

City of Fellsmere,  
Florida



Year Ended  
September 30,  
2013

Financial  
Statements and  
Supplementary  
Information

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# CITY OF FELLSMERE, FLORIDA

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## FINANCIAL SECTION

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**INDEPENDENT AUDITORS' REPORT**

May 2, 2014

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

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Independent Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to previously 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, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions 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 any assurance.

#### *Other Information*

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 and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.



*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## 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 2013 by \$21,302,829 (net position). The City's unrestricted net position (which may be used to meet the City's ongoing obligations to citizens and creditors) amounted to a deficit of \$239,717.
- The City's total net position decreased by \$180,991, resulting from an decrease of \$194,460 from governmental activities and increase of \$13,469 from business-type activities.
- Governmental funds reported combined ending fund balances of \$1,141,546. Approximately 8.5% of this amount, \$97,386, is unassigned and available for spending at the City's discretion, a decrease of \$88,601 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$144,136 or 30% of the total general fund balance.
- General fund revenue increased by \$68,765 or 4% and expenditures increased by \$186,592 or 10%.
- The City's total debt decreased by \$114,998 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 position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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).

## CITY OF FELLSMERE, FLORIDA

### Management's Discussion and Analysis

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, stormwater and community development operations.

**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

**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 fifteen 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 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 and Community Redevelopment Agency Fund, to demonstrate compliance with these budgets.

**Proprietary Funds.** The City maintains four 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, stormwater and community development activities.

Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but those statements provide more detail and additional information, such as cash flows, for proprietary funds. The stormwater fund is reported as a non-major proprietary fund.

**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.

# CITY OF FELLSMERE, FLORIDA

## Management's Discussion and Analysis

### Government-Wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21,302,829 at the close of the most recent fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Current and other assets	\$ 1,268,570	\$ 775,425	\$ 1,165,329	\$ 1,234,782	\$ 2,433,899	\$ 2,010,207
Capital assets, net	16,505,836	17,167,659	7,303,296	7,307,175	23,809,132	24,474,834
<b>Total assets</b>	<b>17,774,406</b>	<b>17,943,084</b>	<b>8,468,625</b>	<b>8,541,957</b>	<b>26,243,031</b>	<b>26,485,041</b>
<b>Liabilities:</b>						
Long-term liabilities	2,948,186	2,998,847	1,643,225	1,697,130	4,591,411	4,695,977
Other liabilities	127,024	50,581	221,767	254,663	348,791	305,244
<b>Total liabilities</b>	<b>3,075,210</b>	<b>3,049,428</b>	<b>1,864,992</b>	<b>1,951,793</b>	<b>4,940,202</b>	<b>5,001,221</b>
<b>Net position:</b>						
Net investment in capital assets	13,674,038	14,277,140	5,666,736	5,614,338	19,340,774	19,891,478
Restricted	1,025,593	450,559	1,176,179	1,175,590	2,201,772	1,626,149
Unrestricted (deficit)	(435)	165,957	(239,282)	(199,764)	(239,717)	(33,807)
<b>Total net position</b>	<b>\$14,699,196</b>	<b>\$14,893,656</b>	<b>\$ 6,603,633</b>	<b>\$ 6,590,164</b>	<b>\$21,302,829</b>	<b>\$ 21,483,820</b>

A substantial portion of the City's net position (91%) reflects its investment in capital assets (i.e., land, buildings, other improvements, infrastructure improvements, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not 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.

The City's net position is also grouped as restricted and unrestricted. Restricted net position is subject to restrictions by external parties on how it may be used. Unrestricted net position may be used to meet the government'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 of the three categories of net position, and overall for the City as a whole.

# 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 Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Program revenues:</b>						
Charges for services	\$ 30,049	\$ 19,829	\$ 1,286,294	\$ 1,102,590	\$ 1,316,343	\$ 1,122,419
Operating grants	1,000	1,050	-	223,922	1,000	224,972
Capital grants	137,227	539,951	-	200,000	137,227	739,951
<b>General revenues:</b>						
Property taxes	483,881	498,537	-	-	483,881	498,537
Other taxes	1,751,525	1,665,373	-	-	1,751,525	1,665,373
Intergovernmental	135,871	111,557	-	-	135,871	111,557
Other	278,038	213,528	11,145	-	289,183	213,528
<b>Total revenues</b>	<b>2,817,591</b>	<b>3,049,825</b>	<b>1,297,439</b>	<b>1,526,512</b>	<b>4,115,030</b>	<b>4,576,337</b>
<b>Expenses:</b>						
General government	1,182,065	1,056,384	-	-	1,182,065	1,056,384
Public safety	813,678	762,383	-	-	813,678	762,383
Transportation	944,997	941,969	-	-	944,997	941,969
Cultural and recreation	186,291	196,059	-	-	186,291	196,059
Interest and fiscal charge	128,861	131,793	-	-	128,861	131,793
Water department	-	-	530,339	529,532	530,339	529,532
Community development	-	-	279,916	294,025	279,916	294,025
Wastewater services	-	-	228,779	240,499	228,779	240,499
Stormwater system	-	-	1,950	-	1,950	-
<b>Total expenses</b>	<b>3,255,892</b>	<b>3,088,588</b>	<b>1,040,984</b>	<b>1,064,056</b>	<b>4,296,876</b>	<b>4,152,644</b>
Change in net position, before transfers	(438,301)	(38,763)	256,455	462,456	(181,846)	423,693
Transfers	243,841	143,230	(242,986)	(143,230)	855	-
<b>Change in net position</b>	<b>(194,460)</b>	<b>104,467</b>	<b>13,469</b>	<b>319,226</b>	<b>(180,991)</b>	<b>423,693</b>
<b>Net position:</b>						
Beginning of year	14,893,656	14,789,189	6,590,164	6,270,938	21,483,820	21,060,127
<b>End of year</b>	<b>\$14,699,196</b>	<b>\$14,893,656</b>	<b>\$ 6,603,633</b>	<b>\$ 6,590,164</b>	<b>\$21,302,829</b>	<b>\$ 21,483,820</b>

