



City Of Fellsmere, Florida
FINANCIAL STATEMENTS
Year Ended September 30, 2015



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City of Fellsmere, Florida
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Year ended September 30, 2015

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**City of Fellsmere, Florida
City Officials
Year ended September 30, 2015**

Susan Adams
Mayor

Joel Tyson
Vice Mayor

Jessica Salgado
Sara Savage
Fernando Herrera
Council Members

Warren W. Dill
City Attorney

Jason R. Nunemaker
City Manager

Deborah C. Krages
City Clerk

Larry W. Napier, CGFO
Director of Finance and Accounting

Keith M. Touchberry
Chief of Police

Mark Briggs
Superintendent of Public Works

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fellsmere, Florida, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Fellsmere, Florida'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.

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 auditor's 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fellsmere, Florida, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the City of Fellsmere, Florida as of September 30, 2014 were audited by other auditors whose opinion dated April 24, 2015 on those statements was unmodified. As discussed in Note 12 to the financial statements, the City of Fellsmere, Florida has restated its 2014 financial statements during the current year to account for land that was donated in a prior year, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2014 financial statements before the restatement.

As part of our audit of the 2015 financial statements, we also audited an adjustment described in Note 12 that was applied to restate the 2014 financial statements. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the City of Fellsmere, Florida other than with respect to the adjustment, and accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 of Fellsmere, Florida's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards as required by the *Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 the 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 February 11, 2016 on our consideration of the City of Fellsmere, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 of Fellsmere, Florida's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida

February 11, 2016

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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 following are highlights of financial activity for the year ended September 30, 2015:

Financial Highlights

- The City's assets exceeded its liabilities at the close of the fiscal year 2015 by \$22,892,425 (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 \$563,047.
- The City's total net position increased by \$926,817, resulting from an increase of \$860,225 from governmental activities and increase of \$66,592 from business-type activities. Governmental funds reported combined ending fund balances of \$1,690,184. Approximately 39.3% of this amount, \$664,037, is unassigned and available for spending at the City's discretion, an increase of \$430,444 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$691,726 or 92.1% of the total general fund balance.
- General fund revenue increased by \$183,502 or 10% and expenditures increased by \$28,280 or 1.3%.
- The City reduced its external debt by \$123,014 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 the 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 and liabilities, 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.

City of Fellsmere, Florida Management's Discussion and Analysis

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).

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.

The government-wide financial statements can be found on pages 21 and 22 of this report.

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

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

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

The City maintains numerous 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, Indian River Lagoon National Scenic Byway Fund, FOA Transportation Access Fund and Community Redevelopment Agency Fund, all of which are considered to be major funds. Data from several

City of Fellsmere, Florida Management's Discussion and Analysis

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, Indian River Lagoon National Scenic Byway Fund, FOA Transportation Access Fund and Community Redevelopment Agency Fund, to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 24 through 27 of this report.

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.

The basic proprietary fund financial statements can be found on pages 34 through 37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 43 of this report.

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 exceeded liabilities by \$22,892,425 at the close of the most recent fiscal year.

City of Fellsmere, Florida Management's Discussion and Analysis

| | Net Position | | | | | |
|--|-----------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Government Activities | | Business-type Activities | | Total | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets: | | | | | | |
| Current and other assets | \$ 1,796,832 | \$ 1,392,932 | \$ 1,619,162 | \$ 1,545,410 | \$ 3,415,994 | \$ 2,938,342 |
| Capital assets, net | 16,833,109 | 16,186,434 | 7,324,053 | 7,365,757 | 24,157,162 | 23,552,191 |
| Total assets | <u>18,629,941</u> | <u>17,579,366</u> | <u>8,943,215</u> | <u>8,911,167</u> | <u>27,573,156</u> | <u>26,490,533</u> |
| Liabilities: | | | | | | |
| Long-term liabilities | 2,813,210 | 2,862,335 | 1,529,535 | 1,586,579 | 4,342,745 | 4,448,914 |
| Other liabilities | 106,648 | 66,663 | 216,955 | 196,760 | 323,603 | 263,423 |
| Total liabilities | <u>2,919,858</u> | <u>2,928,998</u> | <u>1,746,490</u> | <u>1,783,339</u> | <u>4,666,348</u> | <u>4,712,337</u> |
| Deferred inflows of resources: | | | | | | |
| Deferred revenue - business tax receipts | - | - | 14,383 | 12,075 * | 14,383 | 12,075 |
| Total deferred inflows of resources | <u>-</u> | <u>-</u> | <u>14,383</u> | <u>12,075</u> | <u>14,383</u> | <u>12,075</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 14,126,970 | 13,416,055 | 5,803,627 | 5,786,554 | 19,930,597 | 19,202,609 |
| Restricted | 1,004,817 | 1,072,830 | 1,393,964 | 1,266,326 | 2,398,781 | 2,339,156 |
| Unrestricted (deficit) | 578,296 | 161,483 | (15,249) | 62,870 | 563,047 | 224,353 |
| Total net position | <u>\$ 15,710,083</u> | <u>\$ 14,650,368</u> | <u>\$ 7,182,342</u> | <u>\$ 7,115,750</u> | <u>\$ 22,892,425</u> | <u>\$ 21,766,118</u> |

* Reclassed to be consistent with 2015 presentation

A substantial portion of the City's net position (87%) 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 all 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:

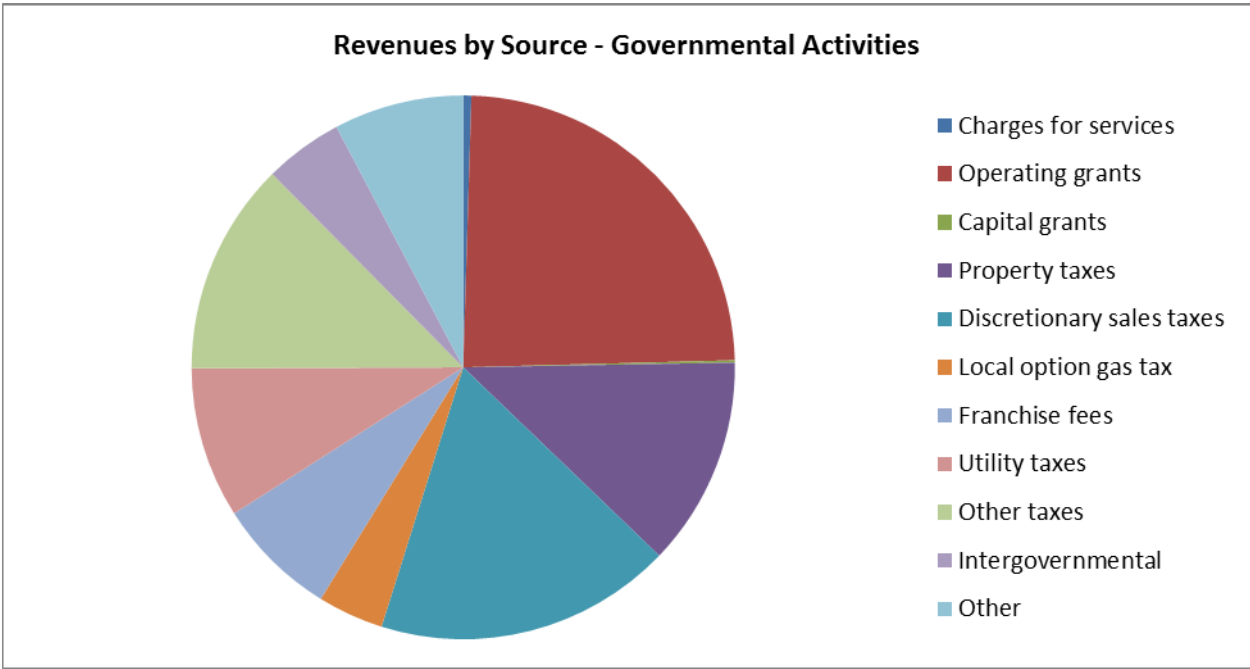
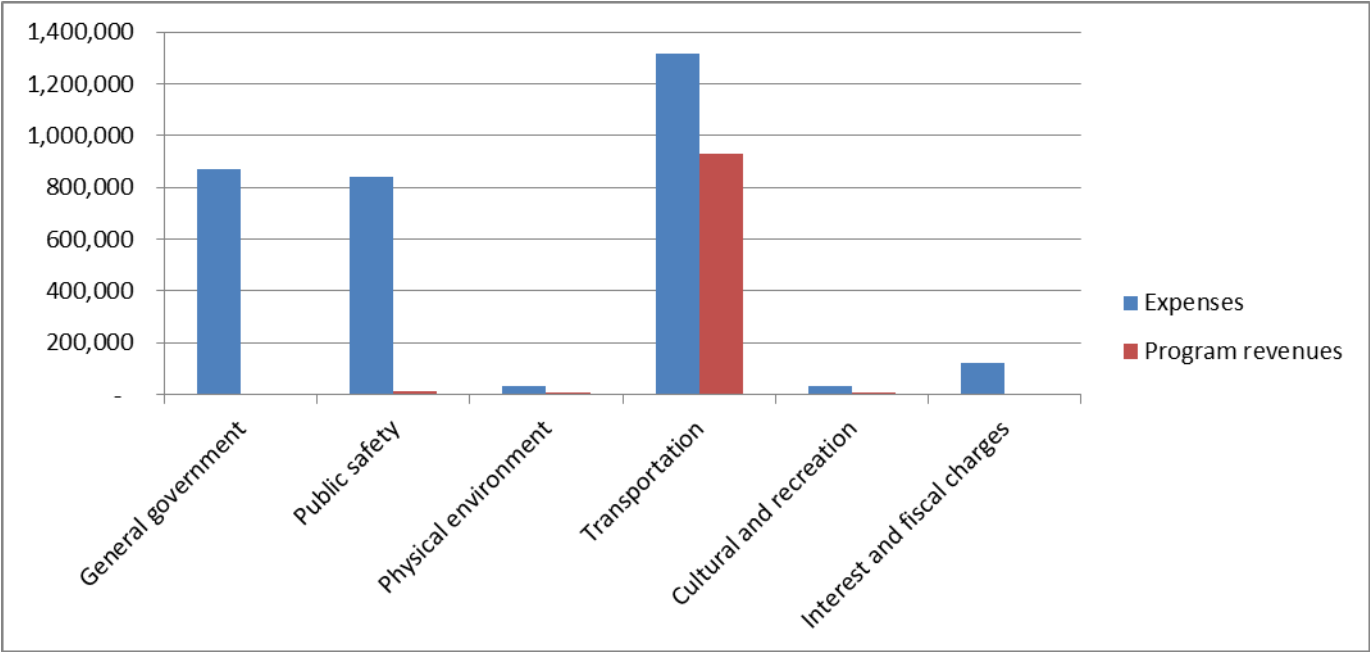
| | Change in Net Position | | | | | |
|--|------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Government Activities | | Business-type Activities | | Total | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Program revenues: | | | | | | |
| Charges for services | \$ 18,523 | \$ 17,768 | \$ 1,248,969 | \$ 1,651,730 | \$ 1,267,492 | \$ 1,669,498 |
| Operating grants | 930,790 | 1,087,456 | 35,000 | - | 965,790 | 1,087,456 |
| Capital grants | 5,378 | 134,046 | 84,419 | 174,976 | 89,797 | 309,022 |
| General revenues: | | | | | | |
| Property taxes | 480,861 | 479,333 | - | - | 480,861 | 479,333 |
| Other taxes | 1,947,089 | 1,839,561 | - | - | 1,947,089 | 1,839,561 |
| Intergovernmental | 180,656 | 155,105 | - | - | 180,656 | 155,105 |
| Other | 298,513 | 214,308 | 152,386 | 10,891 | 450,899 | 225,199 |
| Total revenues | <u>3,861,810</u> | <u>3,927,577</u> | <u>1,520,774</u> | <u>1,837,597</u> | <u>5,382,584</u> | <u>5,765,174</u> |
| Expenses: | | | | | | |
| General government | 868,500 | 1,065,987 | - | - | 868,500 | 1,065,987 |
| Public safety | 838,785 | 854,912 | - | - | 838,785 | 854,912 |
| Physical environment | 33,626 | - | - | - | 33,626 | - |
| Transportation | 1,316,694 | 1,980,103 | - | - | 1,316,694 | 1,980,103 |
| Cultural and recreation | 31,958 | 190,478 | - | - | 31,958 | 190,478 |
| Interest and fiscal charges | 123,342 | 126,164 | - | - | 123,342 | 126,164 |
| Water department | - | - | 593,957 | 534,263 | 593,957 | 534,263 |
| Community development | - | - | 369,390 | 305,805 | 369,390 | 305,805 |
| Wastewater services | - | - | 255,072 | 238,805 | 255,072 | 238,805 |
| Stormwater system | - | - | 24,443 | 4,513 | 24,443 | 4,513 |
| Total expenses | <u>3,212,905</u> | <u>4,217,644</u> | <u>1,242,862</u> | <u>1,083,386</u> | <u>4,455,767</u> | <u>5,301,030</u> |
| Change in net position, before transfers: | 648,905 | (290,067) | 277,912 | 754,211 | 926,817 | 464,144 |
| Transfers | 211,320 | 242,094 | (211,320) | (242,094) | - | - |
| Change in net position | <u>860,225</u> | <u>(47,973)</u> | <u>66,592</u> | <u>512,117</u> | <u>926,817</u> | <u>464,144</u> |
| Net position: | | | | | - | - |
| Beginning of year as previously reported | 14,650,368 | 14,698,341 | 7,115,750 | 6,603,633 | 21,766,118 | 21,301,974 |
| Prior period adjustment (see Note 12) | 199,490 | - | - | - | 199,490 | - |
| End of year | <u>\$ 15,710,083</u> | <u>\$ 14,650,368</u> | <u>\$ 7,182,342</u> | <u>\$ 7,115,750</u> | <u>\$ 22,892,425</u> | <u>\$ 21,766,118</u> |

