



City of Fellsmere, Florida
FINANCIAL STATEMENTS
Year Ended September 30, 2016



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City of Fellsmere, Florida
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Year ended September 30, 2016

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**City of Fellsmere, Florida
City Officials
Year ended September 30, 2016**

Joel Tyson
Mayor

Sara Savage
Vice Mayor

Jessica Salgado
Gerald Piper
Fernando Herrera
Council Members

Warren W. Dill
City Attorney

Jason R. Nunemaker
City Manager

Deborah C. Krages
City Clerk

Putnam Moreman, CPA, CGFM
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, 2016, 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.

Auditor's 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 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 6, 2017 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.

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

Melbourne, Florida
February 6, 2017

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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, 2016:

- The City's assets exceeded its liabilities at the close of the fiscal year 2016 by \$22,793,549 (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 \$478,615.
- The City's total net position decreased by \$98,876, resulting from a decrease of \$74,771 from governmental activities and a decrease of \$24,105 from business-type activities. Governmental funds reported combined ending fund balances of \$1,608,516. Approximately 36.8% of this amount, \$591,719, is unassigned and available for spending at the City's discretion, a decrease of \$39,374 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$618,750 or 88.5% of the total general fund balance.
- General fund revenue decreased by \$58,195 or 2.9% and expenditures increased by \$219,992 or 10.3%.
- The City reduced its long term debt by \$128,051 during the current fiscal year 2016.

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.

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 through 23 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, and Community Redevelopment Agency Fund, all of which are considered to be major funds. Data from several other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements.

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

The basic governmental fund financial statements can be found on pages 24 through 28 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 32 through 38 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 41 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 \$22,793,549 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	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 1,713,684	\$ 1,796,832	\$ 1,725,561	\$ 1,619,162	\$ 3,439,245	\$ 3,415,994
Capital assets, net	16,780,018	16,833,109	7,160,803	7,324,053	23,940,821	24,157,162
Total assets	<u>18,493,702</u>	<u>18,629,941</u>	<u>8,886,364</u>	<u>8,943,215</u>	<u>27,380,066</u>	<u>27,573,156</u>
Liabilities:						
Long-term liabilities	2,753,222	2,813,210	1,470,252	1,529,535	4,223,474	4,342,745
Other liabilities	105,168	106,648	243,640	216,955	348,808	323,603
Total liabilities	<u>2,858,390</u>	<u>2,919,858</u>	<u>1,713,892</u>	<u>1,746,490</u>	<u>4,572,282</u>	<u>4,666,348</u>
Deferred inflows of resources:						
Deferred revenue - business tax receipts	-	-	14,235	14,383	14,235	14,383
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>14,235</u>	<u>14,383</u>	<u>14,235</u>	<u>14,383</u>
Net position:						
Net investment in capital assets	14,140,733	14,126,970	5,701,574	5,803,627	19,842,307	19,930,597
Restricted	977,423	1,004,817	1,495,204	1,393,964	2,472,627	2,398,781
Unrestricted (deficit)	517,156	578,296	(38,541)	(15,249)	478,615	563,047
Total net position	<u>\$ 15,635,312</u>	<u>\$ 15,710,083</u>	<u>\$ 7,158,237</u>	<u>\$ 7,182,342</u>	<u>\$ 22,793,549</u>	<u>\$ 22,892,425</u>

A substantial portion of the City's net position (87.1%) 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 for the Government activities, and overall for the City as a whole, but the Business-type activities show an unrestricted deficit due to the community development fund and wastewater service fund borrowing funds from the general fund to meet operational needs.

City of Fellsmere, Florida
Management's Discussion and Analysis

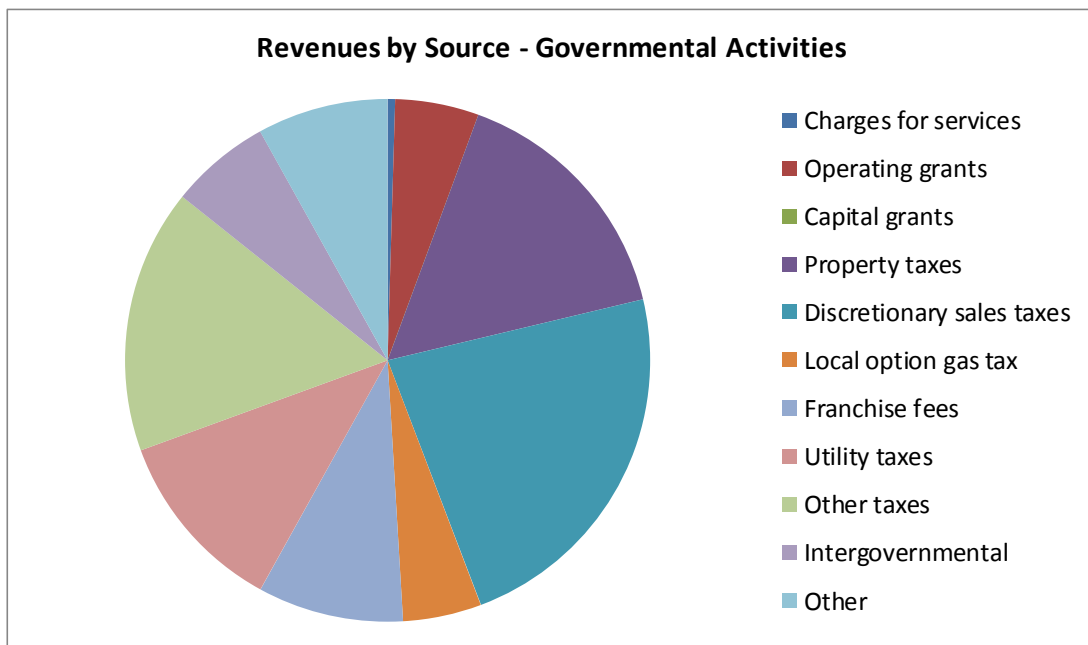
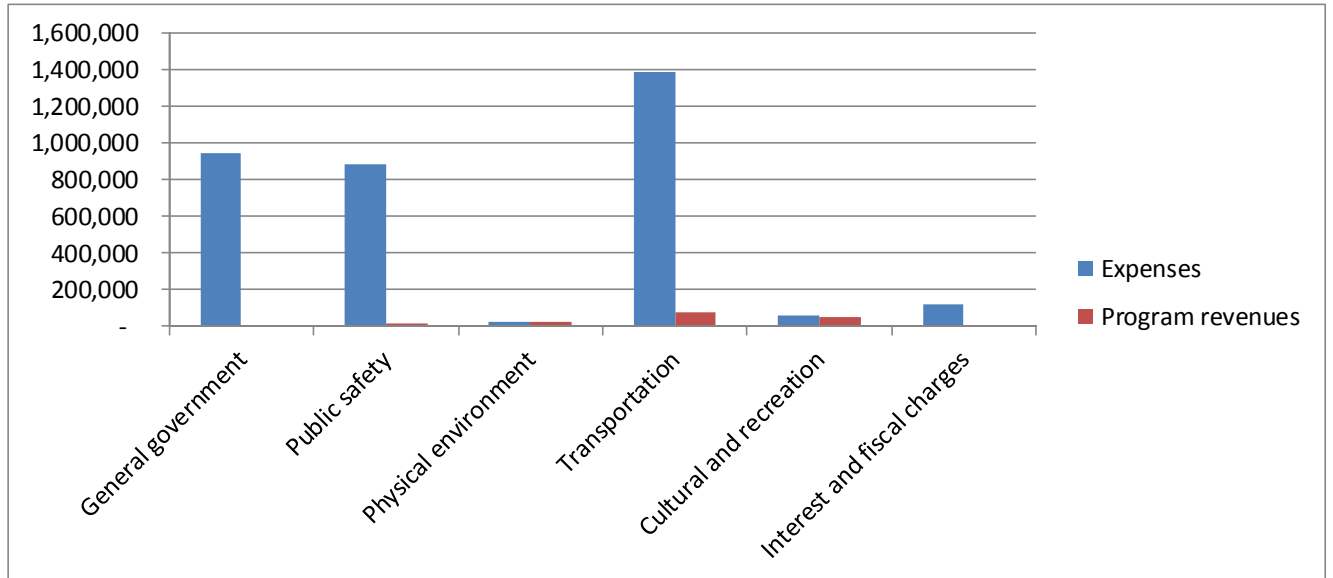
The following table shows the revenue and expenses of the total primary government:

	Change in Net Position					
	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 14,417	\$ 18,523	\$ 1,272,992	\$ 1,248,969	\$ 1,287,409	\$ 1,267,492
Operating grants	160,981	930,790	-	35,000	160,981	965,790
Capital grants	-	5,378	-	84,419	-	89,797
General revenues:						
Property taxes	487,992	480,861	-	-	487,992	480,861
Other taxes	2,012,658	1,947,089	-	-	2,012,658	1,947,089
Intergovernmental	193,112	180,656	-	-	193,112	180,656
Other	251,649	298,513	132,203	152,386	383,852	450,899
Total revenues	<u>3,120,809</u>	<u>3,861,810</u>	<u>1,405,195</u>	<u>1,520,774</u>	<u>4,526,004</u>	<u>5,382,584</u>
Expenses:						
General government	946,026	868,500	-	-	946,026	868,500
Public safety	884,000	838,785	-	-	884,000	838,785
Physical environment	22,202	33,626	-	-	22,202	33,626
Transportation	1,387,705	1,316,694	-	-	1,387,705	1,316,694
Cultural and recreation	56,799	31,958	-	-	56,799	31,958
Interest and fiscal charges	120,729	123,342	-	-	120,729	123,342
Water department	-	-	499,498	593,957	499,498	593,957
Community development	-	-	390,373	369,390	390,373	369,390
Wastewater services	-	-	272,011	255,072	272,011	255,072
Stormwater system	-	-	45,537	24,443	45,537	24,443
Total expenses	<u>3,417,461</u>	<u>3,212,905</u>	<u>1,207,419</u>	<u>1,242,862</u>	<u>4,624,880</u>	<u>4,455,767</u>
Change in net position, before transfers:	(296,652)	648,905	197,776	277,912	(98,876)	926,817
Transfers	221,881	211,320	(221,881)	(211,320)	-	-
Change in net position	<u>(74,771)</u>	<u>860,225</u>	<u>(24,105)</u>	<u>66,592</u>	<u>(98,876)</u>	<u>926,817</u>
Net position:					-	-
Beginning of year as previously reported	15,710,083	14,650,368	7,182,342	7,115,750	22,892,425	21,766,118
Prior period adjustment	-	199,490	-	-	-	199,490
End of year	<u>\$ 15,635,312</u>	<u>\$ 15,710,083</u>	<u>\$ 7,158,237</u>	<u>\$ 7,182,342</u>	<u>\$ 22,793,549</u>	<u>\$ 22,892,425</u>

Governmental activities. Governmental activities decreased the City's net position by \$74,771. A key element of this decrease is as follows:

- General government expenses increased by 8.9%
- Transportation expenses increased by 5.4%
- Cultural and recreation expenses increased by 77.7%
- Public safety expenses increased by 5.4%
- Physical environment expenses decreased by 34%

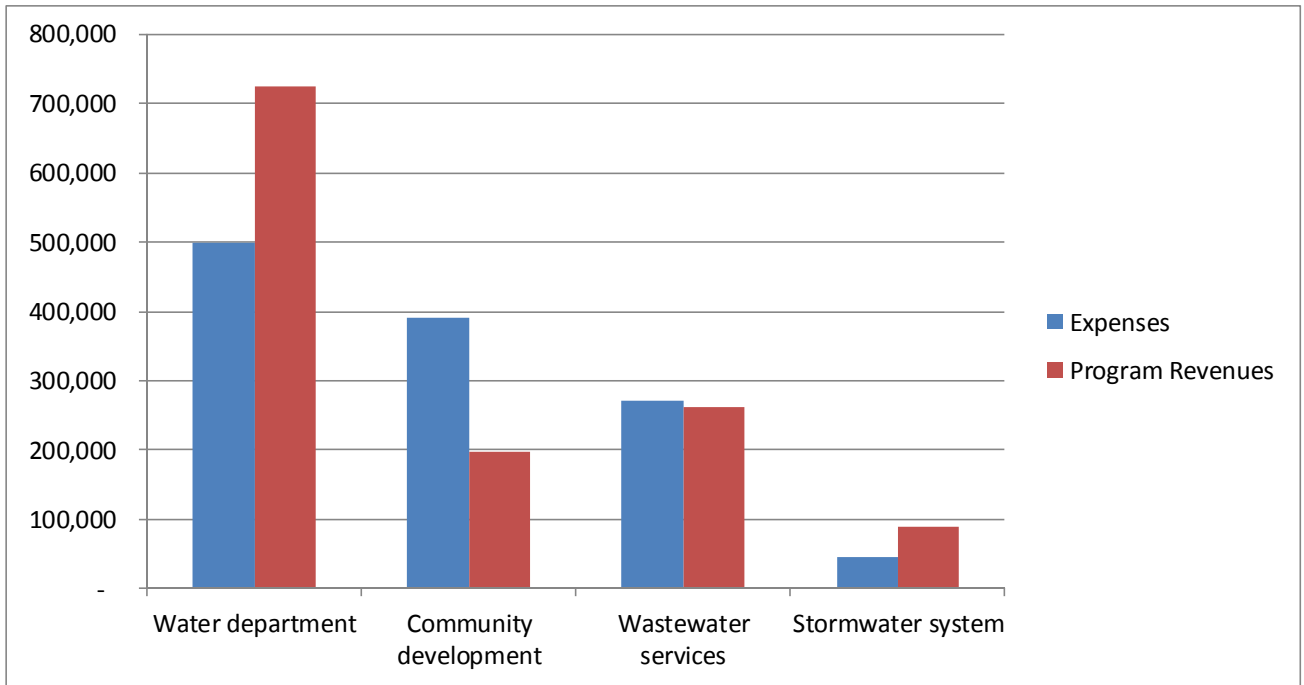
Expenses and Program Revenues – Governmental Activities