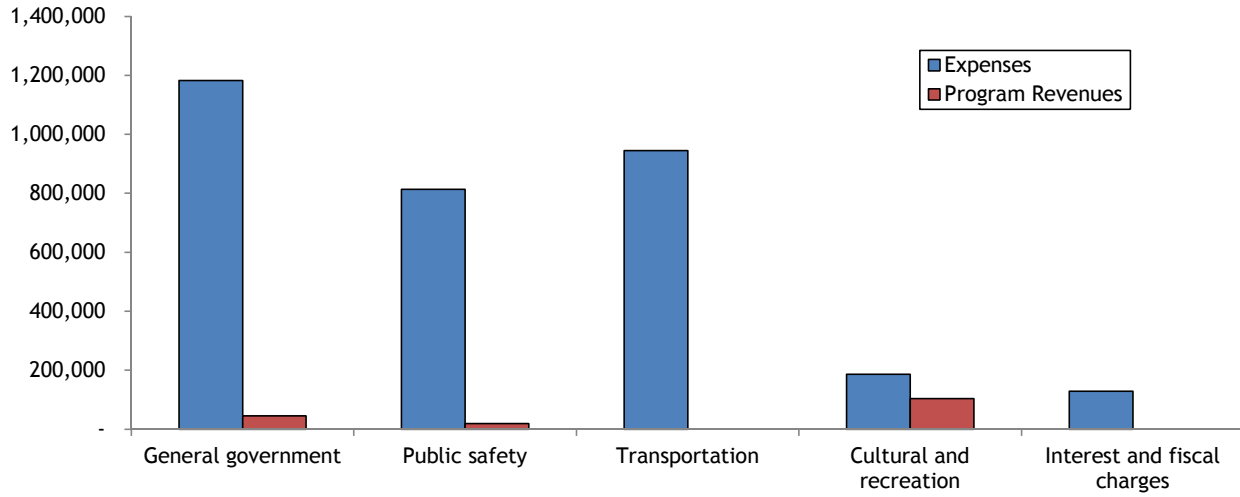
# CITY OF FELLSMERE, FLORIDA

## Management's Discussion and Analysis

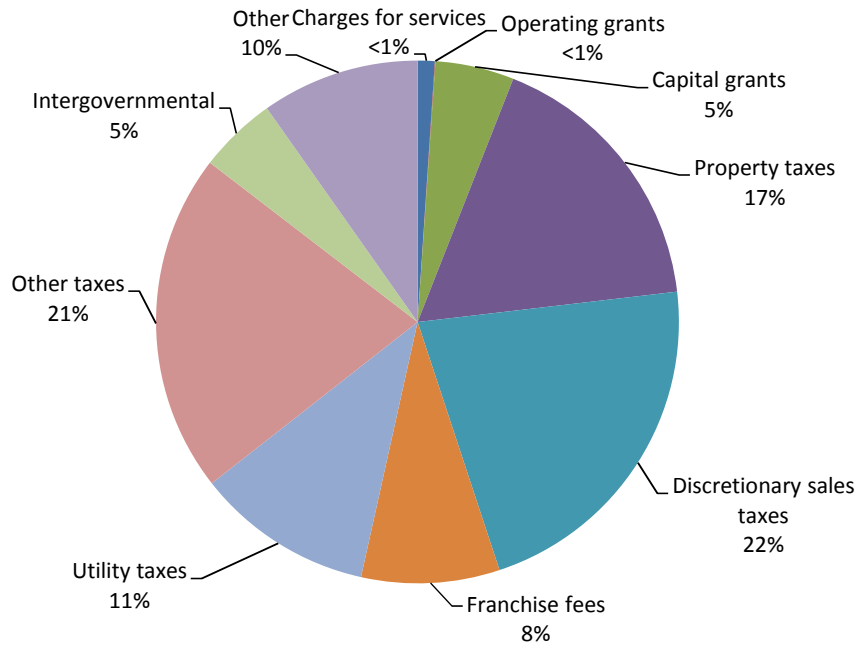
Governmental Activities. Governmental activities decreased the City's net position by \$194,460. Key elements of this decrease are as follows:

- Miscellaneous revenue increased by 77% to represent 13% of total revenue.
- Capital grants decreased due to several significant projects being completed in the prior year or early in the current year.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities





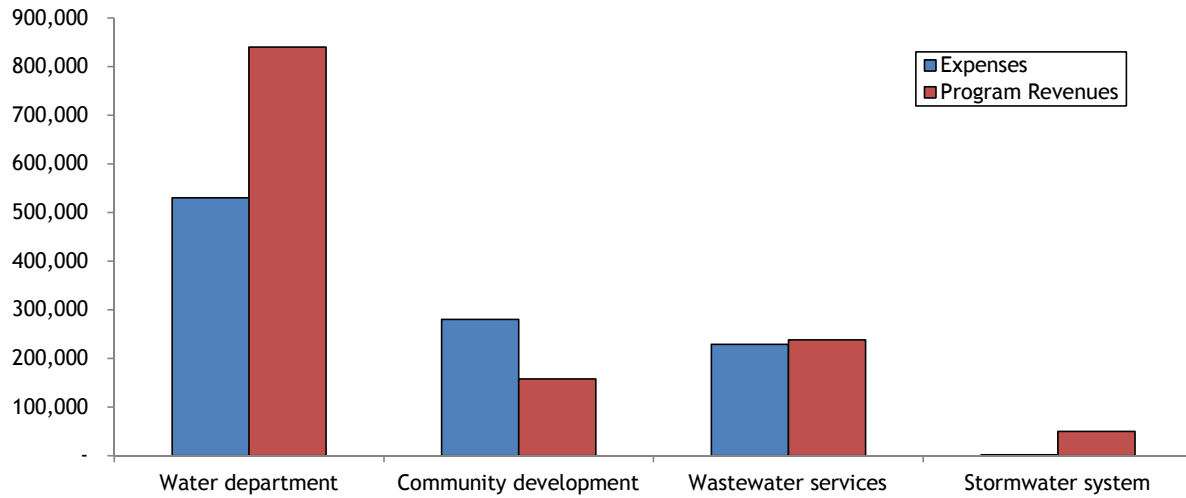
# CITY OF FELLSMERE, FLORIDA

## Management's Discussion and Analysis

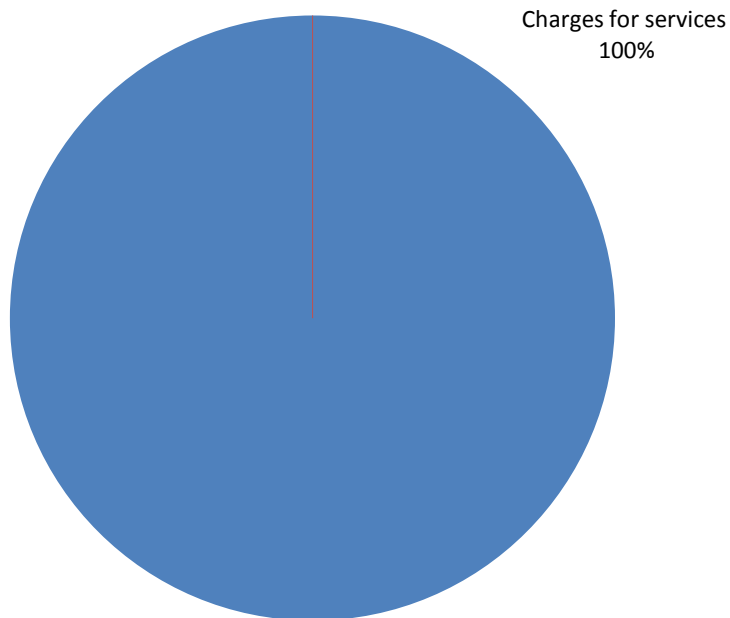
**Business-type Activities.** Business-type activities increased the City's net position by \$13,469. Key elements of this increase are as follows:

- The Water Department experienced an income before transfers out of \$319,261.
- The Community Development department experienced a loss before transfers of \$121,472.
- A net amount of \$242,986 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 \$1,141,546, a decrease of \$416,702 in comparison with the prior year. An amount of \$97,386 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 \$144,136, while the total fund balance reached \$482,676. 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 7% of total general fund expenditures, while total fund balance represents 23% of that same amount. The fund balance of the City's general fund decreased by \$18,359 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 position of the City's water, community development, wastewater and stormwater enterprise funds amounted to a deficit of \$239,282. The total for unrestricted net position for each of these funds was \$481,064, (\$447,401), (\$288,104) and 15,159, 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 2013, the City had \$23,809,132 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 decrease (including additions and deductions) of \$101,152 or less than .5% under last year.

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

- Several projects began construction, resulting in an increase to Construction in Progress of \$162,815.

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

- The City purchased several pieces of land through the application of water liens totaling \$169,064.