Governmental activities. Governmental activities increased the City's net position by \$860,225. A key element of this increase is as follows:

- General government expenses decreased by 18.5%
- Transportation expenses decreased by 33.5%
- Cultural and recreation expenses decreased by 83.2%

**City of Fellsmere, Florida
Management's Discussion and Analysis**

Expenses and Program Revenues – Governmental Activities

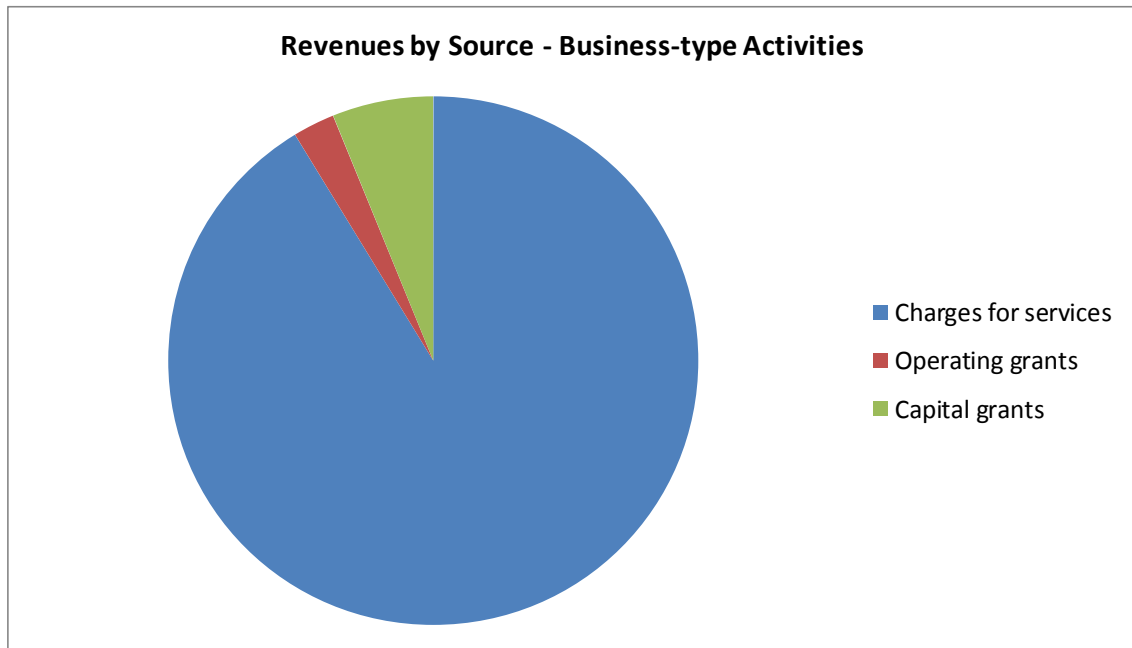
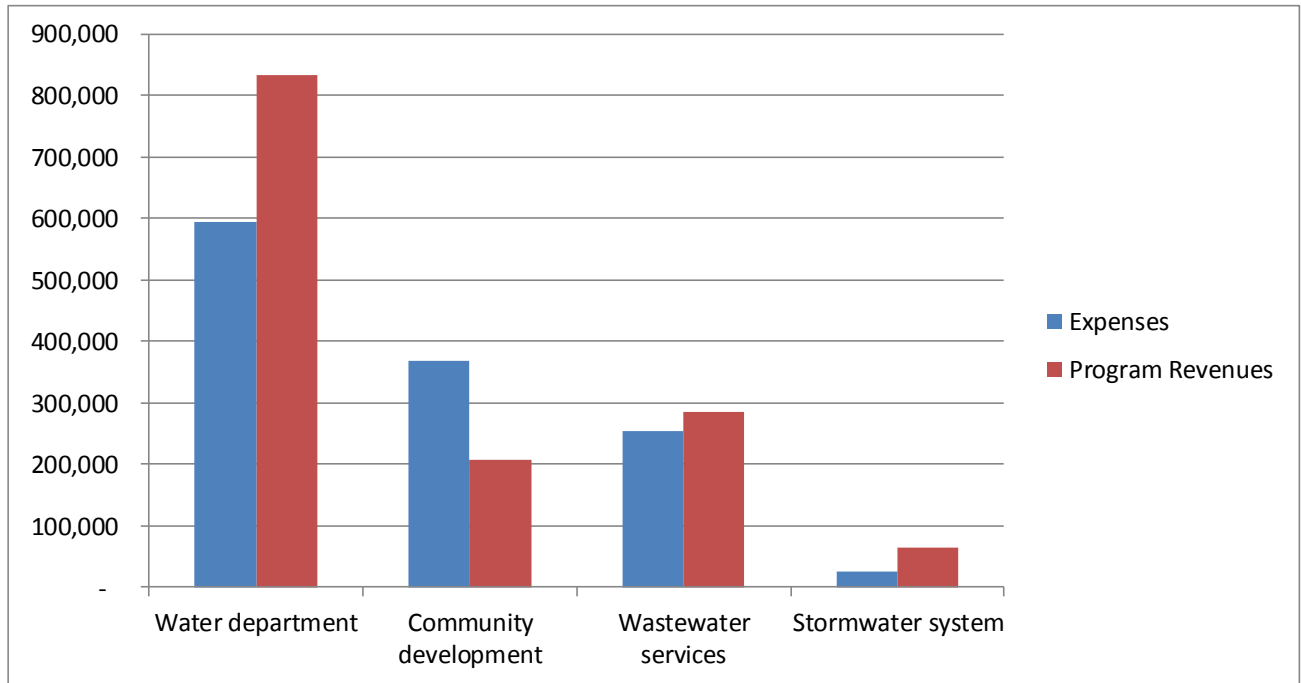


Business-type activities. Business-type activities increased the City’s net position by \$66,592. Key elements of this increase are as follows:

- The Community Development Fund received operating grants and contributions of \$35,000

**City of Fellsmere, Florida
Management's Discussion and Analysis**

Expenses and Program Revenues – Business-type Activities



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.

City of Fellsmere, Florida Management's Discussion and Analysis

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 \$1,690,184, an increase of \$363,915 in comparison with the prior year.

An amount of \$664,037 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 \$691,726, while the total fund balance reached \$751,396. 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 32.5% of total general fund expenditures, while total fund balance represents 35.3% of that same amount. The fund balance of the City's general fund increased by \$211,798 during the current fiscal year.

The infrastructure fund, FOA transportation access fund, and community redevelopment fund, all major funds, recorded year-end fund balances restricted for capital projects. Additional information on the fund equity can be found in Note 11.

The Indian River Lagoon National Scenic Byway fund, a major fund, had no fund balance. Revenues from a grant were used in the construction of the Welcome Center.

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 deficit of the City's water, community development, wastewater and stormwater enterprise funds amounted to \$15,249. The total for unrestricted net position (deficit) for each of these funds was \$625,597, (\$391,751), (\$333,430) and \$84,335, 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 2015, the City had \$24,157,162 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net increase (including additions and deductions) of \$405,484, approximately 2% from last year.

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

- The near completion of FOA access roads of \$630,300 and approximately \$520,000 of park improvements through the Indian River Lagoon National Scenic Byway program

City of Fellsmere, Florida Management's Discussion and Analysis

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

- The City acquired several pieces of land through foreclosure of water liens totaling \$13,400
- The City accepted a lift station and force main lines from Whispering Pines Development totaling \$84,400

| | Government Activities | | Business-type Activities | | Total | |
|-----------------------------------|-----------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | \$ 6,826,186 | \$ 6,826,186 * | \$ 332,627 | \$ 319,268 | \$ 7,158,813 | \$ 7,145,454 |
| Construction in progress | 1,596,949 | 369,976 | 282,526 | 239,197 | 1,879,475 | 609,173 |
| Buildings | 3,491,885 | 3,743,211 | - | - | 3,491,885 | 3,743,211 |
| Improvements other than buildings | 826,632 | 981,375 | - | - | 826,632 | 981,375 |
| Machinery and equipment | 161,547 | 154,327 | 6,708,900 | 6,807,289 | 6,870,447 | 6,961,616 |
| Infrastructure | 3,929,910 | 4,310,849 | - | - | 3,929,910 | 4,310,849 |
| Total capital assets, net | \$ 16,833,109 | \$ 16,385,924 | \$ 7,324,053 | \$ 7,365,754 | \$ 24,157,162 | \$ 23,751,678 |

* Restated due to prior period adjustment (see Note 12)

Additional information on the City's capital assets can be found in Note 5.C. of this report.