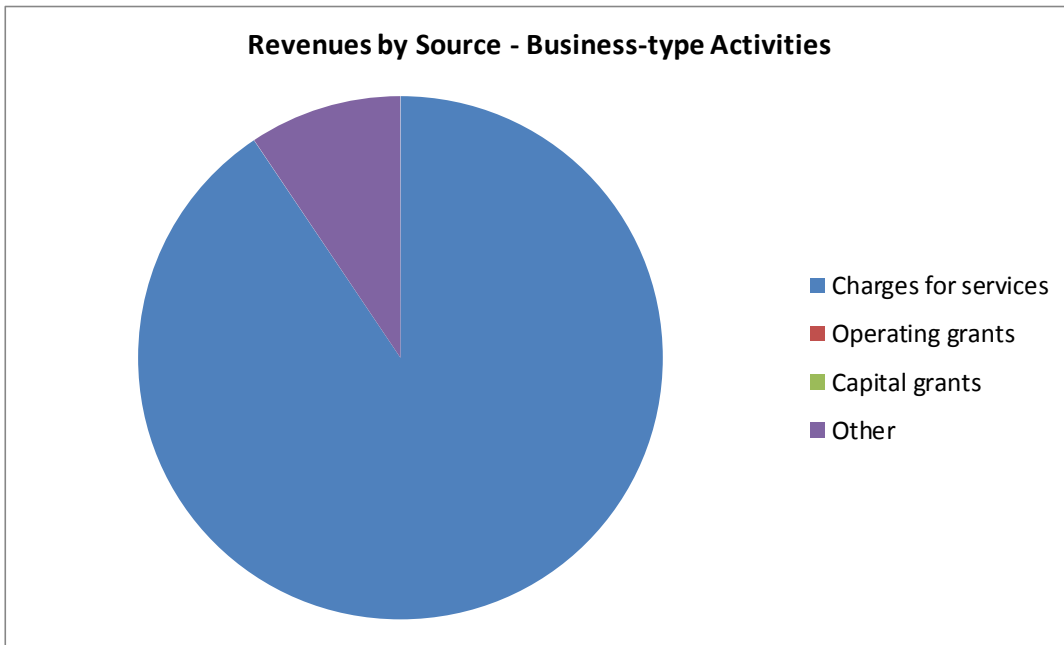
Business-type activities. Business-type activities decreased the City's net position by \$24,105. Key elements of this decrease are as follows:

- There were no operating or capital grants received this fiscal year.

Expenses and Program Revenues – Business-type Activities



Revenues by Source - 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.

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 \$1,608,516, a decrease of \$81,668 in comparison with the prior year. An amount of \$591,719 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 \$618,750, while the total fund balance reached \$698,914. 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 26.3% of total general fund expenditures, while total fund balance represents 29.7% of that same amount. The fund balance of the City's general fund decreased by \$52,482 during the current fiscal year.

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

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 \$38,541. The total for unrestricted net position (deficit) for each of these funds was \$721,941, (\$494,885), (\$381,327) and \$115,730, respectively. The unrestricted deficit in the community development and wastewater funds is due to both funds borrowing money from the general fund over the past several years to meet operational needs. 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 2016, the City had \$23,940,821 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net decrease (including additions and deductions) of \$216,341, approximately 0.9% from last year.

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

- The donation of land and buildings valued at \$77,456 related to grants for the Historic Railroad Section Foreman's House and future Rail Trail program. An additional \$104,846 was capitalized for construction/rehabilitation of the Historic Railroad Section Foreman's House.

City of Fellsmere, Florida
Management's Discussion and Analysis

- Equipment of \$83,051 was purchased for three departments.
- Sidewalk and other infrastructure improvements of \$45,036.
- Drainage and paving improvements of \$262,986 in the nonmajor governmental fund Indian River Lagoon National Scenic Byway
- Drainage and paving improvements of \$69,945 in the nonmajor governmental fund FOA Transportation Access
- Water control improvements of \$30,737 in the nonmajor governmental fund North Regional Lake

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

- The City acquired two parcels of land through property tax escheatment from Indian River County totaling \$18,740.
- The City capitalized the cost of various equipment and water hook-ups totaling \$10,042.

	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 6,876,583	\$ 6,826,186	\$ 351,367	\$ 332,627	\$ 7,227,950	\$ 7,158,813
Construction in progress	427,262	1,596,949	289,536	282,526	716,798	1,879,475
Buildings	3,293,108	3,491,885	-	-	3,293,108	3,491,885
Improvements other than buildings	717,045	826,632	-	-	717,045	826,632
Machinery and equipment	186,630	161,547	6,519,900	6,708,900	6,706,530	6,870,447
Infrastructure	5,279,390	3,929,910	-	-	5,279,390	3,929,910
Total capital assets, net	\$ 16,780,018	\$ 16,833,109	\$ 7,160,803	\$ 7,326,068	\$ 23,940,821	\$ 24,157,162

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 2016 fiscal year, the City of Fellsmere had total outstanding debt of \$4,098,514, a decrease of \$128,051 from 2015 due to principal payments made during the current fiscal year.

	General Obligation and Revenues Bonds					
	Government Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Water revenue bond, 1993	\$ -	\$ -	\$ 1,169,000	\$ 1,214,000	\$ 1,169,000	\$ 1,214,000
Capital improvement revenue bond, 2008	2,639,285	2,706,139	-	-	2,639,285	2,706,139
Construction loans	-	-	290,229	306,426	290,229	306,426
Total long-term debt	\$ 2,639,285	\$ 2,706,139	\$ 1,459,229	\$ 1,520,426	\$ 4,098,514	\$ 4,226,565

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.

During the most recently completed fiscal year, unassigned fund balance in the general fund decreased to \$618,750. At this time, the City does not intend to raise the current millage rate for the 2018 fiscal year as we anticipate that overall assessed values will increase slightly for the City's property tax levy.

The City is in the beginning phases of a rate sufficiency study for Water, Wastewater and Stormwater services. The results of that study will not be known until near the end of the budget process for the 2018 fiscal year.

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, 2016</i>	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 274,536	\$ 487,004	\$ 761,540
Accounts receivable	65,429	148,140	213,569
Due from other governments	353,226	-	353,226
Internal balances	420,160	(420,160)	-
Inventories	-	13,750	13,750
Restricted cash and cash equivalents	582,289	1,495,204	2,077,493
Prepaid items	18,044	1,623	19,667
Capital assets:			
Nondepreciable			
Land	6,876,583	351,367	7,227,950
Construction in progress	427,262	289,536	716,798
Depreciable, net of accumulated depreciation			
Buildings	3,293,108	-	3,293,108
Improvements other than buildings	717,045	-	717,045
Machinery and equipment	186,630	6,519,900	6,706,530
Infrastructure	5,279,390	-	5,279,390
Total assets	18,493,702	8,886,364	27,380,066
LIABILITIES			
Accounts payable and accrued liabilities	90,850	53,024	143,874
Due to other governmental units	-	29,221	29,221
Unearned revenues	14,318	161,395	175,713
Noncurrent liabilities:			
Due within one year	81,657	64,735	146,392
Due in more than one year	2,671,565	1,405,517	4,077,082
Total liabilities	2,858,390	1,713,892	4,572,282
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - business tax revenue	-	14,235	14,235
Total deferred inflows of resources	-	14,235	14,235
NET POSITION			
Net investment in capital assets	14,140,733	5,701,574	19,842,307
Restricted for:			
Debt service	-	426,185	426,185
Renewal and replacement	936,633	948,892	1,885,525
Cemetery perpetual care	40,790	-	40,790
Other purposes	-	120,127	120,127
Unrestricted (deficit)	517,156	(38,541)	478,615
Total net position	\$ 15,635,312	\$ 7,158,237	\$ 22,793,549

