



City of Fellsmere, Florida
FINANCIAL STATEMENTS
Year Ended September 30, 2017



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City of Fellsmere, Florida
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Year ended September 30, 2017

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**City of Fellsmere, Florida
City Officials
Year ended September 30, 2017**

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 D. Mathes
Community Development Director

Andy Shelton
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, 2017, 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, 2017, 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 April 12, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Fellsmere's 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

April 12, 2018

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City of Fellsmere, Florida Management's Discussion and Analysis

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

Because the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the City's financial statements.

Financial Highlights

The following are highlights of financial activity for the year ended September 30, 2017:

Financial Highlights

- The City's assets exceeded its liabilities at the close of the fiscal year 2017 by \$22,707,260 (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 \$341,063.
- The City's total net position decreased by \$86,289, resulting from a decrease of \$138,584 from governmental activities and an increase of \$52,295 from business-type activities. Governmental funds reported combined ending fund balances of \$979,351. Approximately 40.7% of this amount, \$398,602, is unassigned and available for spending at the City's discretion, a decrease of \$193,117 from the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$398,602 or 82% of the total general fund balance.
- General fund revenue increased by \$38,317 or 1.9% and expenditures increased by \$173,475 or 7.4%.
- The City reduced its external debt by \$95,249 during the current fiscal year 2017.
- On September 11, 2017 the City was impacted by hurricane Irma and the City experienced extensive damage. Over 20" of rain from Irma caused flooding in the basement of City Hall. Our basement damage is almost entirely covered by insurance. The roof on City Hall was impacted by Irma's high winds, and temporary repairs were made to ensure the building stayed dry. We are working with FEMA to obtain funding for the damage caused to our uninsured infrastructure and other eligible storm damage costs. The amounts funded by FEMA will not be known for many more months.

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).

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 39 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 and deferred inflows by \$22,707,260 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	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 1,381,741	\$ 1,713,684	\$ 1,821,407	\$ 1,713,684	\$ 3,203,148	\$ 3,427,368
Capital assets, net	17,256,064	16,780,018	7,099,304	16,780,018	24,355,368	33,560,036
Total assets	<u>18,637,805</u>	<u>18,493,702</u>	<u>8,920,711</u>	<u>18,493,702</u>	<u>27,558,516</u>	<u>36,987,404</u>
Liabilities:						
Long-term liabilities	2,738,687	2,753,222	1,407,485	1,470,252	4,146,172	4,223,474
Other liabilities	402,390	105,168	287,222	243,640	689,612	348,808
Total liabilities	<u>3,141,077</u>	<u>2,858,390</u>	<u>1,694,707</u>	<u>1,713,892</u>	<u>4,835,784</u>	<u>4,572,282</u>
Deferred inflows of resources:						
Deferred revenue - business tax receipts	-	-	15,472	14,235	15,472	14,235
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>15,472</u>	<u>14,235</u>	<u>15,472</u>	<u>14,235</u>
Net position:						
Net investment in capital assets	14,627,945	14,140,733	5,703,621	5,701,574	20,331,566	19,842,307
Restricted	538,118	977,423	1,496,513	1,495,204	2,034,631	2,472,627
Unrestricted (deficit)	330,665	517,156	10,398	(38,541)	341,063	478,615
Total net position	<u>\$ 15,496,728</u>	<u>\$ 15,635,312</u>	<u>\$ 7,210,532</u>	<u>\$ 7,158,237</u>	<u>\$ 22,707,260</u>	<u>\$ 22,793,549</u>

A substantial portion of the City's net position (89%) reflects its investment in capital assets (i.e., land, buildings, other improvements, infrastructure improvements, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The City's net position is also grouped as restricted and unrestricted. Restricted net position is subject to restrictions by external parties on how it may be used. Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, and overall for the City as a whole.