# CITY OF FELLSMERE, FLORIDA

## Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 6,626,696	\$ 6,626,696	\$ 264,034	\$ 109,997	\$ 6,890,730	\$ 6,736,693
Construction in progress	528,529	365,714	230,999	217,450	759,528	583,164
Buildings	3,860,819	4,124,398	-	-	3,860,819	4,124,398
Improvements other than buildings	649,149	775,558	-	-	649,149	775,558
Machinery and equipment	148,855	202,566	6,808,263	6,979,728	6,957,118	7,182,294
Infrastructure	4,691,788	5,072,727	-	-	4,691,788	5,072,727
<b>Total capital assets, net</b>	<b>\$16,505,836</b>	<b>\$17,167,659</b>	<b>\$ 7,303,296</b>	<b>\$ 7,307,175</b>	<b>\$23,809,132</b>	<b>\$ 24,474,834</b>

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 2013 fiscal year, the City of Fellsmere had total outstanding debt of \$4,591,411, a decrease of \$104,566 from 2012.

	General Obligation and Revenue Bonds					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Water revenue bond, 1993	\$ -	\$ -	\$ 1,299,000	\$ 1,339,000	\$ 1,299,000	\$ 1,339,000
Capital improvement revenue bond, 2008	2,831,798	2,890,519	-	-	2,831,798	2,890,519
Construction notes	-	-	337,560	353,837	337,560	353,837
Compensated absences	116,388	108,328	6,665	4,293	123,053	112,621
<b>Total long-term debt</b>	<b>\$ 2,948,186</b>	<b>\$ 2,998,847</b>	<b>\$ 1,643,225</b>	<b>\$ 1,697,130</b>	<b>\$ 4,591,411</b>	<b>\$ 4,695,977</b>

### Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 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 2013 was 7.1%, down from 11.3% 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 decreased to \$144,136. The City has appropriated \$450,000 for spending in the 2014 fiscal year budget. It was determined that the millage rate for the City would increase to 5.6190 mills.

The water and wastewater rates were each raised by 1.63% for the 2014 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 Position

September 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 175,396	\$ 219,449	\$ 394,845
Receivables	34,544	264,239	298,783
Due from other governmental units	231,827	-	231,827
Internal balances	507,030	(507,030)	-
Prepaid items	15,632	-	15,632
Inventories	-	12,492	12,492
Restricted cash and cash equivalents	304,141	1,176,179	1,480,320
Capital assets not being depreciated	7,155,225	495,033	7,650,258
Capital assets being depreciated, net	9,350,611	6,808,263	16,158,874
<b>Total assets</b>	<b>17,774,406</b>	<b>8,468,625</b>	<b>26,243,031</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	113,006	65,368	178,374
Unearned revenues	14,018	156,399	170,417
Long-term debt:			
Due within one year	71,446	58,026	129,472
Due in more than one year	2,876,740	1,585,199	4,461,939
<b>Total liabilities</b>	<b>3,075,210</b>	<b>1,864,992</b>	<b>4,940,202</b>
<b>Net position</b>			
Net investment in capital assets	13,674,038	5,666,736	19,340,774
Restricted for:			
Debt service	-	440,007	440,007
Renewal and replacement	351,293	629,436	980,729
Cemetery perpetual care	33,940	-	33,940
Other purposes	640,360	106,736	747,096
Unrestricted (deficit)	(435)	(239,282)	(239,717)
<b>Total net position</b>	<b>\$ 14,699,196</b>	<b>\$ 6,603,633</b>	<b>\$ 21,302,829</b>

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, 2013

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	\$ 1,182,065	\$ 8,242	\$ -	\$ 37,227	\$ (1,136,596)
Public safety	813,678	18,212	1,000	-	(794,466)
Transportation	944,997	-	-	-	(944,997)
Cultural and recreation	186,291	3,595	-	100,000	(82,696)
Interest and fiscal charges	128,861	-	-	-	(128,861)
Total governmental activities	<u>3,255,892</u>	<u>30,049</u>	<u>1,000</u>	<u>137,227</u>	<u>(3,087,616)</u>
Business-type activities:					
Water department	530,339	839,982	-	-	309,643
Community development	279,916	157,959	-	-	(121,957)
Wastewater services	228,779	238,078	-	-	9,299
Stormwater system	1,950	50,275	-	-	48,325
Total business-type activities	<u>1,040,984</u>	<u>1,286,294</u>	<u>-</u>	<u>-</u>	<u>245,310</u>
Total primary government	<u>\$ 4,296,876</u>	<u>\$ 1,316,343</u>	<u>\$ 1,000</u>	<u>\$ 137,227</u>	<u>\$ (2,842,306)</u>

continued...

# CITY OF FELLSMERE, FLORIDA

## Statement of Activities

For the Year Ended September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenue (expense)	\$ (3,087,616)	\$ 245,310	\$ (2,842,306)
General revenues and transfers -			
Taxes:			
Property	483,881	-	483,881
Discretionary sales	613,727	-	613,727
Local option gas	134,556	-	134,556
Franchise	240,621	-	240,621
Utility	308,355	-	308,355
Communications services	73,152	-	73,152
Eighth cent motor fuel	48,509	-	48,509
Half cent sales	332,605	-	332,605
Unrestricted investment earnings	3,004	11,145	14,149
State shared revenue	135,871	-	135,871
Miscellaneous	275,034	-	275,034
Transfers	243,841	(242,986)	855
Total general revenues and transfers	<u>2,893,156</u>	<u>(231,841)</u>	<u>2,661,315</u>
Change in net position	(194,460)	13,469	(180,991)
Net position, beginning of year	<u>14,893,656</u>	<u>6,590,164</u>	<u>21,483,820</u>
Net position, end of year	<u>\$ 14,699,196</u>	<u>\$ 6,603,633</u>	<u>\$ 21,302,829</u>

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, 2013

	General	Infrastructure	Community Redevelopment Agency	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 82,638	\$ -	\$ -	\$ 92,758	\$ 175,396
Restricted cash and cash equivalents	-	103,455	112,033	88,653	304,141
Accounts receivable	31,271	-	-	3,273	34,544
Due from other governments	77,373	98,693	-	55,761	231,827
Due from other funds	21,330	-	-	-	21,330
Advance to other funds	304,600	211,700	-	-	516,300
Prepaid items	-	15,632	-	-	15,632
<b>Total assets</b>	<b>\$ 517,212</b>	<b>\$ 429,480</b>	<b>\$ 112,033</b>	<b>\$ 240,445</b>	<b>\$ 1,299,170</b>
<b>Liabilities</b>					
Accounts payable	\$ 7,001	\$ -	\$ -	\$ 78,470	\$ 85,471
Accrued liabilities	27,535	-	-	-	27,535
Due to other funds	-	-	30,600	-	30,600
Unearned revenues	-	-	-	14,018	14,018
<b>Total liabilities</b>	<b>34,536</b>	<b>-</b>	<b>30,600</b>	<b>92,488</b>	<b>157,624</b>
<b>Fund balances</b>					
Nonspendable	304,600	227,332	-	-	531,932
Restricted	33,940	202,148	100,000	176,140	512,228
Unassigned (deficit)	144,136	-	(18,567)	(28,183)	97,386
<b>Total fund balances</b>	<b>482,676</b>	<b>429,480</b>	<b>81,433</b>	<b>147,957</b>	<b>1,141,546</b>
<b>Total liabilities and fund balances</b>	<b>\$ 517,212</b>	<b>\$ 429,480</b>	<b>\$ 112,033</b>	<b>\$ 240,445</b>	<b>\$ 1,299,170</b>

