,590,164

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

CITY OF FELLSMERE, FLORIDA

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2012

	Enterprise Funds			
	Water Department	Community Development	Wastewater Service	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 851,804	\$ 227,164	\$ 405,881	\$ 1,484,849
Internal activity - receipts from other funds	-	54,065	6,662	60,727
Payments to suppliers	(262,960)	(87,846)	(180,616)	(531,422)
Payments for personnel services	(54,402)	(164,067)	-	(218,469)
Internal activity - payments to other funds	(235,779)	-	-	(235,779)
Net cash provided by operating activities	298,663	29,316	231,927	559,906
Cash flows from noncapital financing activities				
Transfers to other fund	(126,600)	(45,000)	(56,100)	(227,700)
Transfers from other fund	-	32,820	51,650	84,470
Net cash used in noncapital financing activities	(126,600)	(12,180)	(4,450)	(143,230)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(183,750)	(16,714)	(251,651)	(452,115)
Principal paid on long-term debt	(162,294)	-	-	(162,294)
Interest paid on long-term debt	(75,652)	-	-	(75,652)
Net cash used in capital and related financing activities	(421,696)	(16,714)	(251,651)	(690,061)
Cash flows from investing activities				
Interest on investments	15,645	-	-	15,645
Net increase (decrease) in cash and cash equivalents	(233,988)	422	(24,174)	(257,740)
Cash and cash equivalents, beginning of year	1,370,902	101	64,807	1,435,810
Cash and cash equivalents, end of year	\$ 1,136,914	\$ 523	\$ 40,633	\$ 1,178,070
Classified on the statement of net assets as				
Current assets:				
Cash and cash equivalents	\$ 1,957	\$ 523	\$ -	\$ 2,480
Restricted cash and cash equivalents	1,134,957	-	40,633	1,175,590
Cash and cash equivalents, end of year	\$ 1,136,914	\$ 523	\$ 40,633	\$ 1,178,070

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CITY OF FELLOSMERE, FLORIDA

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2012

	Enterprise Funds			
	Water Department	Community Development	Wastewater Service	Total
Cash flows from operating activities				
Operating income (loss)	\$ 393,711	\$ (54,453)	\$ 183,205	\$ 522,463
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	136,345	4,399	34,650	175,394
Change in:				
Accounts receivable	4,213	(12,408)	4,575	(3,620)
Due from other governments	-	-	(22,398)	(22,398)
Due from other funds	-	(9,270)	-	(9,270)
Advance to other funds	(235,779)	-	-	(235,779)
Inventories	1,554	-	-	1,554
Accounts payable	(5,116)	8,221	23,344	26,449
Accrued liabilities	293	495	-	788
Accrued interest payable	(1,558)	-	-	(1,558)
Due to other funds	-	(296,665)	(113,317)	(409,982)
Advance from other funds	-	360,000	119,979	479,979
Accrued compensated absences	(401)	108	-	(293)
Unearned revenues	5,401	28,889	1,889	36,179
Net cash provided by operating activities	<u>\$ 298,663</u>	<u>\$ 29,316</u>	<u>\$ 231,927</u>	<u>\$ 559,906</u>

concluded

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

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NOTES TO FINANCIAL STATEMENTS

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fellsmere, Florida (the “City”), located in Indian River County (the “County”), was incorporated in 1911. The City was created under the legal authority of Article VIII of the Florida Constitution, Florida Statutes’ Chapter 165 and pursuant to the Laws of Florida 11480, Act of 1925. The City operates under a Council - manager form of government whereby the mayor is elected from the five members of Council. The City provides the following services: General and Administrative Services, Public Safety-Police, Public Works-Streets, Culture and Recreation, Water, Wastewater Systems, and Community Development. The City has a population of 5,220.

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

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Blended Component Unit

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

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

Government-Wide and Fund 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 and fiduciary fund financial statements. 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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

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

The City reports the following major governmental funds:

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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

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

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

The City reports the following major proprietary funds:

The *Water Department Fund* accounts for the activities in providing water services to the public.

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

The *Wastewater Service Fund* accounts for the activities in providing wastewater services to the public.

Additionally, the City reports the following fund types:

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

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Restricted net assets are assets that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

Assets, liabilities and equity

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.