City of Fellsmere, Florida
Management's Discussion and Analysis

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

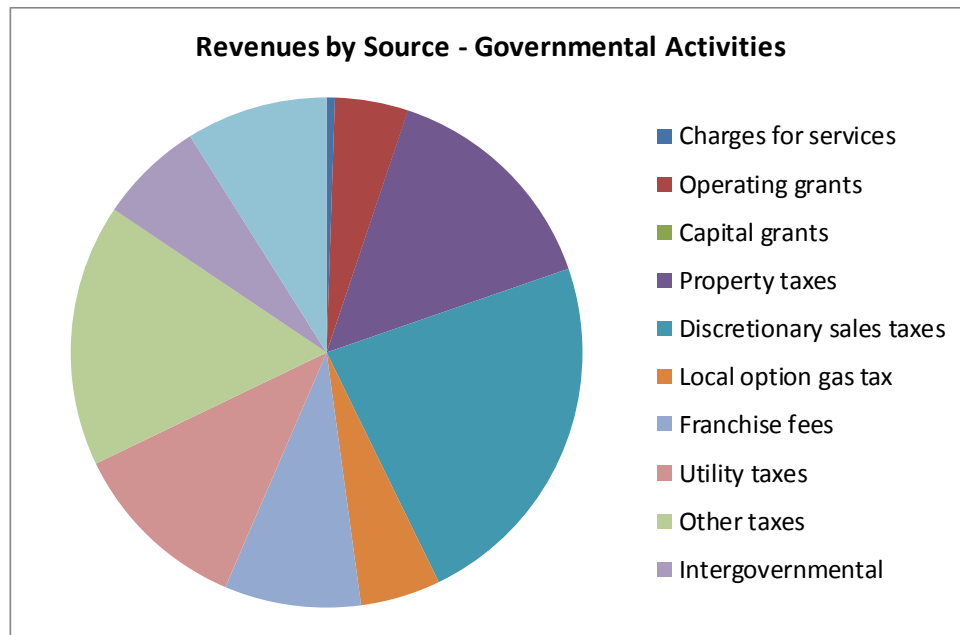
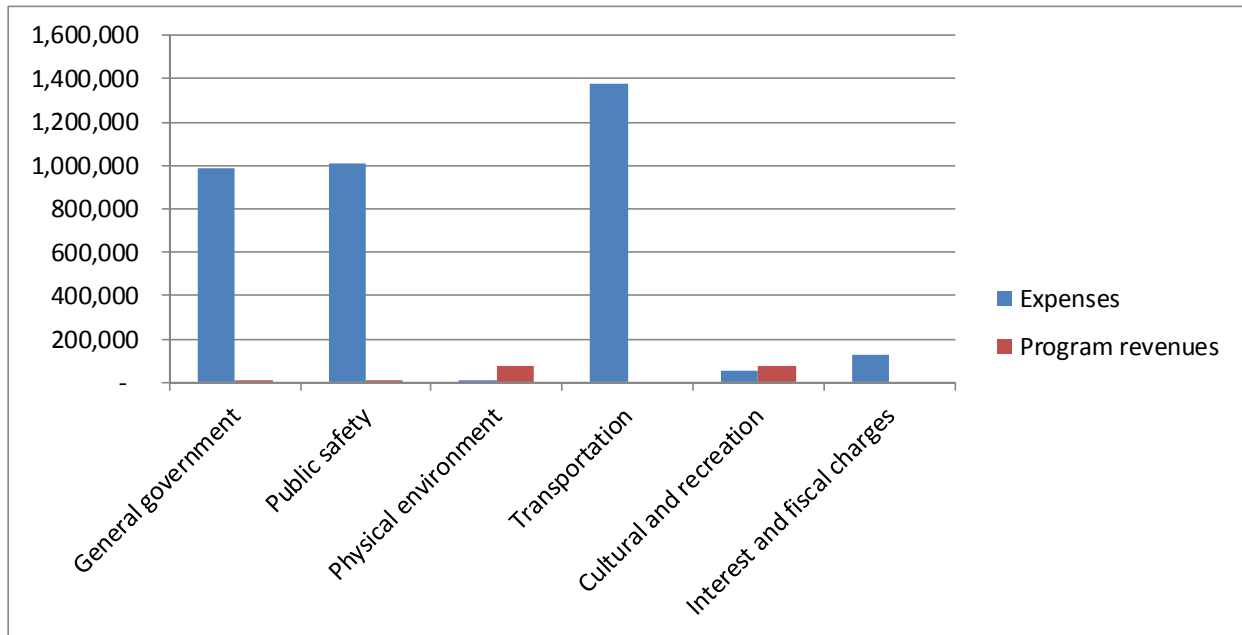
	Change in Net Position					
	Government Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 16,819	\$ 14,417	\$ 1,324,823	\$ 1,272,992	\$ 1,341,642	\$ 1,287,409
Operating grants	148,683	160,981	-	-	148,683	160,981
Capital grants	-	-	-	-	-	-
General revenues:						
Property taxes	467,680	487,992	-	-	467,680	487,992
Other taxes	2,083,500	2,012,658	-	-	2,083,500	2,012,658
Intergovernmental	212,067	193,112	-	-	212,067	193,112
Other	287,884	251,649	131,062	132,203	418,946	383,852
Total revenues	<u>3,216,633</u>	<u>3,120,809</u>	<u>1,455,885</u>	<u>1,405,195</u>	<u>4,672,518</u>	<u>4,526,004</u>
Expenses:						
General government	988,346	946,026	-	-	988,346	946,026
Public safety	1,005,720	884,000	-	-	1,005,720	884,000
Physical environment	4,701	22,202	-	-	4,701	22,202
Transportation	1,374,505	1,387,705	-	-	1,374,505	1,387,705
Cultural and recreation	56,202	56,799	-	-	56,202	56,799
Interest and fiscal charges	126,822	120,729	-	-	126,822	120,729
Water department	-	-	525,571	499,498	525,571	499,498
Community development	-	-	364,037	390,373	364,037	390,373
Wastewater services	-	-	294,009	272,011	294,009	272,011
Stormwater system	-	-	18,894	45,537	18,894	45,537
Total expenses	<u>3,556,296</u>	<u>3,417,461</u>	<u>1,202,511</u>	<u>1,207,419</u>	<u>4,758,807</u>	<u>4,624,880</u>
Change in net position, before transfers:	(339,663)	(296,652)	253,374	197,776	(86,289)	(98,876)
Transfers	201,079	221,881	(201,079)	(221,881)	-	-
Change in net position	<u>(138,584)</u>	<u>(74,771)</u>	<u>52,295</u>	<u>(24,105)</u>	<u>(86,289)</u>	<u>(98,876)</u>
Net position -beginning of year	15,635,312	15,710,083	7,158,237	7,182,342	22,793,549	22,892,425
Net position - ending	<u>\$ 15,496,728</u>	<u>\$15,635,312</u>	<u>\$ 7,210,532</u>	<u>\$ 7,158,237</u>	<u>\$ 22,707,260</u>	<u>\$ 22,793,549</u>

Governmental activities. Governmental activities decreased the City's net position by \$138,584. A key element of this decrease is as follows:

- General government expenses increased by 4.5%
- Public safety expenses increased by 13.8%
- Physical environment expenses decreased by 78.8%
- Interest and fiscal charges increased by 5%

Transportation and Culture and Recreation expenses were basically flat year-over-year, with minor decreases.

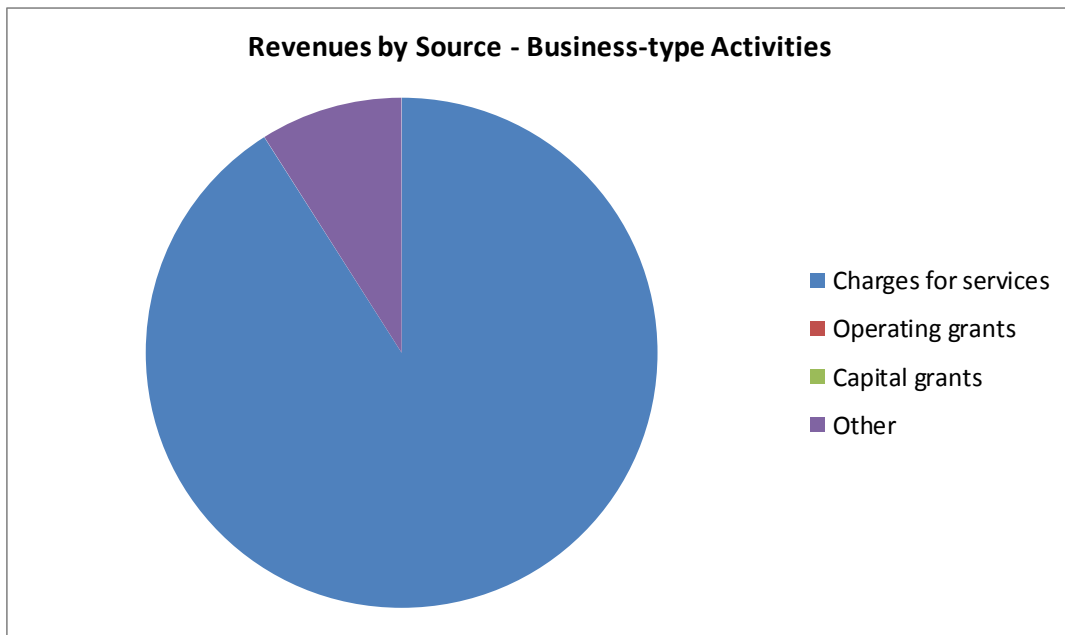
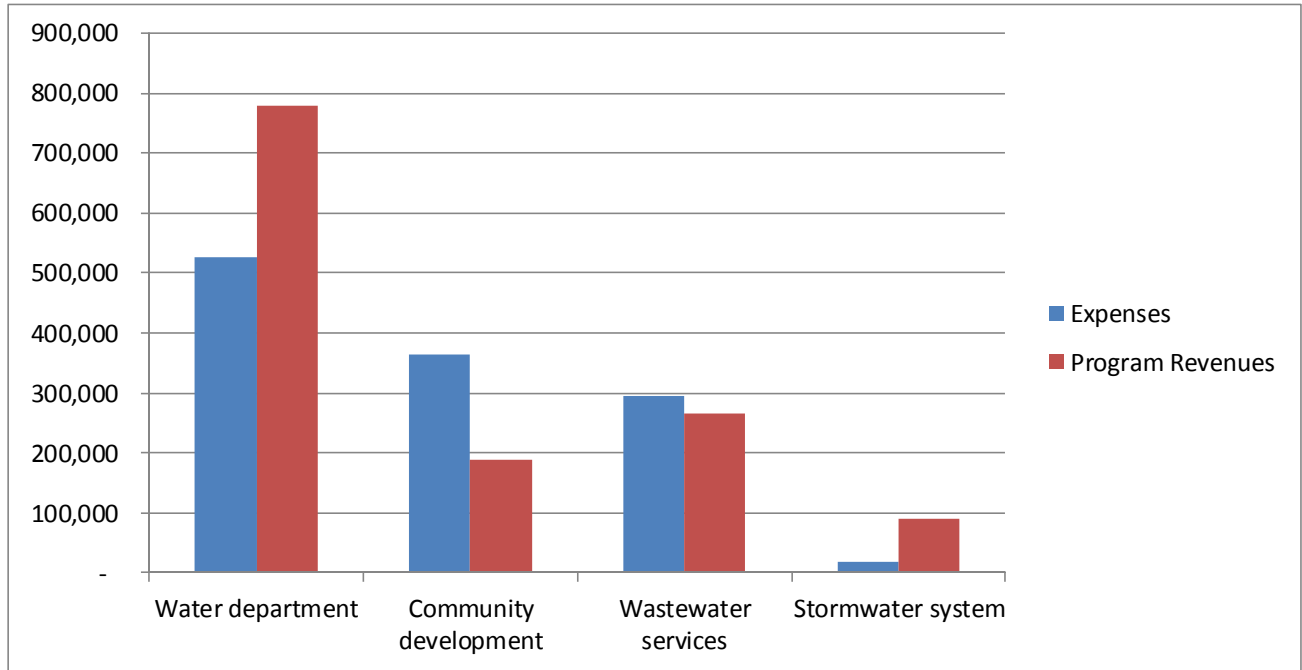
Expenses and Program Revenues – Governmental Activities