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

# CITY OF FELLOSMERE, FLORIDA

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
September 30, 2013

Fund balances - total governmental funds	\$ 1,141,546
Amounts reported for <i>governmental activities</i> in the statement of net position 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	7,155,225
Capital assets being depreciated, net	9,350,611
Accrued compensated absences are not financial uses and, therefore, are not reported in the fund statement.	
Accrued compensated absences	(116,388)
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>(2,831,798)</u>
Net position of governmental activities	<u><u>\$ 14,699,196</u></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, 2013

	General	Infrastructure	Community Redevelopment Agency	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes:					
Property	\$ 483,881	\$ -	\$ -	\$ -	\$ 483,881
Public utility	308,355	-	-	-	308,355
Sales	-	613,727	-	-	613,727
Motor fuel	-	-	-	134,556	134,556
Communications services	73,152	-	-	-	73,152
Franchise fees	240,621	-	-	-	240,621
Intergovernmental	517,985	-	-	44,929	562,914
Charges for services	11,837	-	-	-	11,837
Fines	18,212	-	-	-	18,212
Investment earnings	2,969	33	-	-	3,002
Contributions and donations	-	-	100,000	-	100,000
Other revenue	100,887	2,000	20,002	144,445	267,334
<b>Total revenues</b>	<b>1,757,899</b>	<b>615,760</b>	<b>120,002</b>	<b>323,930</b>	<b>2,817,591</b>
<b>Expenditures</b>					
Current:					
General government	814,225	291	8,804	133,697	957,017
Public safety	786,756	-	-	-	786,756
Transportation	444,344	-	-	54,041	498,385
Culture and recreation	32,217	-	-	-	32,217
Debt service:					
Principal	-	58,721	-	-	58,721
Interest and fiscal charges	-	128,861	-	-	128,861
Capital outlay	-	19,956	-	162,817	182,773
<b>Total expenditures</b>	<b>2,077,542</b>	<b>207,829</b>	<b>8,804</b>	<b>350,555</b>	<b>2,644,730</b>
<b>Revenues over (under) expenditures</b>	<b>(319,643)</b>	<b>407,931</b>	<b>111,198</b>	<b>(26,625)</b>	<b>172,861</b>
<b>Other financing sources (uses)</b>					
Transfers in	322,440	-	-	122,520	444,960
Transfers out	(17,940)	(87,302)	-	(95,877)	(201,119)
<b>Total other financing sources (uses)</b>	<b>304,500</b>	<b>(87,302)</b>	<b>-</b>	<b>26,643</b>	<b>243,841</b>
<b>Net changes in fund balances (deficit)</b>	<b>(15,143)</b>	<b>320,629</b>	<b>111,198</b>	<b>18</b>	<b>416,702</b>
<b>Fund balances (deficit), beginning of year</b>	<b>497,819</b>	<b>108,851</b>	<b>(29,765)</b>	<b>147,939</b>	<b>724,844</b>
<b>Fund balances, end of year</b>	<b>\$ 482,676</b>	<b>\$ 429,480</b>	<b>\$ 81,433</b>	<b>\$ 147,957</b>	<b>\$ 1,141,546</b>

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 Position of Governmental Activities  
For the Year Ended September 30, 2013

Net change in fund balances - total governmental funds	\$ 416,702
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Capital outlay	183,964
Depreciation expense	(845,787)

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 position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	58,721
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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>(8,060)</u>
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Change in net position of governmental activities	<u><u>\$ (194,460)</u></u>
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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 - General Fund

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes:				
Property	\$ 505,040	\$ 505,040	\$ 483,881	\$ (21,159)
Public utility	318,730	318,730	308,355	(10,375)
Communications services	76,200	76,200	73,152	(3,048)
Franchise fees	255,180	255,180	240,621	(14,559)
Intergovernmental	476,350	476,350	517,985	41,635
Charges for services	14,500	14,500	11,837	(2,663)
Fines	10,820	10,820	18,212	7,392
Investment earnings	3,820	3,820	2,969	(851)
Contributions and donations	100	100	-	(100)
Other revenue	114,800	114,800	100,887	(13,913)
<b>Total revenues</b>	<b>1,775,540</b>	<b>1,775,540</b>	<b>1,757,899</b>	<b>(17,641)</b>
<b>Expenditures</b>				
Current:				
General government	1,241,560	1,241,560	814,225	(427,335)
Public safety	812,850	812,850	786,756	(26,094)
Transportation	426,610	426,610	444,344	17,734
Culture and recreation	43,900	43,900	32,217	(11,683)
<b>Total expenditures</b>	<b>2,524,920</b>	<b>2,524,920</b>	<b>2,077,542</b>	<b>(447,378)</b>
<b>Revenues over (under) expenditures</b>	<b>(749,380)</b>	<b>(749,380)</b>	<b>(319,643)</b>	<b>429,737</b>
<b>Other financing sources (uses)</b>				
Transfers in	785,650	785,650	322,440	(463,210)
Transfers out	(36,270)	(36,270)	(17,940)	18,330
<b>Total other financing sources</b>	<b>749,380</b>	<b>749,380</b>	<b>304,500</b>	<b>(444,880)</b>
<b>Net changes in fund balances</b>	<b>-</b>	<b>-</b>	<b>(15,143)</b>	<b>(15,143)</b>
<b>Fund balances, beginning of year</b>	<b>497,819</b>	<b>497,819</b>	<b>497,819</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 497,819</b>	<b>\$ 497,819</b>	<b>\$ 482,676</b>	<b>\$ (15,143)</b>

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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes:				
Sales	\$ 629,600	\$ 629,600	\$ 613,727	\$ (15,873)
Investment earnings	100	100	33	(67)
Other revenue	230,000	230,000	2,000	(228,000)
<b>Total revenues</b>	<b>859,700</b>	<b>859,700</b>	<b>615,760</b>	<b>(243,940)</b>
<b>Expenditures</b>				
Current:				
General government	300	300	291	(9)
Debt service:				
Principal	58,730	58,730	58,721	(9)
Interest expense and fiscal charges	128,600	128,600	128,861	261
Capital outlay	63,570	63,570	19,956	(43,614)
<b>Total expenditures</b>	<b>251,200</b>	<b>251,200</b>	<b>207,829</b>	<b>(43,371)</b>
Revenues over expenditures	608,500	608,500	407,931	(200,569)
<b>Other financing uses</b>				
Transfers out	(608,500)	(608,500)	(87,302)	521,198
Net changes in fund balances	-	-	320,629	320,629
Fund balances, beginning of year	108,851	108,851	108,851	-
Fund balances, end of year	\$ 108,851	\$ 108,851	\$ 429,480	\$ 320,629

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 - Community Redevelopment Agency Fund

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Donations	\$ -	\$ -	\$ 100,000	\$ 100,000
Other revenue	12,210	12,210	20,002	7,792
<b>Total revenues</b>	<b>12,210</b>	<b>12,210</b>	<b>120,002</b>	<b>107,792</b>
<b>Expenditures</b>				
Current:				
General government	8,000	8,000	8,804	804
<b>Revenues over (under) expenditures</b>	<b>4,210</b>	<b>4,210</b>	<b>111,198</b>	<b>106,988</b>
<b>Other financing sources (uses)</b>				
Transfers in	20,790	20,790	-	(20,790)
Transfers out	(25,000)	(25,000)	-	25,000
<b>Total other financing sources (uses)</b>	<b>(4,210)</b>	<b>(4,210)</b>	<b>-</b>	<b>4,210</b>
<b>Net changes in fund balances (deficit)</b>	<b>-</b>	<b>-</b>	<b>111,198</b>	<b>111,198</b>
Fund balances, beginning of year	(29,765)	(29,765)	(29,765)	-
<b>Fund balances (deficit), end of year</b>	<b>\$ (29,765)</b>	<b>\$ (29,765)</b>	<b>\$ 81,433</b>	<b>\$ 111,198</b>