Long-term debt. At the end of the 2015 fiscal year, the City of Fellsmere had total outstanding debt of \$4,342,745, a decrease of \$106,169 from 2014.

| | General Obligation and Revenues Bonds | | | | | |
|--|---------------------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | Government Activities | | Business-type Activities | | Total | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Water revenue bond, 1993 | \$ - | \$ - | \$ 1,214,000 | \$ 1,257,000 | \$ 1,214,000 | \$ 1,257,000 |
| Capital improvement revenue bond, 2008 | 2,706,139 | 2,770,379 | - | - | 2,706,139 | 2,770,379 |
| Construction notes | - | - | 306,426 | 322,200 | 306,426 | 322,200 |
| Compensated absences | 107,071 | 91,956 | 9,109 | 7,379 | 116,180 | 99,335 |
| Total long-term debt | \$ 2,813,210 | \$ 2,862,335 | \$ 1,529,535 | \$ 1,586,579 | \$ 4,342,745 | \$ 4,448,914 |

Additional information on the City's long-term debt can be found in Note 5.F. of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates and fees that will be charged for business-type activities. One of these factors is the economy.

The City of Fellsmere's local economy consists largely of agriculture, retail and service industries. The Indian River County unemployment rate in September 2015 was 7.2%, up from 6.5% in the previous year, which is analogous to the economic pattern existing throughout the state and the nation.

During the most recently completed fiscal year, unassigned fund balance in the general fund increased to \$691,726. The City has appropriated \$500,000 for spending in the 2016 fiscal year budget. It was determined that the millage rate for the City would decrease to 5.2756 mills.



City of Fellsmere, Florida Management's Discussion and Analysis

The water and wastewater rates were each raised by 1.57% for the 2016 fiscal year budget. These rates were established by the Florida Public Service Commission to annually adjust for the effects of inflation for water and wastewater operations.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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City of Fellsmere, Florida
Statement of Net Position

| <i>September 30, 2015</i> | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 359,271 | \$ 368,694 | \$ 727,965 |
| Accounts receivable | 53,489 | 194,555 | 248,044 |
| Due from other governments | 931,125 | - | 931,125 |
| Internal balances | 352,080 | (352,080) | - |
| Inventories | - | 14,029 | 14,029 |
| Restricted cash and cash equivalents | 100,867 | 1,393,964 | 1,494,831 |
| Capital assets: | | | |
| Nondepreciable | | | |
| Land | 6,826,186 | 332,627 | 7,158,813 |
| Construction in progress | 1,596,949 | 282,526 | 1,879,475 |
| Depreciable, net of accumulated depreciation | | | |
| Buildings | 3,491,885 | - | 3,491,885 |
| Improvements other than buildings | 826,632 | - | 826,632 |
| Machinery and equipment | 161,547 | 6,708,900 | 6,870,447 |
| Infrastructure | 3,929,910 | - | 3,929,910 |
| Total assets | 18,629,941 | 8,943,215 | 27,573,156 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 67,130 | 49,418 | 116,548 |
| Unearned revenues | 39,518 | 167,537 | 207,055 |
| Noncurrent liabilities: | | | |
| Due within one year | 77,560 | 62,108 | 139,668 |
| Due in more than one year | 2,735,650 | 1,467,427 | 4,203,077 |
| Total liabilities | 2,919,858 | 1,746,490 | 4,666,348 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred revenue - business tax revenue | - | 14,383 | 14,383 |
| Total deferred inflows of resources | - | 14,383 | 14,383 |
| NET POSITION | | | |
| Net investment in capital assets | 14,126,970 | 5,803,627 | 19,930,597 |
| Restricted for: | | | |
| Debt service | - | 441,009 | 441,009 |
| Renewal and replacement | 966,477 | 837,345 | 1,803,822 |
| Cemetery perpetual care | 38,340 | - | 38,340 |
| Other purposes | - | 115,610 | 115,610 |
| Unrestricted (deficit) | 578,296 | (15,249) | 563,047 |
| Total net position | \$ 15,710,083 | \$ 7,182,342 | \$ 22,892,425 |

The accompanying notes are an integral part of these financial statements

City of Fellsmere, Florida
Statement of Activities

Year ended September 30, 2015

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | \$ 868,500 | 1,065 | \$ - | \$ - |
| Public safety | 838,785 | 9,860 | 1,000 | - |
| Physical environment | 33,626 | 5,550 | - | - |
| Transportation | 1,316,694 | - | 929,790 | - |
| Culture and recreation | 31,958 | 2,048 | - | 5,378 |
| Interest and fiscal charges | 123,342 | - | - | - |
| Total governmental activities | 3,212,905 | 18,523 | 930,790 | 5,378 |
| Business-type activities: | | | | |
| Water department | 593,957 | 757,818 | - | - |
| Community development | 369,390 | 142,203 | 35,000 | - |
| Wastewater services | 255,072 | 284,815 | - | 84,419 |
| Stormwater system | 24,443 | 64,133 | - | - |
| Total business-type activities | 1,242,862 | 1,248,969 | 35,000 | 84,419 |
| Total primary government | \$ 4,455,767 | \$ 1,267,492 | \$ 965,790 | \$ 89,797 |

General revenues and transfers:

Taxes:

- Property
- Discretionary sales
- Local option gas tax
- Franchise
- Utility
- Communications services
- Eighth cent motor fuel
- Half cent sales

Unrestricted investment earnings

State shared revenue

Miscellaneous

Transfers

| |
|--|
| Total general revenues and transfers |
| Change in net position |
| Net position, beginning of year as previously reported |
| Prior period adjustment (see Note 12) |
| Net position, beginning of year as restated |
| Net position, end of year |

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

Net (Expense) Revenue
and Changes in Net Position

| Governmental Activities | Business-type Activities | Total |
|----------------------------|-----------------------------|----------------------|
| \$ (867,435) | \$ - | \$ (867,435) |
| (827,925) | - | (827,925) |
| (28,076) | - | (28,076) |
| (386,904) | - | (386,904) |
| (24,532) | - | (24,532) |
| (123,342) | - | (123,342) |
| <u>(2,258,214)</u> | <u>-</u> | <u>(2,258,214)</u> |
| - | 163,861 | 163,861 |
| - | (192,187) | (192,187) |
| - | 114,162 | 114,162 |
| - | 39,690 | 39,690 |
| <u>-</u> | <u>125,526</u> | <u>125,526</u> |
| <u>(2,258,214)</u> | <u>125,526</u> | <u>(2,132,688)</u> |
| 480,861 | - | 480,861 |
| 683,268 | - | 683,268 |
| 151,494 | - | 151,494 |
| 277,433 | - | 277,433 |
| 346,280 | - | 346,280 |
| 63,141 | - | 63,141 |
| 58,489 | - | 58,489 |
| 366,984 | - | 366,984 |
| 4,396 | 10,540 | 14,936 |
| 180,656 | - | 180,656 |
| 294,117 | 141,846 | 435,963 |
| 211,320 | (211,320) | - |
| <u>3,118,439</u> | <u>(58,934)</u> | <u>3,059,505</u> |
| <u>860,225</u> | <u>66,592</u> | <u>926,817</u> |
| <u>14,650,368</u> | <u>7,115,750</u> | <u>21,766,118</u> |
| <u>199,490</u> | <u>-</u> | <u>199,490</u> |
| <u>14,849,858</u> | <u>7,115,750</u> | <u>21,965,608</u> |
| <u>\$ 15,710,083</u> | <u>\$ 7,182,342</u> | <u>\$ 22,892,425</u> |

City of Fellsmere, Florida
Balance Sheet - Governmental Funds

| <i>September 30, 2015</i> | General | Infrastructure | Indian River Lagoon National Scenic Byway | FOA Transportation Access |
|---|-------------------|-------------------|---|---------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 296,471 | \$ - | \$ - | \$ - |
| Accounts receivable | 35,650 | - | - | 4,946 |
| Due from other funds | 361,350 | - | - | - |
| Due from other governments | 86,944 | 111,617 | 316,500 | 390,678 |
| Restricted cash and cash equivalents | - | 679,698 | - | - |
| Advance to other funds | 21,330 | - | - | - |
| Total assets | \$ 801,745 | \$ 791,315 | \$ 316,500 | \$ 395,624 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Negative equity in pooled cash | \$ - | \$ - | \$ 294,291 | \$ 384,720 |
| Accounts payable | - | - | 22,209 | 10,500 |
| Accrued liabilities | 24,849 | - | - | - |
| Advances from other funds | - | - | - | - |
| Unearned revenues | 25,500 | - | - | - |
| Total current liabilities | 50,349 | - | 316,500 | 395,220 |
| Fund balances | | | | |
| Nonspendable | 21,330 | - | - | - |
| Restricted | 38,340 | 791,315 | - | 404 |
| Unrestricted / unassigned (deficit) | 691,726 | - | - | - |
| Total fund balances | 751,396 | 791,315 | - | 404 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 801,745 | \$ 791,315 | \$ 316,500 | \$ 395,624 |

Amounts reported for governmental activities 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 funds.

Certain liabilities, such as bonds payable and compensated absences, are not due and payable in the current period, and therefore are not reported in the funds.