Business-type activities. Business-type activities increased the City’s net position by \$52,295. Key elements of this increase are as follows:

- There were no operating grants received this fiscal year.

Expenses and Program Revenues – Business-type Activities



Financial Analysis of the City's Funds As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$979,351, a decrease of \$629,165 in comparison with the prior year. An amount of \$398,602 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 \$398,602, while the total fund balance reached \$486,098. 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 15.8% of total general fund expenditures, while total fund balance represents 19.3% of that same amount. The fund balance of the City's general fund decreased by \$212,816 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 position of the City's water, community development, wastewater and stormwater enterprise funds amounted to \$10,398. The total for unrestricted net position (deficit) for each of these funds was \$896,594, (\$627,729), (\$422,196) and \$163,729, respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. At the end of fiscal year 2017, the City had \$24,355,368 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net increase (including additions and deductions) of \$414,547, approximately 1.7% from last year.

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

- Land valued at \$78,268 was donated during the year. Of this sum, \$20,020 was escheated land from Indian River County and \$58,248 was related to grants for the Historic Railroad Section Foreman's House and future Rail Trail program. An additional \$81,888 was capitalized for the final construction/rehabilitation of the Historic Railroad Section Foreman's House.

City of Fellsmere, Florida
Management's Discussion and Analysis

- Equipment of \$113,530 was acquired for three departments. Of this sum, \$16,800 represents donated assets.
- Sidewalk and other infrastructure improvements of \$178,173.

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

- The City invested in land improvement costs of \$24,438 during the year.
- The City capitalized the cost of \$77,258 for waterline and well expansion.

	Government Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 6,954,851	\$ 6,876,583	\$ 375,805	\$ 351,367	\$ 7,330,656	\$ 7,227,950
Construction in progress	1,172,548	427,262	341,376	289,536	1,513,924	716,798
Buildings		3,293,108		-	-	3,293,108
Improvements other than buildings	3,147,423		-		3,147,423	-
	561,368	717,045	-	-	561,368	717,045
Machinery and equipment	250,622	186,630	6,382,123	6,519,900	6,632,745	6,706,530
Infrastructure	5,169,252	5,279,390	-	-	5,169,252	5,279,390
Total capital assets, net	\$ 17,256,064	\$ 16,780,018	\$ 7,099,304	\$ 7,162,819	\$ 24,355,368	\$ 23,940,821

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 2017 fiscal year, the City of Fellsmere had total outstanding debt of \$4,003,265 a decrease of \$95,249 from 2016.

	General Obligation and Revenues Bonds					
	Government Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Water revenue bond, 1993	\$ -	\$ -	\$ 1,122,000	\$ 1,169,000	\$ 1,122,000	\$ 1,169,000
Capital improvement revenue bond, 2008	2,562,892	2,639,285	-	-	2,562,892	2,639,285
Construction loans	-	-	273,683	290,229	273,683	290,229
Equipment loan	44,690	-	-	-	44,690	-
Total long-term debt	\$ 2,607,582	\$ 2,639,285	\$ 1,395,683	\$ 1,459,229	\$ 4,003,265	\$ 4,098,514

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 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 \$398,602. For the 2018 fiscal year, the City kept the millage at the same rate as the previous year (4.9599 mils), which represented a tax increase of approximately \$35,000 for the 2018 fiscal year due to naturally rising property values. 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 completed its' study of rates in for the Water, Wastewater and Stormwater systems in time to implement rate increases in the 2017-2018 fiscal year budget. No change was implemented in the Stormwater system. Our rate consultant recommended an immediate 18% Water System rate increase beginning 10/1/2017, and a 20% Wastewater rate increase as of 10/1/2017. Management felt such large rate increases were too high to make in one fiscal year, and has elected to phase in these rate increase recommendations over a three-year period.

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, 2017</i>	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 295,251	\$ 514,828	\$ 810,079
Accounts receivable	225,740	176,891	402,631
Due from other governments	246,001	-	246,001
Internal balances	380,575	(380,575)	-
Inventories	-	13,750	13,750
Restricted cash and cash equivalents	212,873	1,496,513	1,709,386
Prepaid items	21,301	-	21,301
Capital assets:			
Nondepreciable			
Land	6,954,851	375,805	7,330,656
Construction in progress	1,172,548	341,376	1,513,924
Depreciable, net of accumulated depreciation			
Buildings	3,147,423	-	3,147,423
Improvements other than buildings	561,368	-	561,368
Machinery and equipment	250,622	6,382,123	6,632,745
Infrastructure	5,169,252	-	5,169,252
Total assets	18,637,805	8,920,711	27,558,516
LIABILITIES			
Accounts payable and accrued liabilities	388,072	81,281	469,353
Due to other governments	-	18,962	18,962
Unearned revenues	14,318	186,979	201,297
Noncurrent liabilities:			
Due within one year	97,042	67,260	164,302
Due in more than one year	2,641,645	1,340,225	3,981,870
Total liabilities	3,141,077	1,694,707	4,835,784
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - business tax revenue	-	15,472	15,472
Total deferred inflows of resources	-	15,472	15,472
NET POSITION			
Net investment in capital assets	14,627,945	5,703,621	20,331,566
Restricted for:			
Debt service	-	433,402	433,402
Renewal and replacement	-	933,815	933,815
Cemetery perpetual care	44,865	-	44,865
Other purposes	493,253	129,296	622,549
Unrestricted (deficit)	330,665	10,398	341,063
Total net position	\$ 15,496,728	\$ 7,210,532	\$ 22,707,260