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



CITY OF FELLSMERE, FLORIDA

Statement of Net Position

Enterprise Funds  
September 30, 2013

	Water Department	Community Development	Wastewater Service	Stormwater System - Nonmajor Fund	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 204,853	\$ 121	\$ -	\$ 14,475	\$ 219,449
Restricted cash and cash equivalents	1,132,704	-	43,475	-	1,176,179
Accounts receivable	141,963	93,658	27,934	684	264,239
Due from other funds	-	9,270	-	-	9,270
Inventories	12,492	-	-	-	12,492
<b>Total current assets</b>	<b>1,492,012</b>	<b>103,049</b>	<b>71,409</b>	<b>15,159</b>	<b>1,681,629</b>
Noncurrent assets:					
Advance to other funds	218,710	-	-	-	218,710
Capital assets:					
Land	254,283	9,751	-	-	264,034
Construction in progress	230,999	-	-	-	230,999
Machinery and equipment	6,835,525	31,645	1,926,352	-	8,793,522
Less accumulated depreciation	(1,650,518)	(26,609)	(308,132)	-	(1,985,259)
<b>Total noncurrent assets</b>	<b>5,888,999</b>	<b>14,787</b>	<b>1,618,220</b>	<b>-</b>	<b>7,522,006</b>
<b>Total assets</b>	<b>7,381,011</b>	<b>117,836</b>	<b>1,689,629</b>	<b>15,159</b>	<b>9,203,635</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	11,696	2,843	47,443	-	61,982
Accrued liabilities	50	2,912	-	-	2,962
Accrued interest payable	424	-	-	-	424
Unearned revenues	84,451	43,663	28,285	-	156,399
Current portion of accrued compensated absences	33	633	-	-	666
Current portion of long-term debt	57,360	-	-	-	57,360
<b>Total current liabilities</b>	<b>154,014</b>	<b>50,051</b>	<b>75,728</b>	<b>-</b>	<b>279,793</b>
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	300	5,699	-	-	5,999
Advances from other funds	-	494,700	240,310	-	735,010
Long-term debt, net of current portion	1,579,200	-	-	-	1,579,200
<b>Total noncurrent liabilities</b>	<b>1,579,500</b>	<b>500,399</b>	<b>240,310</b>	<b>-</b>	<b>2,320,209</b>
<b>Total liabilities</b>	<b>1,733,514</b>	<b>550,450</b>	<b>316,038</b>	<b>-</b>	<b>2,600,002</b>
<b>Net position</b>					
Net investment in capital assets	4,033,729	14,787	1,618,220	-	5,666,736
Restricted for:					
Revenue bond debt service	440,007	-	-	-	440,007
Renewal and replacement	610,746	-	18,690	-	629,436
Other purposes	81,951	-	24,785	-	106,736
Unrestricted (deficit)	481,064	(447,401)	(288,104)	15,159	(239,282)
<b>Total net position</b>	<b>\$ 5,647,497</b>	<b>\$ (432,614)</b>	<b>\$ 1,373,591</b>	<b>\$ 15,159</b>	<b>\$ 6,603,633</b>

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 Position

Enterprise Funds

For the Year Ended September 30, 2013

	Water Department	Community Development	Wastewater Service	Stormwater System - Nonmajor Fund	Total
Operating revenues					
Charges for services	\$ 762,119	\$ -	\$ 233,618	\$ 50,275	\$ 1,046,012
Building permits, licenses, fees	-	118,334	-	-	118,334
Other revenues	77,863	39,625	4,460	-	121,948
Total operating revenues	839,982	157,959	238,078	50,275	1,286,294
Operating expenses					
Salaries, wages and employee benefits	55,631	170,642	-	-	226,273
Contractual services, materials and supplies	269,749	106,365	190,252	1,950	568,316
Depreciation	135,374	2,909	38,527	-	176,810
Total operating expenses	460,754	279,916	228,779	1,950	971,399
Operating income (loss)	379,228	(121,957)	9,299	48,325	314,895
Nonoperating revenues (expenses)					
Interest income	10,660	485	-	-	11,145
Interest expense	(69,585)	-	-	-	(69,585)
Total nonoperating revenues (expenses)	(58,925)	485	-	-	(58,440)
Income (loss) before transfers	320,303	(121,472)	9,299	48,325	256,455
Transfers					
Transfers in	-	29,940	-	-	29,940
Transfers out	(123,360)	(48,360)	(68,040)	(33,166)	(272,926)
Total transfers	(123,360)	(18,420)	(68,040)	(33,166)	(242,986)
Change in net position	196,943	(139,892)	(58,741)	15,159	13,469
Net position (deficit), beginning of year	5,450,554	(292,722)	1,432,332	-	6,590,164
Net position (deficit), end of year	\$ 5,647,497	\$ (432,614)	\$ 1,373,591	\$ 15,159	\$ 6,603,633

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

CITY OF FELLSMERE, FLORIDA

Statement of Cash Flows

Enterprise Funds

For the Year Ended September 30, 2013

	Water Department	Community Development	Wastewater Service	Stormwater System - Nonmajor Fund	Total
Cash flows from operating activities					
Receipts from customers and users	\$ 788,854	\$ 209,286	\$ 252,940	\$ 49,591	\$ 1,300,671
Internal activity - receipts from other funds	141,290	134,700	-	-	275,990
Payments to suppliers	(262,143)	(160,591)	(178,168)	(1,950)	(602,852)
Payments for personnel services	(55,866)	(165,862)	-	-	(221,728)
Internal activity - payments to other funds	-	-	(3,890)	-	(3,890)
Net cash provided by operating activities	612,135	17,533	70,882	47,641	748,191
Cash flows from noncapital financing activities					
Transfers to other funds	(123,360)	(48,360)	(68,040)	(33,166)	(272,926)
Transfers from other funds	-	29,940	-	-	29,940
Net cash used in noncapital financing activities	(123,360)	(18,420)	(68,040)	(33,166)	(242,986)
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(172,930)	-	-	-	(172,930)
Principal paid on long-term debt	(56,277)	-	-	-	(56,277)
Interest paid on long-term debt	(69,585)	-	-	-	(69,585)
Net cash used in capital and related financing activities	(298,792)	-	-	-	(298,792)
Cash flows from investing activities					
Interest on investments	10,660	485	-	-	11,145
Net increase (decrease) in cash and cash equivalents	200,643	(402)	2,842	14,475	217,558
Cash and cash equivalents, beginning of year	1,136,914	523	40,633	-	1,178,070
Cash and cash equivalents, end of year	\$ 1,337,557	\$ 121	\$ 43,475	\$ 14,475	\$ 1,395,628
Classified on the statement of net position as:					
Cash and cash equivalents	204,853	121	-	14,475	219,449
Restricted cash and cash equivalents	1,132,704	-	43,475	-	1,176,179
	\$ 1,337,557	\$ 121	\$ 43,475	\$ 14,475	\$ 1,395,628

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CITY OF FELLSMERE, FLORIDA

Statement of Cash Flows

Enterprise Funds

For the Year Ended September 30, 2013

	Water Department	Community Development	Wastewater Service	Stormwater System - Nonmajor Fund	Total
Cash flows from operating activities					
Operating income (loss)	\$ 379,228	\$ (121,957)	\$ 9,299	\$ 48,325	\$ 314,895
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	135,374	2,909	38,527	-	176,810
Change in:					
Accounts receivable	(51,128)	51,327	(7,536)	(684)	(8,021)
Due from other governments	-	-	22,398	-	22,398
Advance to other funds	141,290	-	-	-	141,290
Inventories	534	-	-	-	534
Accounts payable	7,220	(6,638)	11,434	-	12,016
Accrued liabilities	(244)	2,417	-	-	2,173
Advance from other funds	-	134,700	(3,890)	-	130,810
Accrued compensated absences	9	2,363	-	-	2,372
Unearned revenues	(148)	(47,588)	650	-	(47,086)
Net cash provided by operating activities	<u>\$ 612,135</u>	<u>\$ 17,533</u>	<u>\$ 70,882</u>	<u>\$ 47,641</u>	<u>\$ 748,191</u>

concluded

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

## 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. The City reported no discretely presented component units for the year ended September 30, 2013.