Net position of governmental activities

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

| Community Redevelopment Agency | Nonmajor Funds | Total Governmental Funds |
|--------------------------------------|-------------------|--------------------------------|
| \$ - | \$ 62,800 | \$ 359,271 |
| - | 12,893 | 53,489 |
| - | - | 361,350 |
| - | 25,386 | 931,125 |
| 40,366 | 75,807 | 795,871 |
| - | - | 21,330 |
| <u>\$ 40,366</u> | <u>\$ 176,886</u> | <u>\$ 2,522,436</u> |

| | | |
|---------------|---------------|----------------|
| \$ - | \$ 15,993 | \$ 695,004 |
| - | 9,572 | 42,281 |
| - | - | 24,849 |
| 30,600 | - | 30,600 |
| - | 14,018 | 39,518 |
| <u>30,600</u> | <u>39,583</u> | <u>832,252</u> |

| | | |
|--------------|----------------|------------------|
| - | - | 21,330 |
| 34,355 | 140,403 | 1,004,817 |
| (24,589) | (3,100) | 664,037 |
| <u>9,766</u> | <u>137,303</u> | <u>1,690,184</u> |

\$ 40,366 \$ 176,886

16,833,109

(2,813,210)

\$ 15,710,083

City of Fellsmere, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

| <i>Year ended September 30, 2015</i> | General | Infrastructure | Indian River Lagoon National Scenic Byway | FOA Transportation Access |
|--|-------------------|-------------------|--|---------------------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Property | \$ 480,861 | \$ - | \$ - | \$ - |
| Public utility | 346,280 | - | - | - |
| Sales | - | 683,268 | - | - |
| Motor fuel | - | - | - | - |
| Communications services | 63,141 | - | - | - |
| Franchise fees | 277,433 | - | - | - |
| Intergovernmental | 607,129 | - | 316,500 | 613,290 |
| Charges for services | 8,663 | - | - | - |
| Fines | 9,860 | - | - | - |
| Investment earnings | 3,523 | 824 | - | - |
| Contributions and donations | - | - | - | - |
| Other revenues | 236,017 | - | - | 8,046 |
| Total revenues | 2,032,907 | 684,092 | 316,500 | 621,336 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 853,419 | 274 | - | - |
| Public safety | 799,516 | - | - | - |
| Physical environment | - | - | - | - |
| Transportation | 447,043 | - | - | - |
| Culture and recreation | 28,479 | - | - | - |
| Debt service: | | | | |
| Principal | - | 64,240 | - | - |
| Interest and fiscal charges | - | 123,342 | - | - |
| Capital outlay | 1,135 | 65,214 | 520,393 | 630,323 |
| Total expenditures | 2,129,592 | 253,070 | 520,393 | 630,323 |
| Excess (deficiency) of revenues over (under) expenditures | (96,685) | 431,022 | (203,893) | (8,987) |
| Other financing sources (uses) | | | | |
| Transfers in | 342,013 | - | 203,893 | 8,987 |
| Transfers out | (33,530) | (266,293) | - | - |
| Total other financing sources (uses) | 308,483 | (266,293) | 203,893 | 8,987 |
| Net change in fund balances | 211,798 | 164,729 | - | - |
| Fund balances, beginning of year | 539,598 | 626,586 | - | 404 |
| Fund balances, end of year | \$ 751,396 | \$ 791,315 | \$ - | \$ 404 |

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

| | Community Redevelopment Agency | Nonmajor Funds | Total Governmental Funds |
|----|--------------------------------------|-------------------|--------------------------------|
| \$ | - | \$ - | \$ 480,861 |
| | - | - | 346,280 |
| | - | - | 683,268 |
| | - | 151,494 | 151,494 |
| | - | - | 63,141 |
| | - | - | 277,433 |
| | - | - | 1,536,919 |
| | - | - | 8,663 |
| | - | - | 9,860 |
| | 49 | - | 4,396 |
| | - | 5,378 | 5,378 |
| | 899 | 41,076 | 286,038 |
| | 948 | 197,948 | 3,853,731 |
| | 7,181 | - | 860,874 |
| | - | - | 799,516 |
| | - | 33,626 | 33,626 |
| | - | 56,042 | 503,085 |
| | - | - | 28,479 |
| | - | - | 64,240 |
| | - | - | 123,342 |
| | - | 70,909 | 1,287,974 |
| | 7,181 | 160,577 | 3,701,136 |
| | (6,233) | 37,371 | 152,595 |
| | 1,490 | 62,760 | 619,143 |
| | - | (108,000) | (407,823) |
| | 1,490 | (45,240) | 211,320 |
| | (4,743) | (7,869) | 363,915 |
| | 14,509 | 145,172 | 1,326,269 |
| \$ | 9,766 | \$ 137,303 | \$ 1,690,184 |

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended September 30, 2015

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ 363,915 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p> | 439,106 |
| <p>Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.</p> | 19,129 |
| <p>In the statement of activities, only the gain (loss) on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets.</p> | (11,050) |
| <p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the principal payments on the long-term debt.</p> | 64,240 |
| <p>Compensated absences 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.</p> | (15,115) |
| <hr/> | |
| Change in net position of governmental activities | \$ 860,225 |
| <hr/> | |

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

City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

| <i>Year Ended September 30, 2015</i> | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|--------------------|------------------|-------------------|-------------------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Property | \$ 511,320 | \$ 511,320 | \$ 480,861 | \$ (30,459) |
| Public utility | 355,950 | 355,950 | 346,280 | (9,670) |
| Communications services | 65,760 | 65,760 | 63,141 | (2,619) |
| Franchise fees | 272,710 | 272,710 | 277,433 | 4,723 |
| Intergovernmental | 598,530 | 598,530 | 607,129 | 8,599 |
| Charges for services | 10,600 | 10,600 | 8,663 | (1,937) |
| Fines | 15,900 | 15,900 | 9,860 | (6,040) |
| Investment earnings | 2,750 | 2,750 | 3,523 | 773 |
| Contributions and donations | 200 | 200 | - | (200) |
| Other revenue | 109,320 | 109,320 | 236,017 | 126,697 |
| Total revenues | 1,943,040 | 1,943,040 | 2,032,907 | 89,867 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,356,470 | 1,356,470 | 853,419 | 503,051 |
| Public safety | 901,980 | 901,980 | 799,516 | 102,464 |
| Transportation | 479,180 | 479,180 | 447,043 | 32,137 |
| Culture and recreation | 41,850 | 41,850 | 28,479 | 13,371 |
| Capital outlay | - | - | 1,135 | (1,135) |
| Total expenditures | 2,779,480 | 2,779,480 | 2,129,592 | 649,888 |
| Excess (deficiency) of revenues over (under) expenditures | (836,440) | (836,440) | (96,685) | 739,755 |
| Other financing sources (uses) | | | | |
| Transfers in | 384,000 | 384,000 | 342,013 | (41,987) |
| Transfers out | - | - | (33,530) | (33,530) |
| Total other financing sources (uses) | 384,000 | 384,000 | 308,483 | (75,517) |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (452,440) | (452,440) | 211,798 | 664,238 |
| Fund balances, beginning of year | 539,598 | 539,598 | 539,598 | - |
| Fund balances, end of year | \$ 87,158 | \$ 87,158 | \$ 751,396 | \$ 664,238 |

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

City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Infrastructure Fund

| <i>Year Ended September 30, 2015</i> | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|--------------------|-------------------|-------------------|-------------------------------|
| Revenues | | | | |
| Taxes: | | | | |
| Sales | \$ 678,950 | \$ 678,950 | \$ 683,268 | \$ 4,318 |
| Investment earnings | 200 | 200 | 824 | 624 |
| Total revenues | 679,150 | 679,150 | 684,092 | 4,942 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 55,100 | 55,100 | 274 | 54,826 |
| Debt service: | | | | |
| Principal | 64,700 | 64,700 | 64,240 | 460 |
| Interest expense and fiscal charges | 123,350 | 123,350 | 123,342 | 8 |
| Capital outlay | 84,760 | 84,760 | 65,214 | 19,546 |
| Total expenditures | 327,910 | 327,910 | 253,070 | 74,840 |
| Excess (deficiency) of revenues over (under) expenditures | 351,240 | 351,240 | 431,022 | 79,782 |
| Other financing sources (uses) | | | | |
| Transfers out | (576,240) | (576,240) | (266,293) | 309,947 |
| Total other financing sources (uses) | (576,240) | (576,240) | (266,293) | 309,947 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (225,000) | (225,000) | 164,729 | 389,729 |
| Fund balances, beginning of year | 626,586 | 626,586 | 626,586 | - |
| Fund balances, end of year | \$ 401,586 | \$ 401,586 | \$ 791,315 | \$ 389,729 |

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

City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Indian River Lagoon National Scenic Byway Fund

| <i>Year Ended September 30, 2015</i> | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---------------------|---------------------|------------------|-------------------------------|
| Revenues | | | | |
| Intergovernmental | \$ 316,500 | \$ 316,500 | \$ 316,500 | \$ - |
| Total revenues | 316,500 | 316,500 | 316,500 | - |
| Expenditures | | | | |
| Current: | | | | |
| Transportation | 25,000 | 25,000 | - | 25,000 |
| Capital outlay | 397,500 | 397,500 | 520,393 | (122,893) |
| Total expenditures | 422,500 | 422,500 | 520,393 | (97,893) |
| Excess (deficiency) of revenues over (under) expenditures | (106,000) | (106,000) | (203,893) | (97,893) |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 203,893 | 203,893 |
| Transfers out | (14,000) | (14,000) | - | 14,000 |
| Total other financing sources (uses) | (14,000) | (14,000) | 203,893 | 217,893 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (120,000) | (120,000) | - | 120,000 |
| Fund balances, beginning of year | - | - | - | - |
| Fund balances, end of year | \$ (120,000) | \$ (120,000) | \$ - | \$ 120,000 |

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

City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – FOA Transportation Access Fund

| <i>Year Ended September 30, 2015</i> | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|--------------------|-----------------|----------------|-------------------------------|
| Revenues | | | | |
| Intergovernmental | \$ 728,000 | \$ 728,000 | \$ 613,290 | \$ (114,710) |
| Other revenue | 40,000 | 40,000 | 8,046 | (31,954) |
| Total revenues | 768,000 | 768,000 | 621,336 | (146,664) |
| Expenditures | | | | |
| Current: | | | | |
| Transportation | 39,000 | 39,000 | - | 39,000 |
| Capital outlay | 702,000 | 702,000 | 630,323 | 71,677 |
| Total expenditures | 741,000 | 741,000 | 630,323 | 110,677 |
| Excess (deficiency) of revenues over (under) expenditures | 27,000 | 27,000 | (8,987) | (35,987) |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 8,987 | 8,987 |
| Transfers out | (27,000) | (27,000) | - | 27,000 |
| Total other financing sources (uses) | (27,000) | (27,000) | 8,987 | 35,987 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | - | - | - | - |
| Fund balances, beginning of year | 404 | 404 | 404 | - |
| Fund balances, end of year | \$ 404 | \$ 404 | \$ 404 | \$ - |

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

City of Fellsmere, Florida

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Community Redevelopment Agency Fund

| <i>Year Ended September 30, 2015</i> | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|--------------------|--------------------|-----------------|-------------------------------|
| Revenues | | | | |
| Investment earnings | \$ 100 | \$ 100 | \$ 49 | \$ (51) |
| Other revenue | 850 | 850 | 899 | 49 |
| Total revenues | 950 | 950 | 948 | (2) |
| Expenditures | | | | |
| Current: | | | | |
| General government | 3,390 | 3,390 | 7,181 | (3,791) |
| Capital outlay | 100 | 100 | - | 100 |
| Total expenditures | 3,490 | 3,490 | 7,181 | (3,691) |
| Excess (deficiency) of revenues over (under) expenditures | (2,540) | (2,540) | (6,233) | (3,693) |
| Other financing sources (uses) | | | | |
| Transfers in | 1,410 | 1,410 | 1,490 | 80 |
| Transfers out | (45,000) | (45,000) | - | 45,000 |
| Total other financing sources (uses) | (43,590) | (43,590) | 1,490 | 45,080 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (46,130) | (46,130) | (4,743) | 41,387 |
| Fund balances, beginning of year | 14,509 | 14,509 | 14,509 | - |
| Fund balances, end of year | \$ (31,621) | \$ (31,621) | \$ 9,766 | \$ 41,387 |