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

City of Fellsmere, Florida
Statement of Activities

Year ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 988,346	\$ 146	\$ -	\$ -
Public safety	1,005,720	8,403	1,660	-
Physical environment	4,701	8,150	72,063	-
Transportation	1,374,505	-	-	-
Culture and recreation	56,202	120	74,960	-
Interest and fiscal charges	126,822	-	-	-
Total governmental activities	3,556,296	16,819	148,683	-
Business-type activities:				
Water department	525,571	778,969	-	-
Community development	364,037	189,408	-	-
Wastewater services	294,009	265,553	-	-
Stormwater system	18,894	90,893	-	-
Total business-type activities	1,202,511	1,324,823	-	-
Total primary government	\$ 4,758,807	\$ 1,341,642	\$ 148,683	\$ -

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
\$ (988,200)	\$ -	\$ (988,200)
(995,657)	-	(995,657)
75,512	-	75,512
(1,374,505)	-	(1,374,505)
18,878	-	18,878
(126,822)	-	(126,822)
(3,390,794)	-	(3,390,794)
-	253,398	253,398
-	(174,629)	(174,629)
-	(28,456)	(28,456)
-	71,999	71,999
-	122,312	122,312
(3,390,794)	122,312	(3,268,482)
467,680	-	467,680
743,047	-	743,047
162,858	-	162,858
277,323	-	277,323
365,280	-	365,280
69,976	-	69,976
66,643	-	66,643
398,373	-	398,373
12,974	6,369	19,343
212,067	-	212,067
274,910	124,693	399,603
201,079	(201,079)	-
3,252,210	(70,017)	3,182,193
(138,584)	52,295	(86,289)
15,635,312	7,158,237	22,793,549
\$ 15,496,728	\$ 7,210,532	\$ 22,707,260

City of Fellsmere, Florida
Balance Sheet - Governmental Funds

<i>September 30, 2017</i>	General	Infrastructure	Community Redevelopment Agency
ASSETS			
Cash and cash equivalents	\$ 12,495	\$ -	\$ -
Accounts receivable	138,572	-	-
Due from other funds	389,845	-	-
Due from other governments	97,007	119,944	-
Restricted cash and cash equivalents	-	122,182	31,893
Advance to other funds	21,330	-	-
Prepaid items	21,301	-	-
Total assets	\$ 680,550	\$ 242,126	\$ 31,893
LIABILITIES AND FUND BALANCES			
Liabilities			
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -
Accounts payable	138,053	2,071	-
Accrued liabilities	56,099	-	-
Advances from other funds	-	-	30,600
Unearned revenues	300	-	-
Total current liabilities	194,452	2,071	30,600
Fund balances			
Nonspendable	42,631	-	-
Restricted	44,865	240,055	1,293
Unrestricted / unassigned	398,602	-	-
Total fund balances	486,098	240,055	1,293
Total liabilities, deferred inflows of resources and fund balances	\$ 680,550	\$ 242,126	\$ 31,893

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

Nonmajor Funds	Total Governmental Funds
\$ 282,756	\$ 295,251
87,168	225,740
-	389,845
29,050	246,001
98,476	252,551
-	21,330
-	21,301
<u>\$ 497,450</u>	<u>\$ 1,452,019</u>

\$ 39,678	\$ 39,678
191,849	331,973
-	56,099
-	30,600
14,018	14,318
<u>245,545</u>	<u>472,668</u>

-	42,631
251,905	538,118
-	398,602
<u>251,905</u>	<u>979,351</u>

\$ 497,450

17,256,064

(2,738,687)

\$ 15,496,728

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

<i>Year ended September 30, 2017</i>	General	Infrastructure	Community Redevelopment Agency
Revenues			
Taxes:			
Property	\$ 467,680	\$ -	\$ -
Public utility	365,280	-	-
Sales	-	743,047	-
Motor fuel	-	-	-
Communications services	69,976	-	-
Franchise fees	277,323	-	-
Intergovernmental	678,743	-	-
Charges for services	8,416	-	-
Fines	8,403	-	-
Investment earnings	5,355	7,323	296
Other revenues	131,853	5,929	3,060
Total revenues	2,013,029	756,299	3,356
Expenditures			
Current:			
General government	950,909	15,768	14,193
Public safety	944,191	-	-
Physical environment	-	-	-
Transportation	577,502	-	-
Culture and recreation	42,479	-	-
Debt service:			
Principal	-	81,694	-
Interest and fiscal charges	-	127,363	-
Capital outlay	7,978	303,186	-
Total expenditures	2,523,059	528,011	14,193
Excess (deficiency) of revenues over (under) expenditures	(510,030)	228,288	(10,837)
Other financing sources (uses)			
Transfers in	336,700	-	4,806
Transfers out	(39,486)	(758,993)	-
Loan proceeds	-	50,000	-
Total other financing sources (uses)	297,214	(708,993)	4,806
Net change in fund balances	(212,816)	(480,705)	(6,031)
Fund balances, beginning of year	698,914	720,760	7,324
Fund balances, end of year	\$ 486,098	\$ 240,055	\$ 1,293

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

Nonmajor Funds	Total Governmental Funds
\$ -	\$ 467,680
-	365,280
-	743,047
162,858	162,858
-	69,976
-	277,323
147,023	825,766
-	8,416
-	8,403
-	12,974
39,000	179,842
<u>348,881</u>	<u>3,121,565</u>
-	980,870
-	944,191
4,701	4,701
36,947	614,449
-	42,479
-	81,694
-	127,363
894,898	1,206,062
<u>936,546</u>	<u>4,001,809</u>
<u>(587,665)</u>	<u>(880,244)</u>
765,132	1,106,638
(107,080)	(905,559)
-	50,000
<u>658,052</u>	<u>251,079</u>
70,387	(629,165)
181,518	1,608,516
<u>\$ 251,905</u>	<u>\$ 979,351</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, 2017

Net change in fund balances - total governmental funds	\$	(629,165)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		380,978
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.		95,068
Repayment of bond principal and loans 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.		81,703
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.		(17,168)
Change in net position of governmental activities	\$	(138,584)

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, 2017</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Property	\$ 512,840	\$ 512,840	\$ 467,680	\$ (45,160)
Public utility	355,490	355,490	365,280	9,790
Communications services	66,800	66,800	69,976	3,176
Franchise fees	294,470	294,470	277,323	(17,147)
Intergovernmental	714,850	714,850	678,743	(36,107)
Charges for services	7,750	7,750	8,416	666
Fines	6,480	6,480	8,403	1,923
Investment earnings	2,000	2,000	5,355	3,355
Other revenue	111,130	111,130	131,853	20,723
Total revenues	2,071,810	2,071,810	2,013,029	(58,781)
Expenditures				
Current:				
General government	1,519,650	1,519,650	950,909	568,741
Public safety	944,290	944,290	944,191	99
Transportation	548,880	548,880	577,502	(28,622)
Culture and recreation	51,050	51,050	42,479	8,571
Capital outlay	-	-	7,978	(7,978)
Total expenditures	3,063,870	3,063,870	2,523,059	540,811
Deficiency of revenues under expenditures	(992,060)	(992,060)	(510,030)	482,030
Other financing sources (uses)				
Transfers in	361,620	361,620	336,700	(24,920)
Transfers out	-	-	(39,486)	(39,486)
Total other financing sources (uses)	361,620	361,620	297,214	(64,406)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(630,440)	(630,440)	(212,816)	417,624
Fund balances, beginning of year	698,914	698,914	698,914	-
Fund balances, end of year	\$ 68,474	\$ 68,474	\$ 486,098	\$ 417,624