Deposits

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

The City had deposits only with qualifying public depositories as of September 30, 2012.

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.

Interfund receivables and payables

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

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

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

CITY OF FELLOSMERE, FLORIDA

Notes to Financial Statements

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, 2012, as all receivables are considered collectible.

Inventory and prepaid items

Inventory at September 30, 2012 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.

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.

Capital assets

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

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

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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

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

Compensated absences

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

Long-term obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net 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.

Fund equity

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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

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, 2012, 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.

Use of Estimates

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

2. BUDGETARY INFORMATION

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

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of an ordinance.

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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, 2012. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

The appropriated budget is prepared by fund, function, and department. Shifts in appropriations within fund totals may be done on the authority of the City Manager. Transfers of appropriations between funds require approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations made by the City Council) is the fund level. There were no budget adjustments during the year ended September 30, 2012.

3. EXCESS OF EXPENDITURES OVER BUDGET

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.

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of September 30, 2012:

	Primary Government
Statement of Net Assets	
Cash and cash equivalents	\$ 105,842
Restricted cash and cash equivalents	<u>1,258,381</u>
Total	<u>\$ 1,364,223</u>
Deposits and investments	
Bank deposits:	
Checking and savings accounts	\$ 1,363,723
Cash on hand	<u>500</u>
Total	<u>\$ 1,364,223</u>

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the County's deposits might not be returned. At September 30, 2012, the carrying amount of the City's deposits with banks was \$1,363,723 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.

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, 2012.

At September 30, 2012, restricted cash of \$6,281 in various Capital Projects Funds consists of unspent 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 projects, or for the purchase of certain vehicles and equipment, with at least a five-year life expectancy. Restricted cash also includes \$61,305 in unspent local option gas tax funds.

Under Florida law, these funds may be used only for the purchase, construction, maintenance and operation of transportation facilities and road and street right-of-ways.

Restricted cash in the Enterprise Fund at September 30, 2012 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$613,623 and \$16,498, 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 \$438,555 and customer deposits of the water and wastewater systems of \$82,779 and \$24,135, respectively.

Credit Risk. Statutes and various bond indentures authorized the City to invest in obligations of the U.S. Treasury, governmental agencies and instrumentalities, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services, bankers' acceptances of U.S. banks, U.S. government or federal agency obligation repurchase agreements, obligations of the State of Florida or any of its political subdivisions rated as investment grade by not less than one standard rating service, and mutual funds composed of the types of investment vehicles named previously.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy provides that, with the exception of U.S. Treasuries and authorized pools, no more than 25% of the portfolio shall be invested in a single security type or with a single financial institution.

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

5. RECEIVABLES

All receivables are anticipated to be collected.

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, 2012, there was \$14,018 reported as unearned revenue.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 12,236	\$ 49,965
Accrued liabilities	24,327	789
Accrued interest on long-term debt	-	424
	<u> </u>	<u> </u>
Total payables	<u>\$ 36,563</u>	<u>\$ 51,178</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2012, was as follows:

Due to and from primary government funds

	Due from Other Funds	Due to Other Funds
General fund	\$ 145,682	\$ -
Community redevelopment agency	-	30,600
Community development fund	9,270	-
Nonmajor governmental funds	-	124,352
	<u> </u>	<u> </u>
Totals	<u>\$ 154,952</u>	<u>\$ 154,952</u>

The Community Redevelopment Agency required temporary funding from the General and Community Development funds to offset the reduction in Indian River County funding in the current year. The FDEP Wetlands Park LWCF fund required temporary funding from the General fund to be returned upon receipt of amounts due from other governments.

CITY OF FELLOSMERE, FLORIDA

Notes to Financial Statements

Advances to and from primary government funds

	Advances to Other Funds	Advances from Other Funds
General fund	\$ 244,200	\$ -
Water department fund	360,000	-
Community development fund	-	360,000
Wastewater service fund	-	244,200
	<hr/>	<hr/>
Totals	<u>\$ 604,200</u>	<u>\$ 604,200</u>

Funds are advanced temporarily to the Community Development and Wastewater Service funds to support operations in those areas.