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

City of Fellsmere, Florida
Statement of Net Position - Proprietary Funds

| <i>September 30, 2015</i> | Water Department | Community Development |
|--|---------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 284,509 | \$ 108 |
| Restricted cash and cash equivalents | 1,319,088 | - |
| Accounts receivable | 115,655 | 50,115 |
| Due from other funds | 303,500 | - |
| Inventories | 14,029 | - |
| Advance to other funds | - | 9,270 |
| Total current assets | 2,036,781 | 59,493 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Land | 322,876 | 9,751 |
| Construction in progress | 282,526 | - |
| Machinery and equipment | 6,840,759 | 31,645 |
| Less accumulated depreciation | (1,921,511) | (29,395) |
| Total capital assets, net of accumulated depreciation | 5,524,650 | 12,001 |
| Total assets | 7,561,431 | 71,494 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 2,297 | 13,333 |
| Accrued liabilities | 882 | 5,023 |
| Accrued interest payable | 511 | - |
| Due to other funds | - | 361,350 |
| Unearned revenues | 88,154 | 48,298 |
| Current portion of accrued compensated absences | 25 | 886 |
| Current portion of long-term debt | 61,197 | - |
| Total current liabilities | 153,066 | 428,890 |
| Noncurrent liabilities: | | |
| Accrued compensated absences, net of current portion | 227 | 7,971 |
| Long-term debt, net of current portion | 1,459,229 | - |
| Total noncurrent liabilities | 1,459,456 | 7,971 |
| Total liabilities | 1,612,522 | 436,861 |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred revenue - business tax receipts | - | 14,383 |
| Total deferred outflow of resources | - | 14,383 |
| NET POSITION (DEFICIT) | | |
| Net investment in capital assets | 4,004,224 | 12,001 |
| Restricted for: | | |
| Revenue bond debt service | 441,009 | - |
| Renewal and replacement | 790,054 | - |
| Deposits | 88,025 | - |
| Unrestricted (deficit) | 625,597 | (391,751) |
| Total net position (deficit) | \$ 5,948,909 | \$ (379,750) |

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

| Wastewater Service | Stormwater System - Nonmajor fund | Total |
|---------------------|-----------------------------------|---------------------|
| \$ 1 | \$ 84,076 | \$ 368,694 |
| 74,876 | - | 1,393,964 |
| 28,526 | 259 | 194,555 |
| - | - | 303,500 |
| - | - | 14,029 |
| - | - | 9,270 |
| 103,403 | 84,335 | 2,284,012 |
| - | - | 332,627 |
| - | - | 282,526 |
| 2,185,747 | - | 9,058,151 |
| (398,345) | - | (2,349,251) |
| 1,787,402 | - | 7,324,053 |
| 1,890,805 | 84,335 | 9,608,065 |
| 27,372 | - | 43,002 |
| - | - | 5,905 |
| - | - | 511 |
| 303,500 | - | 664,850 |
| 31,085 | - | 167,537 |
| - | - | 911 |
| - | - | 61,197 |
| 361,957 | - | 943,913 |
| - | - | 8,198 |
| - | - | 1,459,229 |
| - | - | 1,467,427 |
| 361,957 | - | 2,411,340 |
| - | - | 14,383 |
| - | - | 14,383 |
| 1,787,402 | - | 5,803,627 |
| - | - | 441,009 |
| 47,291 | - | 837,345 |
| 27,585 | - | 115,610 |
| (333,430) | 84,335 | (15,249) |
| \$ 1,528,848 | \$ 84,335 | \$ 7,182,342 |

City of Fellsmere, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

| <i>Year ended September 30, 2015</i> | Water Department | Community Development |
|--|---------------------|--------------------------|
| Operating revenues: | | |
| Charges for services | \$ 757,818 | \$ - |
| Building permits, licenses and fees | - | 142,203 |
| Other revenues | 76,048 | 65,010 |
| Total operating revenues | 833,866 | 207,213 |
| Operating expenses: | | |
| Salaries, wages and employee benefits | 60,963 | 183,551 |
| Contractual services, materials and supplies | 332,326 | 184,446 |
| Depreciation | 135,518 | 1,393 |
| Total operating expenses | 528,807 | 369,390 |
| Operating income (loss) | 305,059 | (162,177) |
| Nonoperating revenues (expenses): | | |
| Interest income | 10,345 | 195 |
| Interest expense | (65,150) | - |
| Total nonoperating revenues (expenses) | (54,805) | 195 |
| Income before transfers and capital contributions | 250,254 | (161,982) |
| Transfers | | |
| Transfers in | - | 45,240 |
| Transfers out | (135,600) | (44,040) |
| Total transfers | (135,600) | 1,200 |
| Capital contributions | - | 35,000 |
| Change in net position | 114,654 | (125,782) |
| Net position (deficit), beginning of year | 5,834,255 | (253,968) |
| Net position (deficit), end of year | \$ 5,948,909 | \$ (379,750) |

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

| Wastewater Service | Stormwater System - Nonmajor fund | Total |
|-----------------------|---|---------------------|
| \$ 284,815 | \$ 64,133 | \$ 1,106,766 |
| - | - | 142,203 |
| 788 | - | 141,846 |
| 285,603 | 64,133 | 1,390,815 |
| - | - | 244,514 |
| 206,011 | 24,443 | 747,226 |
| 49,061 | - | 185,972 |
| 255,072 | 24,443 | 1,177,712 |
| 30,531 | 39,690 | 213,103 |
| - | - | 10,540 |
| - | - | (65,150) |
| - | - | (54,610) |
| 30,531 | 39,690 | 158,493 |
| - | - | 45,240 |
| (76,920) | - | (256,560) |
| (76,920) | - | (211,320) |
| 84,419 | - | 119,419 |
| 38,030 | 39,690 | 66,592 |
| 1,490,818 | 44,645 | 7,115,750 |
| \$ 1,528,848 | \$ 84,335 | \$ 7,182,342 |

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds

| <i>Year ended September 30, 2015</i> | Water Department | Community Development |
|---|---------------------|--------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers for sales and services | \$ 869,901 | \$ 211,331 |
| Internal activity - payments (receipts) from other funds | (5,500) | 114,350 |
| Cash payments to employees | (42,927) | (127,928) |
| Cash payments to suppliers for goods and services | (355,155) | (234,571) |
| Net cash provided by (used in) operating activities | 466,319 | (36,818) |
| Cash flows from noncapital financing activities: | | |
| Transfers from other funds | - | 45,240 |
| Transfers to other funds | (135,600) | (44,040) |
| Net cash provided by (used in) noncapital financing activities | (135,600) | 1,200 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions | - | 35,000 |
| Acquisition and construction of capital assets | (59,853) | - |
| Principal paid on long-term debt | (58,775) | - |
| Interest paid on long-term debt | (65,063) | - |
| Net cash provided by (used in) capital and related financing activities | (183,691) | 35,000 |
| Cash flows from investing activities: | | |
| Interest on investments | 10,345 | 195 |
| Net cash provided by investing activities | 10,345 | 195 |
| Net increase / (decrease) in cash and cash equivalents | 157,373 | (423) |
| Cash and cash equivalents, beginning of year | 1,446,224 | 531 |
| Cash and cash equivalents, end of year | \$ 1,603,597 | \$ 108 |
| Classified on the statement of net position as: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 284,509 | \$ 108 |
| Restricted cash and cash equivalents | 1,319,088 | - |
| | \$ 1,603,597 | \$ 108 |

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

| Wastewater Service | Stormwater System - Nonmajor fund | Total |
|-----------------------|---|--------------|
| \$ 286,824 | \$ 64,114 | \$ 1,432,170 |
| 5,500 | - | 114,350 |
| - | - | (170,855) |
| (195,061) | (24,443) | (809,230) |
| 97,263 | 39,671 | 566,435 |
| - | - | 45,240 |
| (76,920) | - | (256,560) |
| (76,920) | - | (211,320) |
| 84,419 | - | 119,419 |
| (84,419) | - | (144,272) |
| - | - | (58,775) |
| - | - | (65,063) |
| - | - | (148,691) |
| - | - | 10,540 |
| - | - | 10,540 |
| 20,343 | 39,671 | 216,964 |
| 54,534 | 44,405 | 1,545,694 |
| \$ 74,877 | \$ 84,076 | \$ 1,762,658 |
| \$ 1 | \$ 84,076 | \$ 368,694 |
| 74,876 | - | 1,393,964 |
| \$ 74,877 | \$ 84,076 | \$ 1,762,658 |

City of Fellsmere, Florida
Statement of Cash Flows (continued)
Proprietary Funds

| <i>Year Ended September 30, 2015</i> | Water Department | Community Development |
|--|---------------------|--------------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss) | \$ 305,059 | \$ (162,177) |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 135,518 | 1,393 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable | 36,553 | (5,759) |
| Due from other funds | (5,500) | - |
| Inventories | (1,134) | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (3,242) | 1,098 |
| Accrued liabilities | 550 | 1,702 |
| Due to other funds | - | 114,350 |
| Accrued compensated absences | (967) | 2,698 |
| Unearned revenues | (518) | 7,569 |
| Deferred inflows - business tax receipts | - | 2,308 |
| Total adjustments | 161,260 | 125,359 |
| Net cash provided by (used in) operating activities | \$ 466,319 | \$ (36,818) |
| Noncash capital and related financing activities: | | |
| Acquisition of capital assets through contributions from property owners, developers and other governments | \$ - | \$ - |

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

| Wastewater Service | Stormwater System - Nonmajor fund | Total |
|-----------------------|---|--------------------|
| \$ 30,531 | \$ 39,690 | \$ 213,103 |
| 49,062 | - | 185,973 |
| (779) | (19) | 29,996 |
| - | - | (5,500) |
| - | - | (1,134) |
| - | - | - |
| 10,949 | - | 8,805 |
| - | - | 2,252 |
| 5,500 | - | 119,850 |
| - | - | 1,731 |
| 2,000 | - | 9,051 |
| - | - | 2,308 |
| 66,732 | (19) | 353,332 |
| \$ 97,263 | \$ 39,671 | \$ 566,435 |
| \$ (84,419) | \$ - | \$ (84,419) |

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

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NOTE 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 5,338.

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.

A. 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, 2015.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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.

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

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. The City is reporting no fiduciary funds for the year ended September 30, 2015.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City reports the following major governmental funds:

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

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

The *Indian River Lagoon National Scenic Byway* accounts for revenues and expenses associated with a federal grant that was used to construct the Indian River Lagoon National Scenic Byway Welcome Center.

The *FOA Transportation Access* accounts for revenues and expenses associated with federal and state grants that are being used to construct access roads.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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.

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.

D. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

2. Deposits

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

The City had deposits only with qualifying public depositories as of September 30, 2015.

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

The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act.

Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Savings accounts in state-certified qualified public depositories.

Certificates of deposit in state-certified qualified public depositories.