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, 2017</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Sales	\$ 757,680	\$ 757,680	\$ 743,047	\$ (14,633)
Investment earnings	800	800	7,323	6,523
Other revenue	-	-	5,929	5,929
Total revenues	758,480	758,480	756,299	(2,181)
Expenditures				
Current:				
General government	12,800	12,800	15,768	(2,968)
Debt service:				
Principal	70,270	70,270	81,694	(11,424)
Interest expense and fiscal charges	117,320	117,320	127,363	(10,043)
Capital outlay	156,340	156,340	303,186	(146,846)
Total expenditures	356,730	356,730	528,011	(171,281)
Excess (deficiency) of revenues over (under) expenditures	401,750	401,750	228,288	(173,462)
Other financing sources (uses)				
Transfers out	(926,750)	(926,750)	(758,993)	167,757
Loan proceeds	-	-	50,000	50,000
Total other financing sources (uses)	(926,750)	(926,750)	(708,993)	217,757
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(525,000)	(525,000)	(480,705)	44,295
Fund balances, beginning of year	720,760	720,760	720,760	-
Fund balances, end of year	\$ 195,760	\$ 195,760	\$ 240,055	\$ 44,295

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, 2017</i>	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Investment earnings	\$ -	\$ -	\$ 296	\$ 296
Other revenue	35,700	35,700	3,060	(32,640)
Total revenues	35,700	35,700	3,356	(32,344)
Expenditures				
Current:				
General government	37,810	37,810	14,193	23,617
Total expenditures	37,810	37,810	14,193	23,617
Excess (deficiency) of revenues over (under) expenditures	(2,110)	(2,110)	(10,837)	(8,727)
Other financing sources (uses)				
Transfers in	2,110	2,110	4,806	2,696
Total other financing sources (uses)	2,110	2,110	4,806	2,696
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(6,031)	(6,031)
Fund balances, beginning of year	7,324	7,324	7,324	-
Fund balances, end of year	\$ 7,324	\$ 7,324	\$ 1,293	\$ (6,031)

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

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

<i>September 30, 2017</i>	Water Department	Community Development
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 350,672	\$ 458
Restricted cash and cash equivalents	1,399,555	-
Accounts receivable	105,257	45,179
Due from other funds	546,000	-
Inventories	13,750	-
Advance to other funds	-	9,270
Total current assets	2,415,234	54,907
Noncurrent assets:		
Capital assets:		
Land	361,464	14,341
Construction in progress	341,376	-
Machinery and equipment	6,902,509	30,869
Less accumulated depreciation	(2,192,757)	(30,868)
Total capital assets, net of accumulated depreciation	5,412,592	14,342
Total noncurrent assets	5,412,592	14,342
Total assets	7,827,826	69,249
LIABILITIES		
Current liabilities:		
Accounts payable	11,161	19,259
Accrued liabilities	584	10,030
Accrued interest payable	242	-
Due to other funds	-	561,845
Due to other governmental units	12,136	6,826
Unearned revenues	93,859	58,505
Current portion of accrued compensated absences	110	1,070
Current portion of long-term debt	66,080	-
Total current liabilities	184,172	657,535
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	993	9,629
Long-term debt, net of current portion	1,329,603	-
Total noncurrent liabilities	1,330,596	9,629
Total liabilities	1,514,768	667,164
DEFERRED INFLOW OF RESOURCES		
Deferred revenue - business tax receipts	-	15,472
Total deferred outflow of resources	-	15,472
NET POSITION (DEFICIT)		
Net investment in capital assets	4,016,909	14,342
Restricted for:		
Debt service	433,402	-
Renewal and replacement	871,389	-
Deposits	94,764	-
Unrestricted (deficit)	896,594	(627,729)
Total net position (deficit)	\$ 6,313,058	\$ (613,387)

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

	Wastewater Service	Stormwater System - Nonmajor fund	Total
\$	419	\$ 163,279	\$ 514,828
	96,958	-	1,496,513
	26,005	450	176,891
	-	-	546,000
	-	-	13,750
	-	-	9,270
	123,382	163,729	2,757,252
	-	-	375,805
	-	-	341,376
	2,188,622	-	9,122,000
	(516,252)	-	(2,739,877)
	1,672,370	-	7,099,304
	1,672,370	-	7,099,304
	1,795,752	163,729	9,856,556
	40,005	-	70,425
	-	-	10,614
	-	-	242
	374,000	-	935,845
	-	-	18,962
	34,615	-	186,979
	-	-	1,180
	-	-	66,080
	448,620	-	1,290,327
	-	-	10,622
	-	-	1,329,603
	-	-	1,340,225
	448,620	-	2,630,552
	-	-	15,472
	-	-	15,472
	1,672,370	-	5,703,621
	-	-	433,402
	62,426	-	933,815
	34,532	-	129,296
	(422,196)	163,729	10,398
\$	1,347,132	\$ 163,729	\$ 7,210,532

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

<i>Year ended September 30, 2017</i>	Water Department	Community Development
Operating revenues:		
Charges for services	\$ 778,969	\$ -
Building permits, licenses and fees	-	189,408
Other revenues	86,869	31,942
Total operating revenues	865,838	221,350
Operating expenses:		
Salaries, wages and employee benefits	69,085	198,163
Contractual services, materials and supplies	260,762	165,018
Depreciation	135,655	856
Total operating expenses	465,502	364,037
Operating income (loss)	400,336	(142,687)
Nonoperating revenues (expenses):		
Interest income	6,332	37
Interest expense	(60,069)	-
Total nonoperating revenues (expenses)	(53,737)	37
Income (loss) before transfers and capital contributions	346,599	(142,650)
Transfers		
Transfers in	-	63,600
Transfers out	(122,100)	(50,059)
Total transfers	(122,100)	13,541
Change in net position	224,499	(129,109)
Net position (deficit), beginning of year	6,088,559	(484,278)
Net position (deficit), end of year	\$ 6,313,058	\$ (613,387)

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

Wastewater Service	Stormwater System - Nonmajor fund	Total
\$ 265,553	\$ 90,893	\$ 1,135,415
-	-	189,408
5,882	-	124,693
271,435	90,893	1,449,516
-	-	267,248
235,012	18,894	679,686
58,997	-	195,508
294,009	18,894	1,142,442
(22,574)	71,999	307,074
-	-	6,369
-	-	(60,069)
-	-	(53,700)
(22,574)	71,999	253,374
-	-	63,600
(68,520)	(24,000)	(264,679)
(68,520)	(24,000)	(201,079)
(91,094)	47,999	52,295
1,438,226	115,730	7,158,237
\$ 1,347,132	\$ 163,729	\$ 7,210,532