#### *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.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### *Government-Wide and Fund Financial Statements*

The government wide financial statements (i.e., the statement of net position 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.

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. The City is reporting no fiduciary funds for the year ended September 30, 2013.

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.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

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.

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

The *Community Redevelopment Agency Fund* accounts for the activities of the Community Redevelopment Agency related to economic initiatives within the City.

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.



# CITY OF FELLOSMERE, FLORIDA

## Notes to Financial Statements

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 position are resources 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.

### 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, 2013.

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.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### *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.

### *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, 2013, as all receivables are considered collectible.

### *Inventory and prepaid items*

Inventory at September 30, 2013 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 net position*

Certain assets of the City are classified as restricted on the Statement of Net Position 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 assets, then from unrestricted assets.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### *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.

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 Position. 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.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

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.

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, 2013, 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.

# CITY OF FELLOSMERE, FLORIDA

## Notes to 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.

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, 2013. 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, 2013.

### 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.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of September 30, 2013:

	Primary Government
Statement of Net Position	
Cash and cash equivalents	\$ 394,845
Restricted cash and cash equivalents	1,480,320
	<hr/>
<b>Total</b>	<b>\$ 1,875,165</b>
	<hr/> <hr/>
Deposits and investments	
Bank deposits:	
Checking and savings accounts	\$ 1,874,665
Cash on hand	500
	<hr/>
<b>Total</b>	<b>\$ 1,875,165</b>
	<hr/> <hr/>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. At September 30, 2013, the carrying amount of the City's deposits with banks was \$1,874,666 and the bank balance was \$1,924,540. 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, 2013.

At September 30, 2013, restricted cash includes \$45,669 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, 2013 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$610,746 and \$18,686 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 \$440,007 and customer deposits of the water and wastewater systems of \$81,950 and \$24,785, respectively.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

*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. In lieu of adopting its own investment policy, the City invests surplus funds pursuant to the guidelines in Florida Statute 218.415, subsection 17.

### 5. RECEIVABLES

All receivables are anticipated to be collected.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of September 30, 2013, there were no amounts reported as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2013, 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	\$ 85,471	\$ 61,982
Accrued liabilities	27,535	2,962
Accrued interest on long-term debt	-	424
<b>Total payables</b>	<b>\$ 113,006</b>	<b>\$ 65,368</b>

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2013, was as follows:

Due to and from primary government funds

	Due from Other Funds	Due to Other Funds
General fund	\$ 21,330	\$ -
Community redevelopment agency	-	30,600
Community development fund	9,270	-
	<u>30,600</u>	<u>30,600</u>
<b>Totals</b>	<b><u>\$ 30,600</u></b>	<b><u>\$ 30,600</u></b>

The Community Redevelopment Agency required funding from the General and Community Development funds in prior years.

Advances to and from primary government funds

	Advances to Other Funds	Advances from Other Funds
General fund	\$ 304,600	\$ -
Infrastructure fund	211,700	-
Water department fund	218,710	-
Community development fund	-	494,700
Wastewater service fund	-	240,310
	<u>735,010</u>	<u>735,010</u>
<b>Totals</b>	<b><u>\$ 735,010</u></b>	<b><u>\$ 735,010</u></b>

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, 2013, interfund transfers consisted of the following:

Transfers Out	Transfers in			Totals
	General Fund	Nonmajor Governmental Funds	Community Development Fund	
General fund	\$ -	\$ 855	\$ 17,940	\$ 18,795
Infrastructure fund	-	87,302	-	87,302
Nonmajor governmental funds	94,680	1,197	-	95,877
Water department fund	117,360	-	6,000	123,360
Community development fund	48,360	-	-	48,360
Wastewater service fund	62,040	-	6,000	68,040
Stormwater system - nonmajor proprietary fund	-	33,166	-	33,166
<b>Totals</b>	<b>\$ 322,440</b>	<b>\$ 122,520</b>	<b>\$ 29,940</b>	<b>\$ 474,900</b>

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, 2013, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 6,626,696	\$ -	\$ -	\$ -	\$ 6,626,696
Construction in progress	365,714	162,815	-	-	528,529
	<u>6,992,410</u>	<u>162,815</u>	<u>-</u>	<u>-</u>	<u>7,155,225</u>
Capital assets, being depreciated:					
Buildings	5,332,556	-	-	-	5,332,556
Improvements other than buildings	2,767,609	2,440	-	-	2,770,049
Machinery and equipment	1,413,718	18,709	-	-	1,432,427
Infrastructure	7,431,693	-	-	-	7,431,693
	<u>16,945,576</u>	<u>21,149</u>	<u>-</u>	<u>-</u>	<u>16,966,725</u>
Less accumulated depreciation for:					
Buildings	(1,208,158)	(263,579)	-	-	(1,471,737)
Improvements other than buildings	(1,992,051)	(128,849)	-	-	(2,120,900)
Machinery and equipment	(1,211,152)	(72,420)	-	-	(1,283,572)
Infrastructure	(2,358,966)	(380,939)	-	-	(2,739,905)
	<u>(6,770,327)</u>	<u>(845,787)</u>	<u>-</u>	<u>-</u>	<u>(7,616,114)</u>
Total capital assets being depreciated, net	<u>10,175,249</u>	<u>(824,638)</u>	<u>-</u>	<u>-</u>	<u>9,350,611</u>
Governmental activities capital assets, net	<u>\$ 17,167,659</u>	<u>\$ (661,823)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,505,836</u>

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 109,997	\$ 169,064	\$ (15,027)	\$ -	\$ 264,034
Construction in progress	217,450	13,549	-	-	230,999
	<u>327,447</u>	<u>182,613</u>	<u>(15,027)</u>	<u>-</u>	<u>495,033</u>
Capital assets, being depreciated:					
Water plant	2,782,829	-	-	-	2,782,829
Water lines	3,563,449	5,344	-	-	3,568,793
Water tank	411,683	-	-	-	411,683
Vehicle and equipment	72,222	-	-	-	72,222
Equipment	31,644	-	-	-	31,644
Wastewater lines	1,926,351	-	-	-	1,926,351
	<u>8,788,178</u>	<u>5,344</u>	<u>-</u>	<u>-</u>	<u>8,793,522</u>
Less accumulated depreciation for:					
Water plant	(291,450)	(55,656)	-	-	(347,106)
Water lines	(995,659)	(71,278)	-	-	(1,066,937)
Water tank	(150,798)	(8,234)	-	-	(159,032)
Vehicle and equipment	(72,222)	-	-	-	(72,222)
Equipment	(28,716)	(3,114)	-	-	(31,830)
Wastewater lines	(269,605)	(38,527)	-	-	(308,132)
	<u>(1,808,450)</u>	<u>(176,809)</u>	<u>-</u>	<u>-</u>	<u>(1,985,259)</u>
Total capital assets being depreciated, net	<u>6,979,728</u>	<u>(171,465)</u>	<u>-</u>	<u>-</u>	<u>6,808,263</u>
Business-type activities capital assets, net	<u>\$ 7,307,175</u>	<u>\$ 11,148</u>	<u>\$ (15,027)</u>	<u>\$ -</u>	<u>\$ 7,303,296</u>