Direct obligations of the U.S. Treasury.

3. Interfund Receivables and Payables

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

4. Accounts Receivable

Accounts receivable consist of trade receivables and are recorded at the net realizable value. The City has no allowance for doubtful accounts as of September 30, 2015, as all receivables are considered collectible.

5. Inventory

Inventory at September 30, 2015 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.

6. 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.

7. Capital Assets

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

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:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

7. Capital Assets (continued)

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

8. Unearned revenues

Unearned revenues include amounts collected before the revenue recognition criteria are met. The unearned items consist of a retainer for a preliminary development plan and developer prepaid deposits.

9. Deferred inflows of resources

Unavailable revenues in governmental funds and resources received before time requirements were met are deferred inflows of resources. As of September 30, 2015, there were no amounts reported as deferred inflows in the governmental funds. As of September 30, 2015, there was \$14,383 reported as deferred inflows for business tax receipts in the proprietary funds.

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.

11. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

11. Long-term Obligations (continued)

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.

12. 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.

13. Fund balance deficit

In the governmental funds the City reported an unassigned fund balance deficit in the nonmajor governmental fund, FDEP Trail Head Preserve, of \$(3,100). The City intends to cover this deficit with future years' anticipated incremental tax revenues.

14. 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

14. Use of Estimates (continued)

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.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.” The details of this \$(2,813,210) difference are as follows:

| | |
|--|----------------|
| Capital improvement bond | \$ (2,706,139) |
| Compensated absences | (107,071) |
| <hr/> | |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | \$ (2,813,210) |
| <hr/> | |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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 as depreciation expense.” The details of this \$458,235 difference are as follows:

| | |
|--|--------------|
| Capital outlay | \$ 1,287,974 |
| Depreciation expense | (848,868) |
| <hr/> | |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | \$ 439,106 |
| <hr/> | |

NOTE 3: 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 financial statements, 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, 2015. 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, 2015.

NOTE 4: EXCESS OF EXPENDITURES OVER BUDGET

Budgeted expenditures exceeded revenues in the General Fund, Infrastructure Fund, Indian River Lagoon National Scenic Byway Fund and the Community Redevelopment Agency Fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and did not constitute deficits.

NOTE 5: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At September 30, 2015, the carrying amount of the City's deposits with banks was \$2,222,296 and the bank balance was \$2,269,907. In addition the City holds \$500 of petty cash.

All the deposits were covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes.

Restricted cash in the Governmental Funds at September 30, 2015 consists of \$679,698 in the infrastructure fund, which must be used only for expenditures and costs associated with the construction, reconstruction, or improvement of public domain ("infrastructure") projects, or for the purchase of certain vehicles and equipment with at least a five year life expectancy. Restricted cash also includes \$40,366 in unspent community redevelopment agency trust funds. Under Florida law, these funds may be used only for the rehabilitation of slum or blighted areas within the City. Restricted cash includes \$75,807 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. The balance of restricted cash in the governmental funds is housed within various special revenue funds and is restricted to the specific purpose of that fund.

Restricted cash in the Enterprise Funds at September 30, 2015 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$790,054 and \$47,291 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 \$441,009 and customer deposits of the water and wastewater systems of \$88,025 and \$27,585, respectively.

Custodial Credit Risk. The City's investment policy pursuant to Florida State Statutes 218.415(18), requires securities, with the exception of certificates of deposit, to be held with a third party custodian; and all securities purchased by, and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposit maintained by book-entry at the issuing bank shall clearly identify the City as the owner.

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

As of September 30, 2015, the City did not have any securities that were required to be held with a third party custodian.

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.

B. Interfund receivables and payables and transfers

The composition of interfund balances as of September 30, 2015, was as follows:

| | Due from Other Funds | Due to Other Funds |
|----------------------------|-------------------------|-----------------------|
| General fund | \$ 361,350 | \$ - |
| Water department fund | 303,500 | - |
| Community development fund | - | 361,350 |
| Wastewater service fund | - | 303,500 |
| Total | \$ 664,850 | \$ 664,850 |

The Community Development fund required funding from the General fund, and the Wastewater Service fund required funding from the Water Department fund to support operations.

| | Advances to Other Funds | Advances from Other Funds |
|-------------------------------------|----------------------------|------------------------------|
| General fund | \$ 21,330 | \$ - |
| Community redevelopment agency fund | - | 30,600 |
| Community development fund | 9,270 | - |
| Total | \$ 30,600 | \$ 30,600 |

The Community Redevelopment Agency required funding from the General and Community Development funds in prior years and the funds will be repaid when available.

For the year ended September 30, 2015, interfund transfers consisted of the following:

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

B. Interfund receivables and payables and transfers (continued)

| Transfers Out | Transfers In | | | | | | Totals |
|-----------------------------|-------------------|---|---------------------------|--------------------------------|-----------------------------|----------------------------|-------------------|
| | General Fund | Indian River Lagoon National Scenic Byway | FOA Transportation Access | Community Redevelopment Agency | Nonmajor Governmental Funds | Community Development Fund | |
| General fund | \$ - | \$ - | \$ - | \$ 1,490 | \$ - | \$ 32,040 | \$ 33,530 |
| Infrastructure fund | - | 203,893 | - | - | 62,400 | - | 266,293 |
| Nonmajor governmental funds | 99,013 | - | 8,987 | - | - | - | 108,000 |
| Water department fund | 129,000 | - | - | - | - | 6,600 | 135,600 |
| Community Development fund | 43,680 | - | - | - | 360 | - | 44,040 |
| Wastewater service fund | 70,320 | - | - | - | - | 6,600 | 76,920 |
| Totals | \$ 342,013 | \$ 203,893 | \$ 8,987 | \$ 1,490 | \$ 62,760 | \$ 45,240 | \$ 664,383 |

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.

C. Capital assets

Capital asset activity for the primary government for the year ended September 30, 2015 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------|------------------|-----------------|-------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | * | | | |
| Land | \$ 6,826,186 | \$ - | \$ - | \$ 6,826,186 |
| Construction in progress | 369,976 | 1,226,973 | - | 1,596,949 |
| Total capital assets, not being depreciated | 7,196,162 | 1,226,973 | - | 8,423,135 |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,480,396 | 16,800 | - | 5,497,196 |
| Improvements other than buildings | 3,234,125 | - | (2,329) | 3,231,796 |
| Machinery and equipment | 1,495,085 | 63,330 | (42,583) | 1,515,832 |
| Infrastructure | 7,431,693 | - | - | 7,431,693 |
| Total capital assets, being depreciated | 17,641,299 | 80,130 | (44,912) | 17,676,517 |

* Restated due to prior period adjustment (see Note 12).

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|--------------------|----------------------|
| Less accumulated depreciation for: | | | | |
| Buildings | (1,737,185) | (268,126) | - | (2,005,311) |
| Improvements other than buildings | (2,252,750) | (152,414) | - | (2,405,164) |
| Machinery and equipment | (1,340,758) | (47,389) | 33,862 | (1,354,285) |
| Infrastructure | (3,120,844) | (380,939) | - | (3,501,783) |
| Total accumulated depreciation | (8,451,537) | (848,868) | 33,862 | (9,266,543) |
| Total capital assets, being depreciated, net | 9,189,762 | (768,738) | (11,050) | 8,409,974 |
| Governmental activities capital assets, net | \$ 16,385,924 | \$ 458,235 | \$ (11,050) | \$ 16,833,109 |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 319,268 | \$ 13,359 | \$ - | \$ 332,627 |
| Construction in progress | 239,197 | 43,329 | - | 282,526 |
| Total capital assets, not being depreciated | 558,465 | 56,688 | - | 615,153 |
| Capital assets, being depreciated: | | | | |
| Water plant | 2,782,829 | - | - | 2,782,829 |
| Water lines | 3,570,862 | 3,165 | - | 3,574,027 |
| Water tank | 411,683 | - | - | 411,683 |
| Vehicle and equipment | 72,222 | - | - | 72,222 |
| Equipment | 31,644 | - | - | 31,644 |
| Wastewater lines | 2,101,327 | 84,419 | - | 2,185,746 |
| Total capital assets, being depreciated | 8,970,567 | 87,584 | - | 9,058,151 |
| Less accumulated depreciation for: | | | | |
| Water plant | (432,192) | (55,657) | - | (487,849) |
| Water lines | (1,119,872) | (71,423) | - | (1,191,295) |
| Water tank | (161,929) | (8,234) | - | (170,163) |
| Vehicle and equipment | (71,999) | (205) | - | (72,204) |
| Equipment | (28,002) | (1,393) | - | (29,395) |
| Wastewater lines | (349,284) | (49,061) | - | (398,345) |
| Total accumulated depreciation | (2,163,278) | (185,973) | - | (2,349,251) |
| Total capital assets, being depreciated, net | 6,807,289 | (98,389) | - | 6,708,900 |
| Business-type activities capital assets, net | \$ 7,365,754 | \$ (41,701) | \$ - | \$ 7,324,053 |

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets (continued)

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

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 7,626 |
| Public safety | 24,154 |
| Transportation | 813,609 |
| Culture and recreation | 3,479 |
| Total depreciation expense - governmental activities | \$ 848,868 |
| Business-type activities: | |
| Water department | \$ 135,518 |
| Community development | 1,393 |
| Wastewater service | 49,063 |
| Total depreciation expense - business-type activities | \$ 185,974 |

D. Accounts payable and accrued liabilities

Payables are comprised of the following at year-end:

| | Governmental Activities | Business-type Activities |
|------------------------------------|----------------------------|-----------------------------|
| Accounts payable | \$ 42,281 | \$ 43,002 |
| Accrued liabilities | 24,849 | 5,905 |
| Accrued interest on long-term debt | - | 511 |
| Total payables | \$ 67,130 | \$ 49,418 |

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

E. Construction Commitments

The City has various commitments outstanding at September 30, 2015. The major commitments include the following:

| Project | Spent to date | Remaining commitment | Major funding source |
|---|---------------------|-------------------------|---------------------------------|
| CDBG Phase VI | \$ 78,302 | \$ 800,000 | Grant |
| CDBG /ED/ Assisted Living Facility | 360 | 1,218,000 | Grant |
| IR Lagoon National Scenic Byway | 630,690 | 85,000 | City matching |
| Transportation / Access FOA | 712,505 | 63,000 | City / developer contribution |
| FFWCC / FBIP / Boat Ramp | 12,791 | 891,000 | Grant / developer contributions |
| FDEP / Preserve Phase II LWCF | 4,813 | 395,187 | Grant / City matching |
| FRDAP / Little League | 3,010 | 146,090 | Grant |
| Fellsmere Preserve RTP | 13,221 | 80,479 | Grant |
| Historic Railroad Section Foreman House | 8,580 | 91,420 | Grant / City matching |
| Total | \$ 1,464,272 | \$ 3,770,176 | |

F. Long-term debt

Long-term liability activity for the year ended September 30, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------------|--------------------|---------------------|------------------------|
| Governmental activities: | | | | | |
| Capital improvement bond | \$ 2,770,379 | \$ - | \$ (64,240) | \$ 2,706,139 | \$ 66,853 |
| Compensated absences | 91,956 | 15,115 | - | 107,071 | 10,707 |
| Total governmental activities | \$ 2,862,335 | \$ 15,115 | \$ (64,240) | \$ 2,813,210 | \$ 77,560 |

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-----------------|--------------------|---------------------|------------------------|
| Business-type activities: | | | | | |
| Revenue bond | \$ 1,257,000 | \$ - | \$ (43,000) | \$ 1,214,000 | \$ 45,000 |
| Construction loans | 322,200 | - | (15,774) | 306,426 | 16,197 |
| Compensated absences | 7,379 | 2,698 | (968) | 9,109 | 911 |
| Total business-type activities | \$ 1,586,579 | \$ 2,698 | \$ (59,742) | \$ 1,529,535 | \$ 62,108 |

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term debt (continued)

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.