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds

<i>Year ended September 30, 2017</i>	Water Department	Community Development
Cash flows from operating activities:		
Cash received from customers for sales and services	\$ 858,309	\$ 211,847
Internal activity - payments (receipts) from other funds	(195,680)	132,415
Cash payments to employees	(45,195)	(139,817)
Cash payments to suppliers for goods and services	(276,560)	(213,080)
Net cash provided by (used in) operating activities	340,874	(8,635)
Cash flows from noncapital financing activities:		
Transfers from other funds	-	63,600
Transfers to other funds	(122,100)	(50,059)
Net cash provided by (used in) noncapital financing activities	(122,100)	13,541
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(126,543)	(4,591)
Principal paid on long-term debt	(63,546)	-
Interest paid on long-term debt	(60,330)	-
Net cash used in capital and related financing activities	(250,419)	(4,591)
Cash flows from investing activities:		
Interest on investments	6,332	37
Net cash provided by investing activities	6,332	37
Net increase / (decrease) in cash and cash equivalents	(25,313)	352
Cash and cash equivalents, beginning of year	1,775,540	106
Cash and cash equivalents, end of year	\$ 1,750,227	\$ 458
Classified on the statement of net position as:		
Current assets:		
Cash and cash equivalents	\$ 350,672	\$ 458
Restricted cash and cash equivalents	1,399,555	-
	\$ 1,750,227	\$ 458

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

Wastewater Service	Stormwater System - Nonmajor fund	Total
\$ 276,373	\$ 90,798	\$ 1,437,327
23,680	-	(39,585)
-	-	(185,012)
(222,345)	(19,017)	(731,002)
77,708	71,781	481,728
-	-	63,600
(68,520)	(24,000)	(264,679)
(68,520)	(24,000)	(201,079)
(2,875)	-	(134,009)
-	-	(63,546)
-	-	(60,330)
(2,875)	-	(257,885)
-	-	6,369
-	-	6,369
6,313	47,781	29,133
91,064	115,498	1,982,208
\$ 97,377	\$ 163,279	\$ 2,011,341
\$ 419	\$ 163,279	\$ 514,828
96,958	-	1,496,513
\$ 97,377	\$ 163,279	\$ 2,011,341

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, 2017</i>	Water Department	Community Development
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 400,336	\$ (142,687)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	135,655	856
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(22,904)	(7,410)
Due from other funds	(195,680)	-
Prepaid items	-	1,623
Increase (decrease) in liabilities:		
Accounts payable	8,371	6,821
Accrued liabilities	(95)	877
Due to other funds	-	132,415
Due to other governmental units	12,136	(22,395)
Accrued compensated absences	(184)	963
Unearned revenues	3,239	19,065
Deferred inflows - business tax receipts	-	1,237
Total adjustments	(59,462)	134,052
Net cash provided by (used in) operating activities	\$ 340,874	\$ (8,635)

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

Wastewater Service	Stormwater System - Nonmajor fund	Total
\$ (22,574)	\$ 71,999	\$ 307,074
58,997	-	195,508
1,658	(95)	(28,751)
-	-	(195,680)
-	-	1,623
12,667	(123)	27,736
-	-	782
23,680	-	156,095
-	-	(10,259)
-	-	779
3,280	-	25,584
-	-	1,237
100,282	(218)	174,654
\$ 77,708	\$ 71,781	\$ 481,728

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 5,483.

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, 2017.

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 is 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, 2017.

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.

The City's nonmajor enterprise fund consists of the stormwater system fund.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (continued)

2. Deposits (continued)

The City had deposits only with qualifying public depositories as of September 30, 2017.

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, 2017, 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, 2017 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, 2017.

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, 2017, there were no amounts reported as deferred inflows in the governmental funds. As of September 30, 2017, there was \$15,472 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 expensed as incurred.

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.

At September 30, 2017, the Community Development fund had a deficit fund balance of \$613,387. Rate increases are expected to reverse the fund deficit in fiscal year 2018.

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 \$(2,738,687) difference are as follows:

Capital improvement bond	\$ (2,562,892)
Equipment loan	(44,690)
Compensated absences	(131,105)
<hr/>	
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ (2,738,687)
<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 \$380,978 difference are as follows:

Capital outlay	\$ 1,206,062
Depreciation expense	(825,084)
<hr/>	
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net position of governmental activities</i>	\$ 380,978
<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.

NOTE 3: BUDGETARY INFORMATION (Continued)

3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of an ordinance.

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

The budget may be formally amended by the City Council at any time during the fiscal year; however, in practice it is rarely amended. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, using the modified accrual basis of accounting. Within the financial statements, budget amounts are presented in accordance with the City's policy and the accrual amounts are presented in accordance with generally accepted accounting principles. There were no differences between both bases of presentation during the fiscal year ended September 30, 2017. 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, 2017.

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 an unbalanced budget.

The City did have expenditures in excess of the legally adopted budget level of control (the fund level) in the Infrastructure Fund by \$171,281.

NOTE 5: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At September 30, 2017, the carrying amount of the City's deposits with banks was \$2,518,965 and the bank balance was \$2,709,007. In addition the City holds \$500 of petty cash.

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

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

Restricted cash in the Governmental Funds at September 30, 2017 consists of \$122,182 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 \$31,893 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 \$98,476 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. Several non-major special revenue funds had negative equity in pooled restricted cash of \$39,576. 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, 2017 consists of unspent water and wastewater system impact fees and interest earned on these funds of \$871,389 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 \$433,402 and customer deposits of the water and wastewater systems of \$94,764 and \$34,532, 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, 2017, the City did not have any securities that were required to be held with a third party custodian.

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. In lieu of adopting its own investment policy, the City invests surplus funds pursuant to the guidelines in Florida Statute 218.415, subsection 17.

B. Interfund receivables and payables and transfers

The composition of interfund balances as of September 30, 2017, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 389,845	\$ -
Water department fund	546,000	-
Community development fund	-	561,845
Wastewater service fund	-	374,000
Total	\$ 935,845	\$ 935,845

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.