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

<b>Depreciation of governmental activities by function</b>	
General government	\$ 219,233
Public safety	34,079
Transportation	438,401
Cultural and recreation	154,074
Total governmental activities	<u>\$ 845,787</u>
<b>Depreciation of business-type activities by function</b>	
Water department	\$ 135,373
Community development	2,909
Wastewater service	38,527
Total business-type activities	<u>\$ 176,809</u>

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

### *Construction Commitments*

The City has various construction commitments outstanding at September 30, 2013. The major commitments include the following:

Project	Spent To-date	Remaining Commitment	Major Funding Source
CDBG Gas Supply	\$ 9,981	\$ 1,190,000	Grant
FOA Transportation Access	12,317	760,200	Grant
IR Lagoon National Scenic Byway	66,137	398,900	Grant
Well Field Expansion	229,199	80,000	Impact Fees
FDEP Master Drainage Plan	75,948	37,500	Grant/Developer Contributions
<b>Totals</b>	<b>\$ 393,582</b>	<b>\$ 2,466,600</b>	

## 9. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Capital improvement bond	\$ 2,890,519	\$ -	\$ (58,721)	\$ 2,831,798	\$ 61,419
Compensated absences	108,328	8,060	-	116,388	10,027
<b>Total governmental activities</b>	<b>\$ 2,998,847</b>	<b>\$ 8,060</b>	<b>\$ (58,721)</b>	<b>\$ 2,948,186</b>	<b>\$ 71,446</b>

### 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 payments commencing 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
<b>Business-type Activities</b>					
Construction loans	\$ 353,837	\$ -	\$ (16,277)	\$ 337,560	\$ 15,360
Revenue bond	1,339,000	-	(40,000)	1,299,000	42,000
Total installment debt	1,692,837	-	(56,277)	1,636,560	57,360
Compensated absences	4,293	2,372	-	6,665	666
Total business-type activities	\$ 1,697,130	\$ 2,372	\$ (56,277)	\$ 1,643,225	\$ 58,026

### Construction Loans

In 2010, the City entered into two loans with the Florida Department of Environmental Protection. Disbursements for the loan were considered federal funds under a grant from the Environmental Protection Agency, Capitalization Grants for the State Revolving Fund. The construction project to expand the water treatment plant was finished in 2012. Both loans are to be repaid with 40 semi-annual payments ending in 2031. Interest is charged at 2.61% and 2.71%.

### 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 \$332,000 in 2013.

# 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
2014	\$ 61,419	\$ 126,164	\$ 57,360	\$ 67,365
2015	64,240	123,342	58,773	65,062
2016	66,892	120,690	61,197	62,703
2017	70,263	117,319	63,633	60,243
2018	73,491	114,092	66,080	57,682
2019-2023	420,962	516,950	375,534	245,898
2024-2028	527,791	411,121	456,660	163,298
2029-2033	659,798	278,113	497,323	63,380
2034-2038	826,009	109,037	-	-
2039	60,933	582	-	-
	<u>\$ 2,831,798</u>	<u>\$ 1,917,410</u>	<u>\$ 1,636,560</u>	<u>\$ 785,631</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, 2013, the millage rate assessed by the City was approximately 5.49 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, 2013, upon which the 2012 - 2013 levy was based, was approximately \$91.3 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 defined contribution 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 11% of employee salaries and wages for employees who contributed 4% in 2013. 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 \$48,182 for the fiscal year ended September 30, 2013. The money purchase plan is not available to employees until termination, retirement, death, or financial hardship.

# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

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.

### *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, 2013, the City credited \$3,500 to each employee's account, including those employees with dependent coverage, which amounted to \$98,000. The City maintains control of the funds in the health reimbursement account and pays all claims as submitted by the plan administrator. All full-time employees participate in the plan. In October of each year, a 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, 2013, the percent contributed to the retirement health savings account was 20% of each employee's remaining balance in the health reimbursement account, which amounted to \$52,964.

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 11% of employee salaries and wages for employees who contributed 4% in 2013 for 2013. Employer and employee contributions to the plan were \$76,207 and \$70,390, respectively in 2013. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.



# CITY OF FELLSMERE, FLORIDA

## Notes to Financial Statements

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.

### 15. NET INVESTMENT IN CAPITAL ASSETS

The composition of the City's net investment in capital assets as of September 30, 2013, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 7,155,225	\$ 495,033
Capital assets being depreciated, net	9,350,611	6,808,263
	<u>16,505,836</u>	<u>7,303,296</u>
Related debt:		
Total bonds and notes payable	<u>2,831,798</u>	<u>1,636,560</u>
Net investment in capital assets	<u>\$ 13,674,038</u>	<u>\$ 5,666,736</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	\$ -	\$ 15,632	\$ -	\$ -	\$ 15,632
Advances to other funds	304,600	211,700	-	-	516,300
Total nonspendable	<u>304,600</u>	<u>227,332</u>	<u>-</u>	<u>-</u>	<u>531,932</u>
Restricted for:					
Capital projects	-	202,148	100,000	176,140	478,288
Special projects	-	-	-	-	-
Brookside Cemetery	33,940	-	-	-	33,940
Total restricted	<u>33,940</u>	<u>202,148</u>	<u>100,000</u>	<u>176,140</u>	<u>512,228</u>
Unassigned (deficit)	<u>144,136</u>	<u>-</u>	<u>(18,567)</u>	<u>(28,183)</u>	<u>97,386</u>
Total fund balances, governmental funds	<u>\$ 482,676</u>	<u>\$ 429,480</u>	<u>\$ 81,433</u>	<u>\$ 147,957</u>	<u>\$ 1,141,546</u>



**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

# CITY OF FELLSMERE, FLORIDA

## Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2013

	Special Revenue Fund	Capital Projects Funds		
	Local Option Gas Tax	CDBG Phase VI	HC&J Stormwater Grant Park	FRDAP Trail Head Preserve
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	45,669	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	22,043	-	-	-
<b>Total assets</b>	<b>\$ 67,712</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Unearned revenues	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>				
Restricted	67,712	-	-	-
Unrestricted	-	-	-	-
<b>Total fund balances</b>	<b>67,712</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 67,712</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



**Capital Projects Funds**

FRDAP Trail Head Preserve LWCF	FDEP Wetlands Park LWCF	Special Projects	Save Our Old School	CDBG Gas Supply	Indian River Lagoon National Scenic Byway
\$ -	\$ -	\$ 92,758	\$ -	\$ -	\$ -
41,732	1	-	-	1,251	-
221	-	-	-	2,649	-
25,161	-	-	-	-	-
<u>\$ 67,114</u>	<u>\$ 1</u>	<u>\$ 92,758</u>	<u>\$ -</u>	<u>\$ 3,900</u>	<u>\$ -</u>
\$ 41,730	\$ -	\$ -	\$ -	\$ -	\$ 14,900
-	-	14,018	-	-	-
41,730	-	14,018	-	-	14,900
25,384	1	78,740	-	3,900	-
-	-	-	-	-	(14,900)
<u>25,384</u>	<u>1</u>	<u>78,740</u>	<u>-</u>	<u>3,900</u>	<u>(14,900)</u>
<u>\$ 67,114</u>	<u>\$ 1</u>	<u>\$ 92,758</u>	<u>\$ -</u>	<u>\$ 3,900</u>	<u>\$ -</u>

continued...