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 of \$7,288 for loan #1 and \$4,837 for loan #2 in March and September ending in March and September 2031, respectively. Interest is charged at 2.71% and 2.61%, and at September 30, 2015 the balances of loan #1 and #2 were \$183,487 and \$122,939, respectively.

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 water revenues and half-cent sales tax revenues amounted to approximately \$746,000 and \$367,000, respectively, in 2015.

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

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term debt (continued)

| Year Ended September 30, | Governmental Activities | | Business-type Activities | |
|-----------------------------|-------------------------|---------------------|--------------------------|-------------------|
| | Principle | Interest | Principle | Interest |
| 2016 | \$ 66,853 | \$ 120,729 | \$ 61,197 | \$ 62,704 |
| 2017 | 70,263 | 117,320 | 63,633 | 60,244 |
| 2018 | 73,490 | 114,092 | 66,080 | 57,682 |
| 2019 | 76,867 | 110,716 | 69,539 | 55,017 |
| 2020 | 80,097 | 107,485 | 72,010 | 52,206 |
| 2021 - 2025 | 460,560 | 477,352 | 405,577 | 214,849 |
| 2026 - 2030 | 576,572 | 361,340 | 495,414 | 125,232 |
| 2031 - 2035 | 721,813 | 216,099 | 286,976 | 25,270 |
| 2036 - 2039 | 579,624 | 45,679 | - | - |
| Total | \$ 2,706,139 | \$ 1,670,812 | \$ 1,520,426 | \$ 653,204 |

NOTE 6: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City's risk management activities are recorded in the General and Enterprise Funds. The funds administer the health, property and liability, and workers' compensation insurance activities of the City.

Significant losses are covered by insurance through a public entity risk pool for all major programs except employee health care, which is covered by commercial insurance, and unemployment insurance, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

NOTE 7: 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

NOTE 7: PROPERTY TAXES (Continued)

property taxes at a rate of up to 10 mills. For the year ended September 30, 2015, the millage rate assessed by the City was 5.5309 mills.

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

All property is reassessed according to its fair market value at January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes. The total assessed value at January 1, 2015, upon which the 2014 – 2015 levy was based, was approximately \$91.8 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.

NOTE 8: 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.

NOTE 9: 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

NOTE 9: BENEFIT PLANS (Continued)

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 12% of employee salaries and wages for employees who contributed 4% in 2015. Although the charter officers and department heads may participate in both the deferred compensation plan (see Note 10) and the governmental money purchase plan and trust, the City will contribute to only one plan on their behalf. Total City contributions to the plan amounted to \$55,665 for the fiscal year ended September 30, 2015. The money purchase plan is not available to employees until termination, retirement, death, or financial hardship.

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

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, 2015, the City credited \$5,000 to each employee's account, and \$6,250 to those employees with dependent coverage, which amounted to \$172,500. 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, 2015, 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 \$75,688.

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.

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 10: 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 12% of employee salaries and wages for employees who contributed 4% in 2015 for 2015. Employer and employee contributions to the plan were \$81,263 and \$77,685, respectively in 2015. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

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

NOTE 11: 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 | Infra- structure | Indian River Lagoon National Scenic Byway | FOA Transport- ation Access | Community Redevelop- ment Agency | Nonmajor Government al Funds | Totals |
|--|-----------------|---------------------|---|--------------------------------------|--|------------------------------------|--------------|
| Nonspendable: | | | | | | | |
| Advances to/from other funds | \$ 21,330 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 21,330 |
| Total nonspendable | 21,330 | - | - | - | - | - | 21,330 |
| Restricted for: | | | | | | | |
| Capital projects | - | 791,315 | - | 404 | 34,355 | 140,403 | 966,477 |
| Brookside Cemetary | 38,340 | - | - | - | - | - | 38,340 |
| Total restricted | 38,340 | 791,315 | - | 404 | 34,355 | 140,403 | 1,004,817 |
| Unassigned (deficit) | 691,726 | - | - | - | (24,589) | (3,100) | 664,037 |
| Total fund balances, governmental funds | \$ 751,396 | \$ 791,315 | \$ - | \$ 404 | \$ 9,766 | \$ 137,303 | \$ 1,690,184 |

NOTE 12: PRIOR PERIOD ADJUSTMENT

During the year-ended September 30, 2015 a prior period adjustment was required to increase the net position of the governmental activities on the Statement of Activities related to a land donation that occurred in 2009 but was not recorded in that year by error. The adjustment increased land by \$199,490 and beginning net position for governmental activities was restated by the same amount.

NOTE 13: FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2016. The statements address:

- Fair value measurement and application; and
- GAAP hierarchy.

The City is currently evaluating the effects that these statements will have on its 2016 financial statements.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

City of Fellsmere, Florida
Combining Balance Sheet
Nonmajor Governmental Funds

| | Special Revenue | | | |
|--|----------------------------|------------------|--------------------|--------------------|
| <i>September 30, 2015</i> | Local Option Gas Tax | CDBG Phase VI | CDBG Gas Supply | CDBG / ED / ALF |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ 63 | \$ - | \$ - |
| Accounts receivable | - | - | - | - |
| Due from other governments | 25,386 | - | - | - |
| Restricted cash and cash equivalents | 75,807 | - | - | - |
| Total assets | 101,193 | 63 | - | - |
| LIABILITIES | | | | |
| Negative equity in pooled cash | - | - | - | - |
| Accounts payable | 5,940 | 63 | - | - |
| Unearned revenues | - | - | - | - |
| Total liabilities | 5,940 | 63 | - | - |
| FUND BALANCES (DEFICIT) | | | | |
| Restricted | 95,253 | - | - | - |
| Unrestricted / unassigned (deficit) | - | - | - | - |
| Total fund balances | 95,253 | - | - | - |
| Total liabilities and fund balances (deficit) | \$ 101,193 | \$ 63 | \$ - | \$ - |

Special Revenue

| Urban and Community Forestry Grant | RTP - Rail Trail Park | FDEP Trail Head Preserve | FRDAP Little League Park | HC&J Stormwater Grant Park | FRDAP Trail Head Preserve LWCF | FFWCC Boat Ramp |
|--|-----------------------------|--------------------------------|-----------------------------|----------------------------------|--------------------------------------|--------------------|
| \$ - | \$ 44 | \$ - | \$ - | \$ - | \$ - | - |
| - | - | 102 | - | - | - | 12,791 |
| - | - | - | - | - | - | - |
| - | 44 | 102 | - | - | - | 12,791 |
| - | - | 3,202 | - | - | - | 12,791 |
| - | 44 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | 44 | 3,202 | - | - | - | 12,791 |
| - | - | - | - | - | - | - |
| - | - | (3,100) | - | - | - | - |
| - | - | (3,100) | - | - | - | - |
| \$ - | \$ 44 | \$ 102 | \$ - | \$ - | \$ - | \$ 12,791 |

City of Fellsmere, Florida
Combining Balance Sheet
Nonmajor Governmental Funds (continued)

Special Revenue

| <i>September 30, 2015</i> | FDEP Wetlands Park LWCF | Marian Fell Library | Historic Train Station Master's House | Culture Facilities |
|--|-------------------------------|------------------------|---|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,300 | \$ - | \$ - | \$ 225 |
| Accounts receivable | - | - | - | - |
| Due from other governments | - | - | - | - |
| Restricted cash and cash equivalents | - | - | - | - |
| Total assets | 3,300 | - | - | 225 |
| LIABILITIES | | | | |
| Negative equity in pooled cash | - | - | - | - |
| Accounts payable | 3,300 | - | - | 225 |
| Unearned revenues | - | - | - | - |
| Total liabilities | 3,300 | - | - | 225 |
| FUND BALANCES (DEFICIT) | | | | |
| Restricted | - | - | - | - |
| Unrestricted / unassigned (deficit) | - | - | - | - |
| Total fund balances | - | - | - | - |
| Total liabilities and fund balances (deficit) | \$ 3,300 | \$ - | \$ - | \$ 225 |

Special Revenue

| Fellsmere Community Center | Special Projects | Total |
|----------------------------------|---------------------|------------|
| \$ - | \$ 59,168 | \$ 62,800 |
| - | - | 12,893 |
| - | - | 25,386 |
| - | - | 75,807 |
| - | 59,168 | 176,886 |
| - | - | 15,993 |
| - | - | 9,572 |
| - | 14,018 | 14,018 |
| - | 14,018 | 39,583 |
| - | 45,150 | 140,403 |
| - | - | (3,100) |
| - | 45,150 | 137,303 |
| \$ - | \$ 59,168 | \$ 176,886 |

City of Fellsmere, Florida

**Combining Statement of Revenues, Expenditures and Changes in Fund
Balances - Nonmajor Governmental Funds**

| | Special Revenue | | | |
|--|----------------------------|------------------|--------------------|--------------------|
| <i>For the year ended September 30, 2015</i> | Local Option Gas Tax | CDBG Phase VI | CDBG Gas Supply | CDBG / ED / ALF |
| REVENUES | | | | |
| Taxes: | | | | |
| Motor fuel | \$ 151,494 | \$ - | \$ - | \$ - |
| Contributions and donations | - | - | - | - |
| Other revenues | 10,341 | - | - | - |
| Total revenues | 161,835 | - | - | - |
| EXPENDITURES | | | | |
| Current: | | | | |
| Physical environment | - | - | 456 | - |
| Transportation | 29,572 | - | - | - |
| Capital outlay | - | 10,135 | - | 360 |
| Total expenditures | 29,572 | 10,135 | 456 | 360 |
| Excess (deficiency) of revenues over (under) expenditures | 132,263 | (10,135) | (456) | (360) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | 10,135 | - | 360 |
| Transfers out | (104,516) | - | (3,484) | - |
| Total other financing sources (uses) | (104,516) | 10,135 | (3,484) | 360 |
| Net change in fund balances | 27,747 | - | (3,940) | - |
| Fund balances, beginning of year | 67,506 | - | 3,940 | - |
| Fund balances, end of year | \$ 95,253 | \$ - | \$ - | \$ - |