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

B. Interfund receivables and payables and transfers (continued)

For the year ended September 30, 2017, interfund transfers consisted of the following:

Transfers Out	Transfers In				Totals
	General fund	Community Redevelopment Agency	Nonmajor governmental funds	Community Development Fund	
General fund	\$ -	\$ 4,806	\$ -	\$ 34,680	\$ 39,486
Infrastructure fund	-	-	758,993	-	758,993
Nonmajor governmental funds	107,080	-	-	-	107,080
Water department fund	111,720	-	-	10,380	122,100
Community Development fund	43,920	-	6,139	-	50,059
Wastewater service fund	58,140	-	-	10,380	68,520
Stormwater system - nonmajor proprietary fund	15,840	-	-	8,160	24,000
Totals	\$ 336,700	\$ 4,806	\$ 765,132	\$ 63,600	\$ 1,170,238

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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,876,583	\$ 78,268	\$ -	\$ 6,954,851
Construction in progress	427,262	777,341	(32,055)	1,172,548
Total capital assets, not being depreciated	7,303,845	855,609	(32,055)	8,127,399
Capital assets, being depreciated:				
Buildings	5,562,628	101,598	-	5,664,226
Improvements other than buildings	3,276,757	16,000	-	3,292,757
Machinery and equipment	1,598,914	131,819	(1,520)	1,729,213
Infrastructure	9,165,784	228,159	-	9,393,943
Total capital assets, being depreciated	19,604,083	477,576	(1,520)	20,080,139
Less accumulated depreciation for:				
Buildings	(2,269,520)	(247,283)	-	(2,516,803)
Improvements other than buildings	(2,559,712)	(171,677)	-	(2,731,389)
Machinery and equipment	(1,412,284)	(67,827)	1,520	(1,478,591)
Infrastructure	(3,886,394)	(338,297)	-	(4,224,691)
Total accumulated depreciation	(10,127,910)	(825,084)	1,520	(10,951,474)
Total capital assets, being depreciated, net	9,476,173	(347,508)	-	9,128,665
Governmental activities capital assets, net	\$ 16,780,018	\$ 508,101	\$ (32,055)	\$ 17,256,064

The current year increase in capital assets includes \$95,068 of donated capital assets.

The City has a nonrecurring fair value measurement as of September 30, 2017 for a donation from Mirzam Land Investment, LLC of right of ways for three parcels of land. The right of ways are valued at \$7,661 based on the property appraisal performed by Indian River County (Level 3 input).

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	\$ 351,367	\$ 24,438	\$ -	\$ 375,805
Construction in progress	289,536	51,840	-	341,376
Total capital assets, not being depreciated	640,903	76,278	-	717,181
Capital assets, being depreciated:				
Water plant	2,784,048	1,207	-	2,785,255
Water lines	3,576,262	53,649	-	3,629,911
Water tank	411,683	-	-	411,683
Vehicle and equipment	75,662	-	-	75,662
Equipment	31,644	-	(776)	30,868
Wastewater lines	2,185,746	2,875	-	2,188,621
Total capital assets, being depreciated	9,065,045	57,731	(776)	9,122,000
Less accumulated depreciation for:				
Water plant	(543,506)	(55,697)	-	(599,203)
Water lines	(1,262,776)	(72,472)	-	(1,335,248)
Water tank	(178,396)	(7,242)	-	(185,638)
Vehicle and equipment	(72,424)	(244)	-	(72,668)
Equipment	(30,788)	(856)	776	(30,868)
Wastewater lines	(457,255)	(58,997)	-	(516,252)
Total accumulated depreciation	(2,545,145)	(195,508)	776	(2,739,877)
Total capital assets, being depreciated, net	6,519,900	(137,777)	-	6,382,123
Business-type activities capital assets, net	\$ 7,160,803	\$ (61,499)	\$ -	\$ 7,099,304

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	\$ 12,787
Public safety	37,419
Transportation	761,155
Culture and recreation	13,723
<u>Total depreciation expense - governmental activities</u>	<u>\$ 825,084</u>
Business-type activities:	
Water department	\$ 135,655
Community development	856
Wastewater service	58,997
<u>Total depreciation expense - business-type activities</u>	<u>\$ 195,508</u>

D. Accounts payable and accrued liabilities

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 331,973	\$ 70,425
Accrued liabilities	56,099	10,614
Accrued interest on long-term debt	-	242
<u>Total payables</u>	<u>\$ 388,072</u>	<u>\$ 81,281</u>

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

E. Construction Commitments

The City has various commitments outstanding at September 30, 2017. The major commitments include the following:

Project	Spent to date	Remaining commitment	Major funding source
CDBG Phase VI	\$ 208,377	\$ 1,010,652	Grant & City Match
FDOT I-95 Interchange Beautification	102	153,881	Grant & City Match
FDOT TAP Massachusetts Sidewalk	56,637	369,088	Grant & City Match
FDEP Railtrail - RTP Park Lateral to Willow	-	400,000	Grant & City Match
FDEP The Preserve - Phase II	49,236	350,764	Grant & City Match
FRDAP Little League Park	176,204	43,700	Grant & City Match
FRDAP HC&J Stormwater Park	77,245	124,579	Grant & City Match
SJRWMD South Regional Lake	-	787,187	Grant & City Match
Cultural Facilities Grant - City Hall	55,397	760,132	Grant & City Match
SJRWMD North Regional Lake	160,159	520,533	Grant & City Match
Historic Train Village	78,112	321,888	Grant & City Match
Total	\$ 861,469	\$ 4,842,404	

F. Long-term liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital improvement bond	\$ 2,639,285	\$ -	\$ (76,393)	\$ 2,562,892	\$ 67,631
Equipment loan	-	50,000	(5,310)	44,690	16,301
Compensated absences	113,937	42,262	(25,094)	131,105	13,110
Total governmental activities	\$ 2,753,222	\$ 92,262	\$ (106,797)	\$ 2,738,687	\$ 97,042

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bond	\$ 1,169,000	\$ -	\$ (47,000)	\$ 1,122,000	\$ 49,000
Construction loans	290,229	-	(16,546)	273,683	17,080
Compensated absences	11,023	10,500	(9,721)	11,802	1,180
Total business-type activities	\$ 1,470,252	\$ 10,500	\$ (73,267)	\$ 1,407,485	\$ 67,260

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. At September 30, 2017 the balance of the loan was \$2,562,892.

Equipment Loan

In 2017, the City entered into a loan with the bank for the purchase of two police cars. The loan will be repaid with 36 monthly payments of \$1,461, until May of 2020. Interest is charged at 3.25%, and at September 30, 2017 the balance of the loan was \$44,690.

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, 2017 the balances of loan #1 and #2 were \$163,885 and \$109,798, respectively.

Revenue Bond Payable

The City issued a Water Revenue Bond, Series 1993, with an interest rate of 4.5% in April 1994 in the amount of \$1.8 million in order to finance the construction of a public water system. Construction was completed and the system was brought on-line in March 1995. The bondholder is the United States Department of Agriculture-Rural Economic and Community Development.

The bond constitutes a special obligation of the City secured by a lien on and pledge of the gross revenues of the water system. Additionally, the bond is serviced by a deficiency pledge of the

City of Fellsmere, Florida
Notes to Financial Statements

NOTE 5: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities (continued)

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 2017. Bond premium costs at September 30, 2017 were \$22,000

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
2018	\$ 83,932	\$ 105,817	\$ 66,080	\$ 57,682
2019	93,714	111,398	69,539	55,017
2020	91,639	107,628	72,010	52,206
2021	84,078	103,505	74,494	49,292
2022	87,940	99,642	77,991	46,275
2023 - 2027	503,848	434,064	438,893	181,184
2028 - 2032	630,624	307,288	500,676	84,281
2033 - 2037	789,729	148,184	96,000	4,320
2038 - 2040	242,078	7,787	-	-
Total	\$ 2,607,582	\$ 1,425,313	\$ 1,395,683	\$ 530,257

G. Operating Leases

The City's copy machine is leased under a five-year, operating lease for \$108 a month which expires on May 18, 2022.