City of Fellsmere, Florida
Statement of Activities

Year ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 946,026	\$ 753	\$ -	\$ -
Public safety	884,000	6,815	12,431	-
Physical environment	22,202	4,900	20,402	-
Transportation	1,387,705	-	78,148	-
Culture and recreation	56,799	1,949	50,000	-
Interest and fiscal charges	120,729	-	-	-
Total governmental activities	3,417,461	14,417	160,981	-
Business-type activities:				
Water department	499,498	724,703	-	-
Community development	390,373	198,495	-	-
Wastewater services	272,011	260,862	-	-
Stormwater system	45,537	88,932	-	-
Total business-type activities	1,207,419	1,272,992	-	-
Total primary government	\$ 4,624,880	\$ 1,287,409	\$ 160,981	\$ -

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

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
\$ (945,273)	\$ -	\$ (945,273)
(864,754)	-	(864,754)
3,100	-	3,100
(1,309,557)	-	(1,309,557)
(4,850)	-	(4,850)
(120,729)	-	(120,729)
(3,242,063)	-	(3,242,063)
-	225,205	225,205
-	(191,878)	(191,878)
-	(11,149)	(11,149)
-	43,395	43,395
-	65,573	65,573
(3,242,063)	65,573	(3,176,490)
487,992	-	487,992
716,822	-	716,822
150,829	-	150,829
279,986	-	279,986
355,026	-	355,026
65,459	-	65,459
60,302	-	60,302
384,234	-	384,234
5,990	6,744	12,734
193,112	-	193,112
245,659	125,459	371,118
221,881	(221,881)	-
3,167,292	(89,678)	3,077,614
(74,771)	(24,105)	(98,876)
15,710,083	7,182,342	22,892,425
\$ 15,635,312	\$ 7,158,237	\$ 22,793,549

City of Fellsmere, Florida
Balance Sheet - Governmental Funds

<i>September 30, 2016</i>	General	Infrastructure	Community Redevelopment Agency
ASSETS			
Cash and cash equivalents	\$ 180,907	\$ -	\$ -
Accounts receivable	40,365	-	-
Due from other funds	429,430	-	-
Due from other governments	89,430	115,307	-
Restricted cash and cash equivalents	-	605,453	37,942
Advance to other funds	21,330	-	-
Prepaid items	18,044	-	-
Total assets	\$ 779,506	\$ 720,760	\$ 37,942
LIABILITIES AND FUND BALANCES			
Liabilities			
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -
Accounts payable	28,219	-	18
Accrued liabilities	52,073	-	-
Advances from other funds	-	-	30,600
Unearned revenues	300	-	-
Total current liabilities	80,592	-	30,618
Fund balances			
Nonspendable	39,374	-	-
Restricted	40,790	720,760	34,355
Unrestricted / unassigned (deficit)	618,750	-	(27,031)
Total fund balances	698,914	720,760	7,324
Total liabilities, deferred inflows of resources and fund balances	\$ 779,506	\$ 720,760	\$ 37,942

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.

Nonmajor Funds	Total Governmental Funds
\$ 93,629	\$ 274,536
25,064	65,429
-	429,430
148,489	353,226
84,273	727,668
-	21,330
-	18,044
<u>\$ 351,455</u>	<u>\$ 1,889,663</u>

\$ 145,379	\$ 145,379
10,540	38,777
-	52,073
-	30,600
14,018	14,318
<u>169,937</u>	<u>281,147</u>

-	39,374
181,518	977,423
-	591,719
<u>181,518</u>	<u>1,608,516</u>

\$ 351,455

16,780,018

(2,753,222)

\$ 15,635,312

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

<i>Year ended September 30, 2016</i>	General	Infrastructure	Community Redevelopment Agency
Revenues			
Taxes:			
Property	\$ 487,992	\$ -	\$ -
Public utility	355,026	-	-
Sales	-	716,822	-
Motor fuel	-	-	-
Communications services	65,459	-	-
Franchise fees	279,986	-	-
Intergovernmental	650,079	-	-
Charges for services	7,602	-	-
Fines	6,815	-	-
Investment earnings	3,737	2,164	89
Other revenues	118,016	-	1,220
Total revenues	1,974,712	718,986	1,309
Expenditures			
Current:			
General government	908,642	326	5,666
Public safety	865,626	-	-
Physical environment	-	-	-
Transportation	527,269	-	-
Culture and recreation	37,973	-	-
Debt service:			
Principal	-	66,854	-
Interest and fiscal charges	-	120,729	-
Capital outlay	10,074	156,340	-
Total expenditures	2,349,584	344,249	5,666
Excess (deficiency) of revenues over (under) expenditures	(374,872)	374,737	(4,357)
Other financing sources (uses)			
Transfers in	360,165	-	1,915
Transfers out	(37,775)	(445,292)	-
Total other financing sources (uses)	322,390	(445,292)	1,915
Net change in fund balances	(52,482)	(70,555)	(2,442)
Fund balances, beginning of year	751,396	791,315	9,766
Fund balances, end of year	\$ 698,914	\$ 720,760	\$ 7,324

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

Nonmajor Funds	Total Governmental Funds
\$ -	\$ 487,992
-	355,026
-	716,822
150,829	150,829
-	65,459
-	279,986
148,550	798,629
-	7,602
-	6,815
-	5,990
48,966	168,202
<u>348,345</u>	<u>3,043,352</u>
-	914,634
-	865,626
22,202	22,202
52,032	579,301
8,763	46,736
-	66,854
-	120,729
564,405	730,819
<u>647,402</u>	<u>3,346,901</u>
<u>(299,057)</u>	<u>(303,549)</u>
468,320	830,400
(125,452)	(608,519)
<u>342,868</u>	<u>221,881</u>
43,811	(81,668)
137,707	1,690,184
<u>\$ 181,518</u>	<u>\$ 1,608,516</u>

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

Year ended September 30, 2016

Net change in fund balances - total governmental funds	\$	(81,668)
<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 depreciation expense exceeded capital outlays in the current period.</p>		(130,548)
<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>		77,457
<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>		66,854
<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>		(6,866)
<hr/>		
Change in net position of governmental activities	\$	(74,771)
<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, 2016</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Property	\$ 504,970	\$ 504,970	\$ 487,992	\$ (16,978)
Public utility	283,030	283,030	355,026	71,996
Communications services	65,390	65,390	65,459	69
Franchise fees	283,030	283,030	279,986	(3,044)
Intergovernmental	622,140	622,140	650,079	27,939
Charges for services	8,000	8,000	7,602	(398)
Fines	11,400	11,400	6,815	(4,585)
Investment earnings	2,250	2,250	3,737	1,487
Contributions and donations	200	200	-	(200)
Other revenue	100,720	100,720	118,016	17,296
Total revenues	1,881,130	1,881,130	1,974,712	93,582
Expenditures				
Current:				
General government	1,409,300	1,409,300	908,642	500,658
Public safety	871,450	871,450	865,626	5,824
Transportation	507,480	507,480	527,269	(19,789)
Culture and recreation	49,080	49,080	37,973	11,107
Capital outlay	-	-	10,074	(10,074)
Total expenditures	2,837,310	2,837,310	2,349,584	487,726
Excess (deficiency) of revenues over (under) expenditures	(956,180)	(956,180)	(374,872)	581,308
Other financing sources (uses)				
Transfers in	400,240	400,240	360,165	(40,075)
Transfers out	-	-	(37,775)	(37,775)
Total other financing sources (uses)	400,240	400,240	322,390	(77,850)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(555,940)	(555,940)	(52,482)	503,458
Fund balances, beginning of year	751,396	751,396	751,396	-
Fund balances, end of year	\$ 195,456	\$ 195,456	\$ 698,914	\$ 503,458