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

For the year ended September 30, 2012, interfund transfers consisted of the following:

Transfers Out	Transfers in						Totals
	General Fund	Community Development Block Grant V	Community Redevelopment Agency	Nonmajor Governmental Funds	Community Development Fund	Wastewater Service Fund	
General fund	\$ -	\$ -	\$ 17,390	\$ -	\$ 15,480	\$ -	\$ 32,870
Infrastructure fund	-	303,442	-	92,280	-	51,650	447,372
Community redevelopment agency	28,440	-	-	-	12,360	-	40,800
Nonmajor governmental funds	61,752	50,000	-	60,339	-	-	172,091
Water department fund	124,080	-	-	-	2,520	-	126,600
Community development fund	45,000	-	-	-	-	-	45,000
Wastewater service fund	53,640	-	-	-	2,460	-	56,100
Totals	\$ 312,912	\$ 353,442	\$ 17,390	\$ 152,619	\$ 32,820	\$ 51,650	\$ 920,833

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

8. CAPITAL ASSETS

Capital asset activity for the primary government for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 6,621,361	\$ 5,335	\$ -	\$ -	\$ 6,626,696
Construction in progress	632,851	291,145	-	(558,282)	365,714
	<u>7,254,212</u>	<u>296,480</u>	<u>-</u>	<u>(558,282)</u>	<u>6,992,410</u>
Capital assets, being depreciated:					
Buildings	5,332,556	-	-	-	5,332,556
Improvements other than buildings	2,761,519	6,090	-	-	2,767,609
Machinery and equipment	1,401,217	34,485	(21,984)	-	1,413,718
Infrastructure	6,052,329	821,082	-	558,282	7,431,693
	<u>15,547,621</u>	<u>861,657</u>	<u>(21,984)</u>	<u>558,282</u>	<u>16,945,576</u>
Less accumulated depreciation for:					
Buildings	(944,579)	(263,579)	-	-	(1,208,158)
Improvements other than buildings	(1,788,797)	(203,254)	-	-	(1,992,051)
Machinery and equipment	(1,154,976)	(78,160)	21,984	-	(1,211,152)
Infrastructure	(2,033,651)	(325,315)	-	-	(2,358,966)
	<u>(5,922,003)</u>	<u>(870,308)</u>	<u>21,984</u>	<u>-</u>	<u>(6,770,327)</u>
Total capital assets being depreciated, net	<u>9,625,618</u>	<u>(8,651)</u>	<u>-</u>	<u>558,282</u>	<u>10,175,249</u>
Governmental activities capital assets, net	<u>\$ 16,879,830</u>	<u>\$ 287,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,167,659</u>

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 32,962	\$ 77,035	\$ -	\$ -	\$ 109,997
Construction in progress	151,092	105,499	-	(39,141)	217,450
	<u>184,054</u>	<u>182,534</u>	<u>-</u>	<u>(39,141)</u>	<u>327,447</u>
Capital assets, being depreciated:					
Water plan	2,782,829	-	-	-	2,782,829
Water lines	3,552,480	10,969	-	-	3,563,449
Water tank	411,683	-	-	-	411,683
Vehicle and equipment	72,222	-	-	-	72,222
Equipment	24,682	6,962	-	-	31,644
Wastewater lines	1,635,560	251,650	-	39,141	1,926,351
	<u>8,479,456</u>	<u>269,581</u>	<u>-</u>	<u>39,141</u>	<u>8,788,178</u>
Less accumulated depreciation for:					
Water plan	(265,222)	(26,228)	-	-	(291,450)
Water lines	(906,062)	(89,597)	-	-	(995,659)
Water tank	(137,229)	(13,569)	-	-	(150,798)
Vehicle and equipment	(70,287)	(6,951)	-	-	(77,238)
Equipment	(19,301)	(4,399)	-	-	(23,700)
Wastewater lines	(234,955)	(34,650)	-	-	(269,605)
	<u>(1,633,056)</u>	<u>(175,394)</u>	<u>-</u>	<u>-</u>	<u>(1,808,450)</u>
Total capital assets being depreciated, net	<u>6,846,400</u>	<u>94,187</u>	<u>-</u>	<u>39,141</u>	<u>6,979,728</u>
Business-type activities capital assets, net	<u>\$ 7,030,454</u>	<u>\$ 276,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,307,175</u>