Special Revenue

| Urban and Community Forestry Grant | RTP - Rail Trail Park | FDEP Trail Head Preserve | FRDAP Little League Park | HC&J Stormwater Grant Park | FRDAP Trail Lead Preserve LWCF | FFWCC Boat Ramp |
|--|--------------------------|--------------------------------|-----------------------------|----------------------------------|--------------------------------------|--------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | 5,378 |
| 26,470 | - | 102 | - | - | - | 3,163 |
| 26,470 | - | 102 | - | - | - | 8,541 |
| - | - | - | - | - | - | - |
| 26,470 | - | - | - | - | - | - |
| - | 1,576 | 100 | 1,700 | 1,703 | 1,067 | 8,541 |
| 26,470 | 1,576 | 100 | 1,700 | 1,703 | 1,067 | 8,541 |
| - | (1,576) | 2 | (1,700) | (1,703) | (1,067) | - |
| - | 1,576 | - | 1,700 | 1,703 | 1,067 | - |
| - | - | - | - | - | - | - |
| - | 1,576 | - | 1,700 | 1,703 | 1,067 | - |
| - | - | 2 | - | - | - | - |
| - | - | (3,102) | - | - | - | - |
| \$ - | \$ - | \$ (3,100) | \$ - | \$ - | \$ - | \$ - |

City of Fellsmere, Florida

**Combining Statement of Revenues, Expenditures and Changes in Fund
Balances - Nonmajor Governmental Funds (continued)**

| | Special Revenue | | | |
|--|-------------------------------|------------------------|---|-----------------------|
| <i>For the year ended September 30, 2015</i> | FDEP Wetlands Park LWCF | Marian Fell Library | Historic Train Station Master's House | Culture Facilities |
| REVENUES | | | | |
| Taxes: | | | | |
| Motor fuel | \$ - | \$ - | \$ - | \$ - |
| Contributions and donations | - | - | - | - |
| Other revenues | - | - | - | - |
| Total revenues | - | - | - | - |
| EXPENDITURES | | | | |
| Current: | | | | |
| Physical environment | - | - | - | - |
| Transportation | - | - | - | - |
| Capital outlay | 35,427 | - | 3,800 | 4,500 |
| Total expenditures | 35,427 | - | 3,800 | 4,500 |
| Excess (deficiency) of revenues over (under) expenditures | (35,427) | - | (3,800) | (4,500) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 35,427 | 492 | 3,800 | 4,500 |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | 35,427 | 492 | 3,800 | 4,500 |
| Net change in fund balances | - | 492 | - | - |
| Fund balances, beginning of year | - | (492) | - | - |
| Fund balances, end of year | \$ - | \$ - | \$ - | \$ - |

Special Revenue

| Fellsmere Community Center | Special Projects | Total |
|----------------------------------|---------------------|------------|
| \$ - | \$ - | \$ 151,494 |
| - | - | 5,378 |
| - | 1,000 | 41,076 |
| - | 1,000 | 197,948 |
| - | 33,170 | 33,626 |
| - | - | 56,042 |
| 2,000 | - | 70,909 |
| 2,000 | 33,170 | 160,577 |
| (2,000) | (32,170) | 37,371 |
| 2,000 | - | 62,760 |
| - | - | (108,000) |
| 2,000 | - | (45,240) |
| - | (32,170) | (7,869) |
| - | 77,320 | 145,172 |
| \$ - | \$ 45,150 | \$ 137,303 |

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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*

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, Florida, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Fellsmere, Florida's basic financial statements, and have issued our report thereon dated February 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fellsmere, Florida'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 of Fellsmere, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fellsmere, Florida'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2014 – 01 and 2015 – 01, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City of Fellsmere, Florida's Response to Findings

The City of Fellsmere, Florida's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Fellsmere, Florida's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
February 11, 2016



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Fellsmere, Florida's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Fellsmere, Florida's major federal programs for the year ended September 30, 2015. The City of Fellsmere, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Fellsmere, Florida's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fellsmere, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Fellsmere, Florida's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Fellsmere, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the City of Fellsmere, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City of Fellsmere, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with OMB Circulars A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fellsmere, Florida's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circulars A-133. Accordingly, this report is not suitable for any other purpose.

Carr Riggs & Ingram, LLC

Melbourne, Florida
February 11, 2016

City of Fellsmere, Florida
Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

| Federal Agency / Cluster / Program Title | CFDA Number | Pass-through / Grantor Number | Expenditures |
|---|------------------------|--|---------------------|
| Federal Awards | | | |
| Federal Highway Administration Highway Planning and Construction CR-512 West of SR - 9/ I-95 to Fellsmere Trailhead Preserve | 20.205 | ARO-13 | \$ 316,500 |
| Department of Commerce Economic Development Administration State Transportation - Access FOA | 11.300 | 04-01-06759 | 283,540 |
| Total Expenditure of Federal Awards | | | \$ 600,040 |

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Fellsmere, Florida (the "City") under programs of the federal government for the year ended September 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Fellsmere, Florida
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

Section I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

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

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

Identification of major federal programs:

| <u>Federal CFDA Numbers</u> | <u>Federal Program</u> |
|-----------------------------|--|
| 20.205 | CR-512 West of SR – 9 / I-95 to Fellsmere Trailhead Preserve |

Dollar threshold used to distinguish between type A and B programs was \$300,000 for major federal programs.

Auditee qualified as a low-risk auditee for federal purposes? yes no

City of Fellsmere, Florida
Schedule of Findings and Questioned Costs (continued)
Year ended September 30, 2015

Section II—Financial Statement Findings

Finding 2014 – 01 REVIEW OVER MANUAL JOURNAL ENTRIES – *Significant Deficiency*

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 related to the review of manual journal entries, and therefore the same individual that prepares journal entries also approves them.

Criteria: 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.

Cause: Staffing constraints cause a lack of review over manual journal entries booked in the accounting system.

Effect: As a result of the 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: We recommend that the City implement a review and approval process over the recording of manual journal entries by knowledgeable personnel.

Finding 2015 – 01 YEAR-END ACCRUALS OF LIABILITIES – *Significant Deficiency*

Condition: An adjusting journal entry of \$5,940 in the Local Option Gas Tax Fund (a nonmajor governmental fund) and an adjusting journal entry of \$11,569 in the Community Development fund was required for fiscal year 2015 to record accounts payable for services or goods incurred or received prior to the balance sheet date.

Criteria: *Reporting Liabilities of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards* requires a government to accrue a liability and expense in the period in which the government incurs the liability. Accounts payable should be recorded for all invoices for goods or services received on or before the balance sheet date.

Cause: The City historically has diligently accrued accounts payable related to grant expenditures, but has not been as diligent in accruing for other expenditures at year-end, especially for invoices deemed to be immaterial by the City.

Effect: Liabilities and related expenditure accounts were understated prior to the audit adjustment. Further, the City's legal level of budgetary control is at the fund level. In addition to the risks associated with inaccurate interim financial information being provided to management and to the Council, improper accrual of accounts payable substantially increases the risk that departments will inadvertently overspend their budgeted appropriations.

Recommendation: We recommend the City implement procedures to provide reasonable assurance that all amounts due to vendors are properly accrued in the correct accounting period.

City of Fellsmere, Florida
Schedule of Findings and Questioned Costs (continued)
Year ended September 30, 2015

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

Section IV- Other Issues

No Summary Schedule of Prior Audit Findings is required because there were no prior year findings related to Federal programs.



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INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of Fellsmere, Florida as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated February 11, 2016.

Auditors' Responsibility

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.

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance for Each Major Federal Program, Report on the Internal Control over Compliance, Schedule of Findings and Questioned Costs, and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Florida Auditor General. Disclosures in those reports and schedule, which are dated February 11, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

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 audit report. Corrective actions have been taken to partially address the finding and recommendation made in the preceding annual financial audit as noted below:

Tabulation of Uncorrected Audit Finding, partially addressed

| <u>Current Year Finding #</u> | <u>2013-14 FY Finding #</u> | <u>2012-13 FY Finding #</u> |
|-------------------------------|-----------------------------|-----------------------------|
| 2014-01 | 2014-001 | 2013-FS-1 |

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 this management letter, unless disclosed in the notes to the financial statements. The legal authority of the City of Fellsmere, Florida is disclosed in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City of Fellsmere, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Fellsmere, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Fellsmere, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City of Fellsmere, Florida for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

Caru, Riggs & Ingram, L.L.C.

Melbourne, Florida
February 11, 2016

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES

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

We have examined the City of Fellsmere's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2015. Management is responsible for the City of Fellsmere's compliance with those requirements. Our responsibility is to express an opinion on the City of Fellsmere's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Fellsmere's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Fellsmere's compliance with specified requirements.

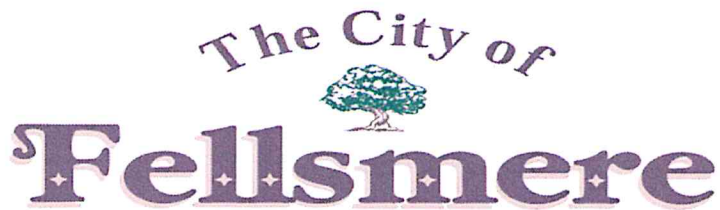
In our opinion, the City of Fellsmere complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
February 11, 2016

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Finance and Accounting Department
22 S. Orange Street
Fellsmere, FL 32948
772-571-1616 • 772-646 6355 Fax

February 23, 2016

Carr, Riggs, & Ingram, LLC
215 Baytree Drive
Melbourne, FL 32940

VIA EMAIL

Mrs. Debbie Goode, CPA:

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

Prior Year Finding 2014-01

Condition: As is the case with many organizations of similar size, the City lacks sufficient number of accounting personnel in order to ensure a complete segregation of duties related to the review of manual journal entries and therefore the same individual that prepares the journal entries also approves them.

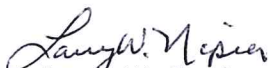
Response: Entities must, as a practical matter, accept less than a perfect control structure as a certain degree of risk will always be unavoidable because of cost/benefit considerations. The City has therefore adopted a policy whereby the Finance Director prepares monthly journal entries, forwards them to the City Manager for approval, and then they are forwarded to the Accounting Clerk for posting to the general ledger. Also the City Manager and City Council review the check register, financial reports, and other related financial reports on a monthly basis.

Finding 2015-01

Condition: An adjusting journal entry of \$5,940 in the Local Option Gas Tax Fund (a nonmajor governmental fund) and an adjusting journal entry of \$11,569 in the Community Development Fund (a major enterprise fund) was recommend for fiscal year 2015 to record accounts payable for goods or services incurred or received prior to balance sheet data.

Response: The City offers the following rebuttal to finding 2015-01: Both amounts listed above are less than five (5%) percent of both fund revenues and expenditures and therefore considered by the City to be immaterial. Materiality is a matter of professional judgement and is therefore influenced by the auditors' perception of the needs of the users of the financial statements. It is the City's opinion the materiality threshold was set too low in this instance as a reasonable person's judgement would not be changed or influenced by the omission or misstatement.

Respectfully submitted,


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