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, 2016</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Sales	\$ 725,910	\$ 725,910	\$ 716,822	\$ (9,088)
Investment earnings	500	500	2,164	1,664
Total revenues	726,410	726,410	718,986	(7,424)
Expenditures				
Current:				
General government	13,660	13,660	326	13,334
Debt service:				
Principal	66,860	66,860	66,854	6
Interest expense and fiscal charges	117,760	117,760	120,729	(2,969)
Capital outlay	168,350	168,350	156,340	12,010
Total expenditures	366,630	366,630	344,249	22,381
Excess (deficiency) of revenues over (under) expenditures	359,780	359,780	374,737	14,957
Other financing sources (uses)				
Transfers out	(619,780)	(619,780)	(445,292)	174,488
Total other financing sources (uses)	(619,780)	(619,780)	(445,292)	174,488
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(260,000)	(260,000)	(70,555)	189,445
Fund balances, beginning of year	791,315	791,315	791,315	-
Fund balances, end of year	\$ 531,315	\$ 531,315	\$ 720,760	\$ 189,445

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, 2016</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Investment earnings	\$ 50	\$ 50	\$ 89	\$ 39
Other revenue	1,420	1,420	1,220	(200)
Total revenues	1,470	1,470	1,309	(161)
Expenditures				
Current:				
General government	44,710	44,710	5,666	39,044
Total expenditures	44,710	44,710	5,666	39,044
Excess (deficiency) of revenues over (under) expenditures	(43,240)	(43,240)	(4,357)	38,883
Other financing sources (uses)				
Transfers in	2,240	2,240	1,915	(325)
Total other financing sources (uses)	2,240	2,240	1,915	(325)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(41,000)	(41,000)	(2,442)	38,558
Fund balances, beginning of year	9,766	9,766	9,766	-
Fund balances, end of year	\$ (31,234)	\$ (31,234)	\$ 7,324	\$ 38,558

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

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

<i>September 30, 2016</i>	Water Department	Community Development
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 371,397	\$ 106
Restricted cash and cash equivalents	1,404,143	-
Accounts receivable	82,353	37,769
Due from other funds	350,320	-
Inventories	13,750	-
Advance to other funds	-	9,270
Prepaid items	-	1,623
Total current assets	2,221,963	48,768
Noncurrent assets:		
Capital assets:		
Land	341,616	9,751
Construction in progress	289,536	-
Machinery and equipment	6,847,654	31,644
Less accumulated depreciation	(2,057,102)	(30,788)
Total capital assets, net of accumulated depreciation	5,421,704	10,607
Total noncurrent assets	5,421,704	10,607
Total assets	7,643,667	59,375
LIABILITIES		
Current liabilities:		
Negative equity in pooled cash	-	-
Accounts payable	2,790	12,438
Accrued liabilities	679	9,153
Accrued interest payable	503	-
Due to other funds	-	429,430
Due to other governmental units	-	29,221
Unearned revenues	90,620	39,440
Current portion of accrued compensated absences	129	973
Current portion of long-term debt	63,633	-
Advances from other funds	-	-
Total current liabilities	158,354	520,655
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	1,158	8,763
Advances from other funds	-	-
Long-term debt, net of current portion	1,395,596	-
Total noncurrent liabilities	1,396,754	8,763
Total liabilities	1,555,108	529,418
DEFERRED INFLOW OF RESOURCES		
Deferred revenue - business tax receipts	-	14,235
Total deferred outflow of resources	-	14,235
NET POSITION (DEFICIT)		
Net investment in capital assets	3,962,475	10,607
Restricted for:		
Revenue bond debt service	426,185	-
Renewal and replacement	886,466	-
Deposits	91,492	-
Unrestricted (deficit)	721,941	(494,885)
Total net position (deficit)	\$ 6,088,559	\$ (484,278)

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

	Wastewater Service	Stormwater System - Nonmajor fund	Total
\$	3	\$ 115,498	\$ 487,004
	91,061	-	1,495,204
	27,663	355	148,140
	-	-	350,320
	-	-	13,750
	-	-	9,270
	-	-	1,623
	118,727	115,853	2,505,311
	-	-	351,367
	-	-	289,536
	2,185,747	-	9,065,045
	(457,255)	-	(2,545,145)
	1,728,492	-	7,160,803
			-
	1,847,219	115,853	9,666,114
	-	-	-
	27,338	123	42,689
	-	-	9,832
	-	-	503
	350,320	-	779,750
	-	-	29,221
	31,335	-	161,395
	-	-	1,102
	-	-	63,633
	-	-	-
	408,993	123	1,088,125
	-	-	9,921
	-	-	-
	-	-	1,395,596
	-	-	1,405,517
	408,993	123	2,493,642
	-	-	14,235
	-	-	14,235
	1,728,492	-	5,701,574
	-	-	426,185
	62,426	-	948,892
	28,635	-	120,127
	(381,327)	115,730	(38,541)
\$	1,438,226	\$ 115,730	\$ 7,158,237

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

<i>Year ended September 30, 2016</i>	Water Department	Community Development
Operating revenues:		
Charges for services	\$ 724,703	\$ -
Building permits, licenses and fees	-	198,495
Other revenues	50,538	72,074
Total operating revenues	775,241	270,569
Operating expenses:		
Salaries, wages and employee benefits	69,457	192,994
Contractual services, materials and supplies	231,755	195,986
Depreciation	135,591	1,393
Total operating expenses	436,803	390,373
Operating income (loss)	338,438	(119,804)
Nonoperating revenues (expenses):		
Interest income	6,707	37
Interest expense	(62,695)	-
Total nonoperating revenues (expenses)	(55,988)	37
Income (loss) before transfers and capital contributions	282,450	(119,767)
Transfers		
Transfers in	-	65,731
Transfers out	(142,800)	(50,492)
Total transfers	(142,800)	15,239
Change in net position	139,650	(104,528)
Net position (deficit), beginning of year	5,948,909	(379,750)
Net position (deficit), end of year	\$ 6,088,559	\$ (484,278)

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

	Wastewater Service	Stormwater System - Nonmajor fund	Total
\$	260,862	\$ 88,932	\$ 1,074,497
	-	-	198,495
	2,847	-	125,459
	263,709	88,932	1,398,451
	-	-	262,451
	213,101	45,537	686,379
	58,910	-	195,894
	272,011	45,537	1,144,724
	(8,302)	43,395	253,727
	-	-	6,744
	-	-	(62,695)
	-	-	(55,951)
	(8,302)	43,395	197,776
	-	-	65,731
	(82,320)	(12,000)	(287,612)
	(82,320)	(12,000)	(221,881)
	(90,622)	31,395	(24,105)
	1,528,848	84,335	7,182,342
\$	1,438,226	\$ 115,730	\$ 7,158,237