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

Depreciation of governmental activities by function	
General government	\$ 294,300
Public safety	38,363
Transportation	383,278
Cultural and recreation	154,367
Total governmental activities	<u>\$ 870,308</u>
Depreciation of business-type activities by function	
Water department	\$ 136,345
Community development	4,399
Wastewater service	34,650
Total business-type activities	<u>\$ 175,394</u>

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

Construction Commitments

The City has various construction commitments outstanding at September 30, 2012. The major commitments include the following:

Project	Spent To-date	Remaining Commitment	Major Funding Source
FDEP LWCF Trail Head Preserve	260,816	140,000	Grant
Well Field Expansion	215,650	100,000	Impact Fees
Totals	<u>\$ 476,466</u>	<u>\$ 240,000</u>	

9. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital improvement bond	\$ 2,946,308	\$ -	\$ (55,789)	\$ 2,890,519	\$ 80,387
Compensated absences	104,016	7,413	(3,101)	108,328	10,833
Total governmental activities	<u>\$ 3,050,324</u>	<u>\$ 7,413</u>	<u>\$ (58,890)</u>	<u>\$ 2,998,847</u>	<u>\$ 91,220</u>

Capital Improvement Bond

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
Revenue note	\$ 107,143	\$ -	\$ (107,143)	\$ -	\$ -
Construction note	370,988	-	(17,151)	353,837	14,935
Revenue bond	1,377,000	-	(38,000)	1,339,000	40,000
Total installment debt	1,855,131	-	(162,294)	1,692,837	54,935
Compensated absences	4,586	108	(401)	4,293	429
Total business-type activities	\$ 1,859,717	\$ 108	\$ (162,695)	\$ 1,697,130	\$ 55,364

Note 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.

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 \$320,000 in 2012.

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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

Year Ended September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 69,554	\$ 128,861	\$ 54,935	\$ 72,681
2014	61,419	126,164	84,142	69,170
2015	64,240	123,342	85,556	65,557
2016	66,892	120,690	60,797	62,541
2017	70,263	117,319	1,407,407	587,800
2018-2022	402,473	535,440	-	-
2023-2027	504,848	434,064	-	-
2028-2032	630,624	307,287	-	-
2033-2037	789,729	145,317	-	-
2038-2039	230,477	7,787	-	-
	<u>\$ 2,890,519</u>	<u>\$ 2,046,271</u>	<u>\$ 1,692,837</u>	<u>\$ 857,749</u>

10. 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.

11. 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, 2012, the millage rate assessed by the City was approximately 5.24 mills.

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

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

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, 2012, upon which the 2011 - 2012 levy was based, was approximately \$96.4 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.

12. CONTINGENT LIABILITIES

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

13. BENEFIT PLANS

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 Section 401(a). The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is limited to charter officers and department heads (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for employees who contributed 4% in 2012. 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 \$42,956 for the fiscal year ended September 30, 2012. 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 FELLSMERE, FLORIDA

Notes to Financial Statements

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, 2012, the City credited \$3,500 to each employee's account, or \$5,250 for employees with dependent coverage, which amounted to \$45,294. 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, 2012, 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 \$45,294.

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.

14. DEFERRED COMPENSATION PLAN

Beginning July 1, 1997, the City established a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is available to all City employees (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for employees who contributed 4% in 2012 for 2012. Employer and employee contributions to the plan were \$64,115 and \$62,588, respectively in 2012. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

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

CITY OF FELLOSMERE, FLORIDA

Notes to Financial Statements

15. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of September 30, 2012, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 6,992,410	\$ 327,447
Capital assets being depreciated, net	10,175,249	6,979,728
	<u>17,167,659</u>	<u>7,307,175</u>
Related debt:		
Total bonds and notes payable	<u>2,890,519</u>	<u>1,692,837</u>
Invested in capital assets, net of debt	<u>\$ 14,277,140</u>	<u>\$ 5,614,338</u>