# CITY OF FELLSMERE, FLORIDA

## Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2013

	Capital Projects Funds		
	FOA Transportation Access	FDEP City Complex Master Drainage	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 92,758
Restricted cash and cash equivalents	-	-	88,653
Accounts receivable	403	-	3,273
Due from other governments	8,557	-	55,761
<b>Total assets</b>	<b>\$ 8,960</b>	<b>\$ -</b>	<b>\$ 240,445</b>
<b>Liabilities</b>			
Accounts payable	\$ 8,557	\$ 13,283	\$ 78,470
Unearned revenues	-	-	14,018
<b>Total liabilities</b>	<b>8,557</b>	<b>13,283</b>	<b>92,488</b>
<b>Fund balances</b>			
Restricted	403	-	176,140
Unrestricted	-	(13,283)	(28,183)
<b>Total fund balances</b>	<b>403</b>	<b>(13,283)</b>	<b>147,957</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,960</b>	<b>\$ -</b>	<b>\$ 240,445</b>

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# CITY OF FELLSMERE, FLORIDA

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended September 30, 2013

	Special Revenue Fund	Capital Projects Funds		
	Local Option Gas Tax	CDBG Phase VI	HC&J Stormwater Grant Park	FRDAP Trail Head Preserve
<b>Revenues</b>				
Taxes:				
Motor fuel	\$ 134,556	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Other revenue	-	-	583	-
<b>Total revenues</b>	<u>134,556</u>	<u>-</u>	<u>583</u>	<u>-</u>
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Transportation	54,041	-	-	-
Capital outlay	-	670	2,454	2,750
<b>Total expenditures</b>	<u>54,041</u>	<u>670</u>	<u>2,454</u>	<u>2,750</u>
Revenues over (under) expenditures	<u>80,515</u>	<u>(670)</u>	<u>(1,871)</u>	<u>(2,750)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	670	1,871	2,750
Transfers out	(95,877)	-	-	-
<b>Total other financing sources (uses)</b>	<u>(95,877)</u>	<u>670</u>	<u>1,871</u>	<u>2,750</u>
Net changes in fund balances	(15,362)	-	-	-
Fund balances, beginning of year	83,074	-	-	-
Fund balances, end of year	<u>\$ 67,712</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>





**Capital Projects Funds**

FRDAP Trail Head Preserve LWCF	FDEP Wetlands Park LWCF	Special Projects	Save Our Old School	CDBG Gas Supply	Indian River Lagoon National Scenic Byway
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37,227	-	-	-	-	-
66,637	-	31,200	-	12,089	800
<u>103,864</u>	<u>-</u>	<u>31,200</u>	<u>-</u>	<u>12,089</u>	<u>800</u>
46,755	-	10,993	-	-	-
-	-	-	-	-	-
60,812	2,745	-	4,951	9,981	66,137
<u>107,567</u>	<u>2,745</u>	<u>10,993</u>	<u>4,951</u>	<u>9,981</u>	<u>66,137</u>
<u>(3,703)</u>	<u>(2,745)</u>	<u>20,207</u>	<u>(4,951)</u>	<u>2,108</u>	<u>(65,337)</u>
23,610	1,891	-	4,951	1,792	50,437
-	-	-	-	-	-
<u>23,610</u>	<u>1,891</u>	<u>-</u>	<u>4,951</u>	<u>1,792</u>	<u>50,437</u>
19,907	(854)	20,207	-	3,900	(14,900)
5,477	855	58,533	-	-	-
<u>\$ 25,384</u>	<u>\$ 1</u>	<u>\$ 78,740</u>	<u>\$ -</u>	<u>\$ 3,900</u>	<u>\$ (14,900)</u>

continued...

CITY OF FELLSMERE, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

September 30, 2013

	Capital Projects Funds		
	FOA Transportation Access	FDEP City Complex Master Drainage	Total
Revenues			
Taxes:			
Motor fuel	\$ -	\$ -	\$ 134,556
Intergovernmental	7,702	-	44,929
Other revenue	3,636	29,500	144,445
	<u>11,338</u>	<u>29,500</u>	<u>323,930</u>
Total revenues			
Expenditures			
Current:			
General government	-	75,949	133,697
Transportation	-	-	54,041
Capital outlay	12,317	-	162,817
	<u>12,317</u>	<u>75,949</u>	<u>350,555</u>
Total expenditures			
Revenues over (under) expenditures	<u>(979)</u>	<u>(46,449)</u>	<u>(26,625)</u>
Other financing sources (uses)			
Transfers in	1,382	33,166	122,520
Transfers out	-	-	(95,877)
	<u>1,382</u>	<u>33,166</u>	<u>26,643</u>
Total other financing sources (uses)			
Net changes in fund balances	403	(13,283)	18
Fund balances, beginning of year	-	-	147,939
Fund balances, end of year	<u>\$ 403</u>	<u>\$ (13,283)</u>	<u>\$ 147,957</u>

concluded

## INTERNAL CONTROL AND COMPLIANCE

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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*

May 2, 2014

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

We have audited, in accordance with the 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, 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* (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 2, 2014.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2013-FS-01 that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

### City of Fellsmere's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

# CITY OF FELLSMERE, FLORIDA

## Schedule of Findings and Responses

For the Year Ended September 30, 2013

### Finding 2013-FS-1 - Segregation of Duties

Finding Type. Significant deficiency 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. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. The City has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause. This condition is primarily the result of staffing constraints typical of smaller organizations.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation. 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. Recognizing this fact, we encourage the City to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgement in determining how best to allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.



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INDEPENDENT AUDITORS'  
MANAGEMENT LETTER

May 2, 2014

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, 2013 and have issued our report thereon dated May 2, 2014.

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 Chapter 10.550 Rules of the Florida Auditor General. Disclosures in those reports and schedule, which are dated May 2, 2014, 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:

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 finding will be repeated for 2013.

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.

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 did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements 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 warrants the attention of those charged with governance. 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 findings.

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 did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Fellsmere for the year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.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 Loborn LLC*

The City of  
  
**Fellsmere**

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May 13, 2014

Rehmann  
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Vero Beach, FL 32963

VIA FAX

Mr. Ross Cotherman, CPA:

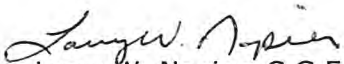
Pursuant to *Rules of the Auditor General* Section 10.558(1), the City of Fellsmere, Florida offers the following response to the management letter noted deficiency:

**Prior Year Finding 2011-01**

**Control Issue:** Due to the small office environment in which the City operates, and the heavy reliance of 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 budgeting constraints. The City Council provides active review and oversight of the accounting function to mitigate the potential for material misstatement from fraud or error.

**Response:** The City Manager and/or the City Council review the check register, financial reports, and any other pertinent accounting and financial reports deemed appropriate for the circumstance, on an at least monthly basis. This is an ongoing and repeated comment that, when coupled with budgetary 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.

Respectfully submitted,

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

cc: audit file