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds

<i>Year ended September 30, 2016</i>	Water Department	Community Development
Cash flows from operating activities:		
Cash received from customers for sales and services	\$ 811,009	\$ 303,130
Internal activity - payments (receipts) from other funds	(46,820)	68,080
Cash payments to employees	(45,229)	(128,953)
Cash payments to suppliers for goods and services	(254,379)	(257,535)
Net cash provided by (used in) operating activities	464,581	(15,278)
Cash flows from noncapital financing activities:		
Transfers from other funds	-	65,731
Transfers to other funds	(142,800)	(50,492)
Net cash provided by (used in) noncapital financing activities	(142,800)	15,239
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(32,645)	-
Principal paid on long-term debt	(61,197)	-
Interest paid on long-term debt	(62,703)	-
Net cash used in capital and related financing activities	(156,545)	-
Cash flows from investing activities:		
Interest on investments	6,707	37
Net cash provided by investing activities	6,707	37
Net increase / (decrease) in cash and cash equivalents	171,943	(2)
Cash and cash equivalents, beginning of year	1,603,597	108
Cash and cash equivalents, end of year	\$ 1,775,540	\$ 106
Classified on the statement of net position as:		
Current assets:		
Cash and cash equivalents	\$ 371,397	\$ 106
Restricted cash and cash equivalents	1,404,143	-
	\$ 1,775,540	\$ 106

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

Wastewater Service	Stormwater System - Nonmajor fund	Total
\$ 264,822	\$ 88,836	\$ 1,467,797
46,820	-	68,080
-	-	(174,182)
(213,135)	(45,414)	(770,463)
98,507	43,422	591,232
-	-	65,731
(82,320)	(12,000)	(287,612)
(82,320)	(12,000)	(221,881)
-	-	(32,645)
-	-	(61,197)
-	-	(62,703)
-	-	(156,545)
-	-	6,744
-	-	6,744
16,187	31,422	219,550
74,877	84,076	1,762,658
\$ 91,064	\$ 115,498	\$ 1,982,208
\$ 3	\$ 115,498	\$ 487,004
91,061	-	1,495,204
\$ 91,064	\$ 115,498	\$ 1,982,208

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

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

<i>Year Ended September 30, 2016</i>	Water Department	Community Development
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 338,438	\$ (119,804)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	135,591	1,393
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	33,302	12,346
Due from other funds	(46,820)	-
Inventories	279	-
Prepaid items	-	(1,623)
Increase (decrease) in liabilities:		
Accounts payable	493	(894)
Accrued liabilities	(203)	4,130
Due to other funds	-	68,080
Due to other governmental units	-	29,221
Accrued compensated absences	1,035	879
Unearned revenues	2,466	(8,858)
Deferred inflows - business tax receipts	-	(148)
Total adjustments	126,143	104,526
Net cash provided by (used in) operating activities	\$ 464,581	\$ (15,278)

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

Wastewater Service	Stormwater System - Nonmajor fund	Total
\$ (8,302)	\$ 43,395	\$ 253,727
58,910	-	195,894
863	(96)	46,415
-	-	(46,820)
-	-	279
-	-	(1,623)
(34)	123	(312)
-	-	3,927
46,820	-	114,900
-	-	29,221
-	-	1,914
250	-	(6,142)
-	-	(148)
106,809	27	337,505
\$ 98,507	\$ 43,422	\$ 591,232

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, 2016.

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, 2016.

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

The City reports the following major proprietary funds:

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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, 2016.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

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.

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, 2016, as all receivables are considered collectible.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

5. Inventories and Prepaid Items

Inventory at September 30, 2016 consisted of various parts, materials, and supplies on hand in connection with the water system. This inventory is stated at cost, determined by the first-in, first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Costs are recorded as expenditures or expenses when consumed rather than when purchased. Prepaid items consist of prepaid insurance at September 30, 2016.

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, 2016, there were no amounts reported as deferred inflows in the governmental funds. As of September 30, 2016, there was \$14,235 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. Use of Estimates

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

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 \$(2,753,222) difference are as follows:

Capital improvement bond	\$ (2,639,285)
Compensated absences	(113,937)
<hr/>	
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ (2,753,222)
<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 \$(130,548) difference are as follows:

Capital outlay	\$ 730,819
Depreciation expense	(861,367)
<hr/>	
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net position of governmental activities</i>	\$ (130,548)
<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.

NOTE 3: BUDGETARY INFORMATION (Continued)

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

The budget may be formally amended by the City Council at any time during the fiscal year; however, in practice it is rarely amended. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, using the modified accrual basis of accounting. Within the 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, 2016. 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, 2016.

NOTE 4: EXCESS OF EXPENDITURES OVER BUDGET

Budgeted expenditures exceeded revenues in the General Fund, Infrastructure 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, 2016, the carrying amount of the City's deposits with banks was \$2,838,533 and the bank balance was \$2,932,532. 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.

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

Restricted cash in the Governmental Funds at September 30, 2016 consists of \$605,453 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 \$37,942 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 \$84,273 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, 2016 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$886,466 and \$62,426 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 \$426,185 and customer deposits of the water and wastewater systems of \$91,492 and \$28,635, 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.

As of September 30, 2016, 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.

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

B. Interfund receivables and payables and transfers

The composition of interfund balances as of September 30, 2016, was as follows:

	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 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 fund 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, 2016, interfund transfers consisted of the following:

Transfers Out	Transfers In				Totals
	General fund	Community Redevelopment Agency	Nonmajor governmental funds	Community Development Fund	
General fund	\$ -	\$ 1,915	\$ 3,100	\$ 32,760	\$ 37,775
Infrastructure fund	-	-	445,292	-	445,292
Nonmajor governmental funds	101,805	-	14,436	9,211	125,452
Water department fund	132,960	-	-	9,840	142,800
Community Development fund	45,000	-	5,492	-	50,492
Wastewater service fund	72,480	-	-	9,840	82,320
Stormwater system - nonmajor proprietary fund	7,920	-	-	4,080	12,000
Totals	\$ 360,165	\$ 1,915	\$ 468,320	\$ 65,731	\$ 896,131

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

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets

Capital asset activity for the primary government for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,826,186	\$ 50,397	\$ -	\$ 6,876,583
Construction in progress	1,596,949	564,404	(1,734,091)	427,262
Total capital assets, not being depreciated	8,423,135	614,801	(1,734,091)	7,303,845
Capital assets, being depreciated:				
Buildings	5,497,196	65,432	-	5,562,628
Improvements other than buildings	3,231,796	44,961	-	3,276,757
Machinery and equipment	1,515,832	83,082	-	1,598,914
Infrastructure	7,431,693	1,734,091	-	9,165,784
Total capital assets, being depreciated	17,676,517	1,927,566	-	19,604,083
	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	(2,005,311)	(264,209)	-	(2,269,520)
Improvements other than buildings	(2,405,164)	(154,548)	-	(2,559,712)
Machinery and equipment	(1,354,285)	(57,999)	-	(1,412,284)
Infrastructure	(3,501,783)	(384,611)	-	(3,886,394)
Total accumulated depreciation	(9,266,543)	(861,367)	-	(10,127,910)
Total capital assets, being depreciated, net	8,409,974	1,066,199	-	9,476,173
Governmental activities capital assets, net	\$ 16,833,109	\$ 1,681,000	\$ (1,734,091)	\$ 16,780,018

The current year increase in capital assets includes \$77,457 of donated capital assets.