CITY OF FELLSMERE, FLORIDA

Notes to Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Infrastructure	Community Redevelopment Agency	Nonmajor Governmental Funds	Totals
Nonspendable:					
Prepaid items	\$ 6,952	\$ -	\$ -	\$ -	\$ 6,952
Advances to other funds	244,200	-	-	-	244,200
Total nonspendable	<u>251,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,152</u>
Restricted for:					
Capital projects	-	108,851	-	64,865	173,716
Special projects	-	-	-	83,074	83,074
Brookside Cemetery	30,915	-	-	-	30,915
Total restricted	<u>30,915</u>	<u>108,851</u>	<u>-</u>	<u>147,939</u>	<u>287,705</u>
Unassigned (deficit)	<u>215,752</u>	<u>-</u>	<u>(29,765)</u>	<u>-</u>	<u>185,987</u>
Total fund balances, governmental funds	<u>\$ 497,819</u>	<u>\$ 108,851</u>	<u>\$ (29,765)</u>	<u>\$ 147,939</u>	<u>\$ 724,844</u>

17. RESTATEMENTS

There was a restatement of beginning net assets of business-type activities and certain enterprise funds due to accounts receivable and revenue which should have been recorded at September 30, 2011. During the closeout of Fiscal Year 2011-2012, the City undertook an extensive review of its accounts receivable records. During this review, the City identified errors in the utility billing software which did not capture the correct amount of receivables and revenue each month. The increase in the beginning net assets was \$36,659 in the water fund and \$12,588 in the wastewater fund for a total impact on business-type activities of \$49,247.



**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CITY OF FELLSMERE, FLORIDA

Combining Balance Sheet Nonmajor Governmental Funds September 30, 2012

	Special Revenue Fund	Capital Projects Funds		
	Local Option Gas Tax	CDBG Phase VI	HC&J Stormwater Grant Park	FRDAP Trail Head Preserve
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	61,305	6,281	-	-
Due from other governments	21,769	-	-	-
Total assets	\$ 83,074	\$ 6,281	\$ -	\$ -
Liabilities				
Accounts payable	\$ -	\$ 6,281	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Total liabilities	-	6,281	-	-
Fund balances				
Restricted	83,074	-	-	-
Total liabilities and fund balances	\$ 83,074	\$ 6,281	\$ -	\$ -



Capital Projects Funds					
FRDAP Trail Head Preserve LWCF	FEMA Hazard Mitigation	FDEP Wetlands Park LWCF	Special Projects	Save Our Old School	Total
\$ -	\$ -	\$ -	\$ 72,551	\$ -	\$ 72,551
-	-	-	-	-	67,586
5,477	-	125,207	-	-	152,453
<u>\$ 5,477</u>	<u>\$ -</u>	<u>\$ 125,207</u>	<u>\$ 72,551</u>	<u>\$ -</u>	<u>\$ 292,590</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,281
-	-	124,352	-	-	124,352
-	-	-	14,018	-	14,018
-	-	124,352	14,018	-	144,651
5,477	-	855	58,533	-	147,939
<u>\$ 5,477</u>	<u>\$ -</u>	<u>\$ 125,207</u>	<u>\$ 72,551</u>	<u>\$ -</u>	<u>\$ 292,590</u>

CITY OF FELLSMERE, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended September 30, 2012

	Special	Capital Projects Funds		
	Revenue Fund			
	Local	CDBG	HC&J	FRDAP Trail
	Option	Phase VI	Stormwater	Head
	Gas Tax		Grant Park	Preserve
Revenues				
Taxes:				
Motor fuel	\$ 133,599	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Other revenue	-	-	-	-
Total revenues	133,599	-	-	-
Expenditures				
Current:				
General government	-	-	-	-
Transportation	80,127	-	-	-
Capital outlay	-	59,887	935	935
Total expenditures	80,127	59,887	935	935
Revenues over (under) expenditures	53,472	(59,887)	(935)	(935)
Other financing sources (uses)				
Transfers in	-	59,887	935	935
Transfers out	(172,091)	-	-	-
Total other financing sources (uses)	(172,091)	59,887	935	935
Net changes in fund balances	(118,619)	-	-	-
Fund balances, beginning of year	201,693	-	-	-
Fund balances, end of year	\$ 83,074	\$ -	\$ -	\$ -