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
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 332,627	\$ 18,740	\$ -	\$ 351,367
Construction in progress	282,526	10,450	(3,440)	289,536
Total capital assets, not being depreciated	615,153	29,190	(3,440)	640,903
Capital assets, being depreciated:				
Water plant	2,782,829	1,219	-	2,784,048
Water lines	3,574,027	2,235	-	3,576,262
Water tank	411,683	-	-	411,683
Vehicle and equipment	72,222	3,440	-	75,662
Equipment	31,644	-	-	31,644
Wastewater lines	2,185,746	-	-	2,185,746
Total capital assets, being depreciated	9,058,151	6,894	-	9,065,045
Less accumulated depreciation for:				
Water plant	(487,849)	(55,657)	-	(543,506)
Water lines	(1,191,295)	(71,481)	-	(1,262,776)
Water tank	(170,163)	(8,233)	-	(178,396)
Vehicle and equipment	(72,204)	(220)	-	(72,424)
Equipment	(29,395)	(1,393)	-	(30,788)
Wastewater lines	(398,345)	(58,910)	-	(457,255)
Total accumulated depreciation	(2,349,251)	(195,894)	-	(2,545,145)
Total capital assets, being depreciated, net	6,708,900	(189,000)	-	6,519,900
Business-type activities capital assets, net	\$ 7,324,053	\$ (159,810)	(3,440)	\$ 7,160,803

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	\$ 13,845
Public safety	29,055
Transportation	807,254
Culture and recreation	11,213
Total depreciation expense - governmental activities	\$ 861,367
Business-type activities:	
Water department	\$ 135,591
Community development	1,393
Wastewater service	58,910
Total depreciation expense - business-type activities	\$ 195,894

D. Accounts payable and accrued liabilities

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 38,777	\$ 42,689
Accrued liabilities	52,073	9,832
Accrued interest on long-term debt	-	503
Total payables	\$ 90,850	\$ 53,024

E. Construction Commitments

The City has various commitments outstanding at September 30, 2016. The major commitments include the following:

Project	Spent to date	Remaining commitment	Major funding source
CDBG Phase VI	\$ 116,131	\$ 847,306	Grant
CDBG /ED/ Assisted Living Facility	5,492	1,212,508	Grant
FDEP / Preserve Phase II LWCF	18,260	381,740	Grant / City matching
FRDAP / Little League	3,685	56,315	Grant
Fellsmere Preserve RTP	14,116	79,634	Grant
Total	\$ 157,684	\$ 2,577,503	

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital improvement bond	\$ 2,706,139	\$ -	\$ (66,854)	\$ 2,639,285	\$ 70,263
Compensated absences	107,071	6,866	-	113,937	11,394
Total governmental activities	\$ 2,813,210	\$ 6,866	\$ (66,854)	\$ 2,753,222	\$ 81,657

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bond	\$ 1,214,000	\$ -	\$ (45,000)	\$ 1,169,000	\$ 47,000
Construction loans	306,426	-	(16,197)	290,229	16,633
Compensated absences	9,109	1,914	-	11,023	1,102
Total business-type activities	\$ 1,529,535	\$ 1,914	\$ (61,197)	\$ 1,470,252	\$ 64,735

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, 2016 the balances of loan #1 and #2 were \$173,818 and \$116,411, respectively.

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities (continued)

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 \$716,000 and \$384,000, respectively, in 2016.

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

Year Ended September 30,	Governmental Activities		Business-type Activities	
	Principle	Interest	Principle	Interest
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	84,078	103,505	74,494	49,291
2022 - 2026	481,718	456,195	422,200	198,367
2027 - 2031	603,060	334,852	504,273	104,926
2032 - 2036	754,908	183,003	187,000	12,735
2037 - 2039	414,804	22,915	-	-
Total	\$ 2,639,285	\$ 1,550,083	\$ 1,459,229	\$ 590,468

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 property taxes at a rate of up to 10 mills. For the year ended September 30, 2016, the millage rate assessed by the City was 5.2756 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, 2016, upon which the 2015 – 2016 levy was based, was approximately \$95.2 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 the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for employees who contributed 4% in 2016. 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 \$62,270 for the fiscal year ended September 30, 2016. 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, 2016, the City credited \$5,000 to each employee's account, and \$8,700 to those employees with dependent coverage, which amounted to \$186,800. 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, 2016, the percent contributed to the retirement health savings account was 35% of each employee's remaining balance in the health reimbursement account, which amounted to \$123,446.

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 13% of employee salaries and wages for employees who contributed 4% in 2016. Employer and employee contributions to the plan were \$94,124 and \$86,014, respectively in 2016. 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	Community Redevelop- ment Agency	Nonmajor Governmental Funds	Totals
Nonspendable:					
Advances to/from other funds	\$ 21,330	\$ -	\$ -	\$ -	\$ 21,330
Prepaid items	18,044				18,044
Total nonspendable	39,374	-	-	-	39,374
Restricted for:					
Capital projects	-	720,760	34,355	181,518	936,633
Brookside Cemetary	40,790	-	-	-	40,790
Total restricted	40,790	720,760	34,355	181,518	977,423
Unassigned (deficit)	618,750	-	(27,031)	-	591,719
Total fund balances, governmental funds	\$ 698,914	\$ 720,760	\$ 7,324	\$ 181,518	\$ 1,608,516

NOTE 12: FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2017. The statements address:

- Certain pension issues;
- Other postemployment benefit (OPEB) plans;
- Tax abatement disclosures; and
- Blending certain component units.

The City is currently evaluating the effects that these statements will have on its 2017 financial statements.

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

City of Fellsmere, Florida
Combining Balance Sheet
Nonmajor Governmental Funds

<i>September 30, 2016</i>	Special Revenue			
	Local Option Gas Tax	CDBG Phase VI	CDBG / ED / ALF	FDOT 195/ CR 512 Interlocal Beautification
ASSETS				
Cash and cash equivalents	\$ -	\$ 1,150	\$ -	\$ -
Accounts receivable	-	-	-	-
Due from other governments	25,097	-	-	-
Restricted cash and cash equivalents	84,273	-	-	-
Total assets	\$ 109,370	\$ 1,150	\$ -	\$ -
LIABILITIES				
Negative equity in pooled cash	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,777	1,150	-	-
Unearned revenues	-	-	-	-
Total liabilities	1,777	1,150	-	-
FUND BALANCES				
Restricted	107,593	-	-	-
Unrestricted / unassigned	-	-	-	-
Total fund balances	107,593	-	-	-
Total liabilities and fund balances	\$ 109,370	\$ 1,150	\$ -	\$ -

Special Revenue

Urban and Community Forestry Grant	Indian River Lagoon National Scenic Byway	FOA Transportation Access	FDEP Railtrail Greenway RTP/ PK Lat'l Willow	RTP - Rail Trail Park	FDEP Trail Head Preserve	FRDAP Little League Park
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 675
-	-	23,251	-	-	-	-
-	52,990	-	-	-	-	-
-	-	-	-	-	-	-
\$ -	\$ 52,990	\$ 23,251	\$ -	\$ -	\$ -	\$ 675
\$ -	\$ 52,990	\$ 20,174	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	675
-	-	-	-	-	-	-
-	52,990	20,174	-	-	-	675
-	-	3,077	-	-	-	-
-	-	-	-	-	-	-
-	-	3,077	-	-	-	-
\$ -	\$ 52,990	\$ 23,251	\$ -	\$ -	\$ -	\$ 675

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

Special Revenue

<i>September 30, 2016</i>	FRDAP Trail Head Preserve LWCF	FFWCC Boat Ramp	FDEP Wetlands Park LWCF	Historic Railroad Section Foreman's House
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	1,813	-	-
Due from other governments	-	-	-	50,000
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ -	\$ 1,813	\$ -	\$ 50,000
LIABILITIES				
Negative equity in pooled cash	\$ -	\$ 1,813	\$ -	\$ 50,000
Accounts payable	-	-	-	-
Unearned revenues	-	-	-	-
Total liabilities	-	1,813	-	50,000
FUND BALANCES				
Restricted	-	-	-	-
Unrestricted / unassigned	-	-	-	-
Total fund balances	-	-	-	-
Total liabilities and fund balances	\$ -	\$ 1,813	\$ -	\$ 50,000

Special Revenue

	FEMA Fellsmere Flood Study	Culture Facilities	North Regional Lake	Historic Train Village	Special Projects	Total
\$	-	\$ 6,938	\$ -	\$ -	\$ 84,866	\$ 93,629
	-	-	-	-	-	25,064
	20,402	-	-	-	-	148,489
	-	-	-	-	-	84,273
\$	20,402	\$ 6,938	\$ -	\$ -	\$ 84,866	\$ 351,455
\$	20,402	\$ -	\$ -	\$ -	\$ -	\$ 145,379
	-	6,938	-	-	-	10,540
	-	-	-	-	14,018	14,018
	20,402	6,938	-	-	14,018	169,937
	-	-	-	-	70,848	181,518
	-	-	-	-	-	-
	-	-	-	-	70,848	181,518
\$	20,402	\$ 6,938	\$ -	\$ -	\$ 84,866	\$ 351,455

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, 2016</i>	Local Option Gas Tax	CDBG Phase VI	CDBG / ED / ALF	FDOT 195/ CR 512 Interlocal Beautification
REVENUES				
Taxes:				
Motor fuel	\$ 150,829	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Contributions and donations	-	-	-	-
Other revenues	-	-	-	-
Total revenues	150,829	-	-	-
EXPENDITURES				
Current:				
Physical environment	-	-	-	-
Transportation	41,341	-	-	-
Culture and recreation	-	1,150	-	-
Capital outlay	-	26,544	5,492	13,904
Total expenditures	41,341	27,694	5,492	13,904
Excess (deficiency) of revenues over (under) expenditures	109,488	(27,694)	(5,492)	(13,904)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	27,694	5,492	13,904
Transfers out	(97,148)	-	-	-
Total other financing sources (uses)	(97,148)	27,694	5,492	13,904
Net change in fund balances	12,340	-	-	-
Fund balances, beginning of year	95,253	-	-	-
Fund balances, end of year	\$ 107,593	\$ -	\$ -	\$ -

Special Revenue

Urban and Community Forestry Grant	Indian River Lagoon National Scenic Byway	FOA Transportation Access	FDEP Railtrail Greenway RTP/ PK Lat'l Willow	RTP - Rail Trail Park	FDEP Trail Head Preserve	FRDAP League Park	Little League Park
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14,000	-	64,148	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	19,029	-	-	-	-	-
14,000	-	83,177	-	-	-	-	-
-	-	-	-	-	-	-	-
10,691	-	-	-	-	-	-	-
-	-	-	-	-	-	-	675
-	262,986	69,945	75	895	-	-	-
10,691	262,986	69,945	75	895	-	-	675
3,309	(262,986)	13,232	(75)	(895)	-	-	(675)
-	262,986	14,436	75	895	3,100	-	675
(3,309)	-	(24,995)	-	-	-	-	-
(3,309)	262,986	(10,559)	75	895	3,100	-	675
-	-	2,673	-	-	3,100	-	-
-	-	404	-	-	(3,100)	-	-
\$ -	\$ -	\$ 3,077	\$ -	\$ -	\$ -	\$ -	\$ -

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, 2016</i>	FRDAP Trail Head Preserve LWCF	FFWCC Boat Ramp	FDEP Wetlands Park LWCF	Historic Railroad Section Foreman's House
REVENUES				
Taxes:				
Motor fuel	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	50,000
Contributions and donations	-	-	-	-
Other revenues	-	2,439	-	-
Total revenues	-	2,439	-	50,000
EXPENDITURES				
Current:				
Physical environment	-	-	-	-
Transportation	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	13,447	2,439	5,670	101,221
Total expenditures	13,447	2,439	5,670	101,221
Excess (deficiency) of revenues over (under) expenditures	(13,447)	-	(5,670)	(51,221)
OTHER FINANCING SOURCES (USES)				
Transfers in	13,447	-	5,670	51,221
Transfers out	-	-	-	-
Total other financing sources (uses)	13,447	-	5,670	51,221
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -

Special Revenue

	FEMA Fellsmere Flood Study	Culture Facilities	North Regional Lake	Historic Train Village	Special Projects	Total
\$	-	\$ -	\$ -	\$ -	\$ -	\$ 150,829
	20,402	-	-	-	-	148,550
	-	-	-	-	-	-
	-	-	-	-	27,498	48,966
	20,402	-	-	-	27,498	348,345
	20,402	-	-	-	1,800	22,202
	-	-	-	-	-	52,032
	-	6,938	-	-	-	8,763
	-	27,425	30,737	3,625	-	564,405
	20,402	34,363	30,737	3,625	1,800	647,402
	-	(34,363)	(30,737)	(3,625)	25,698	(299,057)
		34,363	30,737	3,625	-	468,320
		-	-	-	-	(125,452)
	-	34,363	30,737	3,625	-	342,868
	-	-	-	-	25,698	43,811
	-	-	-	-	45,150	137,707
\$	-	\$ -	\$ -	\$ -	\$ 70,848	\$ 181,518

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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, 2016, 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 6, 2017.

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. 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 a certain deficiency in internal control that we consider to be a significant deficiency, described below.

Finding 2015 – 001 YEAR-END ACCRUALS OF LIABILITIES – *Significant Deficiency*

Condition: An adjusting journal entry of \$2,794 in the Community Development fund and an adjusting journal entry that totaled \$8,763 in three nonmajor governmental funds was required for

fiscal year 2016 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.

Management's Response: 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.

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*.

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 6, 2017



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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, 2016, and have issued our report thereon dated February 6, 2017.

Auditor’s 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, and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports

We have issued our Independent Auditor’s 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* and Independent Accountant’s 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, which are dated February 6, 2017, 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 findings and recommendations made in the preceding annual financial audit as noted below:

Prior Year Internal Control Findings

IC 2014-001 Review over manual journal entries	Cleared
IC 2015-001 Year-end accruals of liabilities	Repeated

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, 2016, 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, 2016. 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.

Cam, Riggs & Ingram, L.L.C.

Melbourne, Florida

February 6, 2017

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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, 2016. 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, 2016.

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 6, 2017