Capital Projects Funds

FRDAP Trail Head Preserve LWCF	FEMA Hazard Mitigation	FDEP Wetlands Park LWCF	Special Projects	Save Our Old School	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133,599
115,738	-	855	-	-	116,593
33,600	-	-	47,691	-	81,291
<u>149,338</u>	<u>-</u>	<u>855</u>	<u>47,691</u>	<u>-</u>	<u>331,483</u>
-	-	-	7,605	-	7,605
-	-	-	-	-	80,127
212,915	452	5,335	46,501	16,021	342,981
<u>212,915</u>	<u>452</u>	<u>5,335</u>	<u>54,106</u>	<u>16,021</u>	<u>430,713</u>
<u>(63,577)</u>	<u>(452)</u>	<u>(4,480)</u>	<u>(6,415)</u>	<u>(16,021)</u>	<u>(99,230)</u>
69,054	452	5,335	-	16,021	152,619
-	-	-	-	-	(172,091)
<u>69,054</u>	<u>452</u>	<u>5,335</u>	<u>-</u>	<u>16,021</u>	<u>(19,472)</u>
5,477	-	855	(6,415)	-	(118,702)
-	-	-	64,948	-	266,641
<u>\$ 5,477</u>	<u>\$ -</u>	<u>\$ 855</u>	<u>\$ 58,533</u>	<u>\$ -</u>	<u>\$ 147,939</u>

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 20, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Fellsmere, Florida* (the "City") as of and for the year ended September 30, 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated June 20, 2013. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133 and Chapter 10.550, *Rules of the Auditor General* and is also not a required part of the basic financial statements of the City. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CITY OF FELLSMERE, FLORIDA

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture Rural Development - Farm Service Agency	10.769	Direct	12200408	\$ 200,000
U.S. Department of Housing and Urban Development Small Cities Community Development Block Grant	14.228	FLDEO	11DB-15-10-40-02-N02	423,358
U.S. Department of the Interior National Park Service Trailhead Preserve	15.916	FLDEP	12-000582	115,738
U.S. Department of Justice Local Law Enforcement Block Grant	16.740	FLDJ	2012-JAGD-1NRI-1-C5-002	1,000
U.S. National Parks Service Land Acquisition - FCT II Park	37.020	FLLWCF	N/A	<u>855</u>
Total Expenditures of Federal Awards				<u><u>\$ 740,951</u></u>

See notes to schedule of expenditures of federal awards.

CITY OF FELLSMERE, FLORIDA

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Fellsmere, Florida (the "City") under programs of the federal government for the year ended September 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
FLDEP	Florida Department of Environmental Protection
FLDEO	Florida Department of Economic Opportunity
FLLWCF	Florida Land and Water Conservation Fund
FLDJ	Florida Department of Justice



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

June 20, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Fellsmere, Florida* (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated June 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-FS-01 to be a material weakness.

Compliance and Other Matters

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

We noted a certain other matter that we reported to management of the City in a separate letter dated June 20, 2013.

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

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 20, 2013

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

Compliance

We have audited the compliance of the *City of Fellsmere, Florida* (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, City of Fellsmere complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Rehmann Lohman LLC

CITY OF FELLSMERE, FLORIDA

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? 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

Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Small Cities Community Development Block Grant
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

CITY OF FELLSMERE, FLORIDA

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-1 - Preparation of Governmental Financial Statements / Material Audit Adjustments / Segregation of Duties

Finding Type. Material Weakness in Internal Control over Financial Reporting

Criteria. All Florida governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.) A key element of internal controls is the segregation of incompatible duties within the accounting function. Additionally, journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.

Condition. During our audit, we identified and proposed several audit adjustments (each of which was reviewed, approved, and posted by management) to correct various account balances and record year-end accruals. In addition, we proposed a prior period adjustment related to accounts receivable in the City's Water and Wastewater Enterprise Funds. In our opinion, these adjustments collectively had a material effect on the City's financial statements.

Cause. This condition appears to be the result of isolated errors made in the process of closing the City's books and preparing for the audit. This was caused, in part, by the limited size of the City's finance staff, and lack of independent review and approval over the year-end accruals made in connection with the annual audit.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The City has already reviewed and approved the necessary adjustments identified during the audit, and their effect has been included in the City's financial statements. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. The City concurs with the auditor's recommendation and will strengthen the internal controls over financial reporting to the extent possible, given the limited personnel in the accounting area.

CITY OF FELLSMERE, FLORIDA

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CITY OF FELLOSMERE, FLORIDA

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2012

None reported



**INDEPENDENT AUDITORS'
MANAGEMENT LETTER**

June 20, 2013

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

We have audited the financial statements of the City of Fellsmere, Florida as of and for the fiscal year ended September 30, 2012 and have issued our report thereon dated June 20, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550 Rules of the Florida Auditor General and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 20, 2013, 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. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

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

Prior Year Findings***Finding 2011-01***

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.

Status: 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 signatures on all checks issued. This matter has been repeated in the current year as Finding 2012-01.

Finding 2010-01

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

Status: This finding has been combined with Finding 2011-01 for carryover to subsequent years.

Finding 2010-02

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: The City has implemented an in-house payroll system that allows for significantly more automation of that process. There have been no other changes to automation of processes in FY12.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any findings and recommendations to improve financial management. In connection with our audit, we identified the following finding:

Finding 2012-01

Control Issue: Material weaknesses in internal control over financial reporting, as evidenced by isolated errors made in the process of closing the City's books and preparing for the audit. This was caused, in part, by the limited size of the City's finance staff, and lack of independent review and approval over the year-end accruals made in connection with the annual audit.

Recommendation: The City has already reviewed and approved the necessary adjustments identified during the audit, and their effect has been included in the City's financial statements. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not identify any such

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503 (1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City of Fellsmere, Florida met the condition described in Section 218.503(1)(e), Florida Statutes. The City reported an unassigned fund balance of \$215,752 in the general fund, a restricted net asset deficit of \$29,765 in the Community Redevelopment Agency Fund and an unrestricted net asset deficit of \$199,764 in the proprietary funds as of September 30, 2012 for a total unassigned fund balance and unrestricted net asset deficit of \$13,777. However, this represents a decrease from the total unassigned fund balance an unrestricted net asset deficit of \$153,907 from the prior year. The financial emergency condition met was a result of financial conditions, due primarily to declining building permit revenues in the Community Development fund over the past several years.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Fellsmere for the year ended September 30, 2012, 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 year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Fellsmere'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.

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

Rehmann Lobson LLC



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June 20, 2013

Rehmann
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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 deficiencies:

Prior Year Finding 2011-01

Control Issue: Due to the small office environment which the City operates, and the heavy reliance on the Finance Director, oversight by the City of 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. This appears to be an ongoing repeated comment coupled with current budget restraints is not likely to improve in the near future. Entities must as a practical matter, accept less-than-perfect controls as a certain degree of risk will always be unavoidable because of cost/benefit considerations.

Finding 2010-01

Control Issue: The City lacks proper segregation of duties in its accounting function. This finding has been combined with finding 2011-01 for carryover to subsequent years.

Response: See response noted above for finding 2011-01.

Finding 2010-02

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.

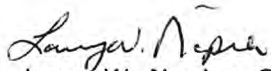
Response: Some of the various application packages have glitches so the automatic interface between the applications is turned off until the vendor addresses those issues. The City has no other option, due to budgetary constraints, except manual entries to keep the ledger up to date. As these issues are addressed by the software vendor and corrected, the City will then turn on the automatic interface.

Finding 2012-01

Control Issue: Material weakness in internal control over financial reporting, as evidenced by isolated errors made in the process of closing the books and preparing for the audit. This was caused, in part, by the limited size of City finance staff, and lack of independent review and approval over the year end accruals made in connections with the annual audit.

Response: Material weakness is a deficiency in internal control that creates a reasonable possibility that a material misstatement of an entity's financial statements could occur that would not be detected and corrected on a timely basis. Materiality is the notion that an omission or misstatement of accounting information is of such significance as to make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. In the government-wide financial statements, quantitative materiality should be assessed separately for governmental activities and business-type activities. In the fund financial statements, quantitative materiality should be assessed separately for each major governmental and enterprise fund pursuant to GASB Statement No. 34. The isolated errors in two enterprise funds, taken individually, are not considered by the City to be material by definition and the isolated errors in the general fund are not considered by the City to be material either. The City does not expect these errors in the future.

Respectfully submitted,



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

cc: audit file