Minimum future rental payments under the non-cancelable operating leases as of September 30, 2017, are as follows:

Years ending September 30,	
2018	\$ 1,297
2019	1,297
2020	1,297
2021	1,297
2022	865
Total minimum lease payments	\$ 6,053

Total rent expense charged to expense in 2017 was \$432.

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, 2017, the millage rate assessed by the City was 4.9599 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, 2017, upon which the 2016 – 2017 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.

NOTE 7: PROPERTY TAXES (Continued)

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 2017. 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 \$62,201 for the fiscal year ended September 30, 2017. 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.

NOTE 9: BENEFIT PLANS (Continued)

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, 2017, the City credited \$3,000 to each employee's account, and an additional \$3,000 to those employees with dependent coverage for a total of \$6,000, which amounted to \$120,000. 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, 2017, the percent contributed to the retirement health savings account was 20% of each employee's remaining balance in the health reimbursement account, which amounted to \$80,707.

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.

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 2017. Employer and employee contributions to the plan were \$77,811 and \$99,985, respectively in 2017. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

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

City of Fellsmere, Florida
Notes to Financial Statements

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	21,301	-	-	-	21,301
Total nonspendable	42,631	-	-	-	42,631
Restricted for:					
Capital projects	-	240,055	1,293	251,905	493,253
Brookside Cemetary	44,865	-	-	-	44,865
Total restricted	44,865	240,055	1,293	251,905	538,118
Unassigned	398,602	-	-	-	398,602
Total fund balances, governmental funds	\$ 486,098	\$ 240,055	\$ 1,293	\$ 251,905	\$ 979,351

NOTE 12: FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2018. The statements address:

- OPEB—accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

The City is currently evaluating the effects that these statements will have on its 2018 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, 2017</i>	Special Revenue			
	Local Option Gas Tax	CDBG Phase VI	CDBG / ED / ALF	FDOT 195/ CR 512 Interlocal Beautification
ASSETS				
Cash and cash equivalents	\$ -	33,310	\$ -	\$ -
Accounts receivable	-	-	-	5,400
Due from other governments	29,050	-	-	-
Restricted cash and cash equivalents	98,476	-	-	-
Total assets	\$ 127,526	\$ 33,310	\$ -	\$ 5,400
LIABILITIES				
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -	\$ 102
Accounts payable	1,000	20,135	-	-
Unearned revenues	-	-	-	-
Total liabilities	1,000	20,135	-	102
FUND BALANCES				
Restricted	126,526	13,175	-	5,298
Total fund balances	126,526	13,175	-	5,298
Total liabilities and fund balances	\$ 127,526	\$ 33,310	\$ -	\$ 5,400

Special Revenue

FDOT TAP Massachusetts	Indian River Lagoon National Scenic Byway	FOA Transportation Access	FRDAP Trail Head Preserve LWCF	FRDAP Little League Park	RTP - Rail Trail Park
\$ 1,018	\$ -	\$ -	\$ 7,086	\$ 96,480	\$ -
-	-	23,251	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 1,018	\$ -	\$ 23,251	\$ 7,086	\$ 96,480	\$ -
<hr/>					
\$ -	\$ -	\$ 20,174	\$ -	\$ -	\$ -
1,018	-	-	7,086	96,480	-
-	-	-	-	-	-
1,018	-	20,174	7,086	96,480	-
<hr/>					
-	-	3,077	-	-	-
-	-	3,077	-	-	-
<hr/>					
\$ 1,018	\$ -	\$ 23,251	\$ 7,086	\$ 96,480	\$ -

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

	Special Revenue			
<i>September 30, 2017</i>	HC&J Stormwater Grant Park	FDEP Trail Head Preserve	FDEP Wetlands Park LWCF	FEMA Fellsmere Flood Study
ASSETS				
Cash and cash equivalents	\$ 2,850	\$ -	\$ 1,200	\$ -
Accounts receivable	-	-	-	20,402
Due from other governments	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 2,850	\$ -	\$ 1,200	\$ 20,402
LIABILITIES				
Negative equity in pooled restricted cash	\$ -	\$ -	\$ -	\$ 19,402
Accounts payable	2,850	-	1,200	1,000
Unearned revenues	-	-	-	-
Total liabilities	2,850	-	1,200	20,402
FUND BALANCES				
Restricted	-	-	-	-
Total fund balances	-	-	-	-
Total liabilities and fund balances	\$ 2,850	\$ -	\$ 1,200	\$ 20,402

Special Revenue

Culture Facilities	North Regional Lake	Historic Train Village	Special Projects	Total
\$ -	\$ 18,432	\$ 8,165	\$ 114,215	\$ 282,756
-	38,115	-	-	87,168
-	-	-	-	29,050
-	-	-	-	98,476
\$ -	\$ 56,547	\$ 8,165	\$ 114,215	\$ 497,450
\$ -	\$ -	\$ -	\$ -	\$ 39,678
-	56,547	4,083	450	191,849
-	-	-	14,018	14,018
-	56,547	4,083	14,468	245,545
-	-	4,082	99,747	251,905
-	-	4,082	99,747	251,905
\$ -	\$ 56,547	\$ 8,165	\$ 114,215	\$ 497,450

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

<i>For the year ended September 30, 2017</i>	Special Revenue			
	Local Option Gas Tax	CDBG Phase VI	CDBG / ED / ALF	FDOT 195/ CR 512 Interlocal Beautification
REVENUES				
Taxes:				
Motor fuel	\$ 162,858	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Other revenues	-	-	-	5,400
Total revenues	162,858	-	-	5,400
EXPENDITURES				
Current:				
Physical environment	-	-	-	-
Transportation	36,845	-	-	102
Capital outlay	-	130,074	6,139	-
Total expenditures	36,845	130,074	6,139	102
Excess (deficiency) of revenues over (under) expenditures	126,013	(130,074)	(6,139)	5,298
OTHER FINANCING SOURCES (USES)				
Transfers in	-	143,249	6,139	-
Transfers out	(107,080)	-	-	-
Total other financing sources (uses)	(107,080)	143,249	6,139	-
Net change in fund balances	18,933	13,175	-	5,298
Fund balances, beginning of year	107,593	-	-	-
Fund balances, end of year	\$ 126,526	\$ 13,175	\$ -	\$ 5,298

Special Revenue

FDOT TAP Massachusetts	Indian River Lagoon National Scenic Byway	FOA Transportation Access	FRDAP Trail Head Preserve LWCF	FRDAP Little League Park	RTP - Rail Trail Park
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	74,960
-	-	-	-	-	-
-	-	-	-	-	74,960
-	-	-	-	-	-
56,637	3,624	-	44,423	173,194	106,370
56,637	3,624	-	44,423	173,194	106,370
(56,637)	(3,624)	-	(44,423)	(173,194)	(31,410)
56,637	3,624	-	44,423	173,194	31,410
-	-	-	-	-	-
56,637	3,624	-	44,423	173,194	31,410
-	-	-	-	-	-
-	-	3,077	-	-	-
\$ -	\$ -	\$ 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, 2017</i>	HC&J Stormwater Grant Park	FDEP Trail Head Wetlands Preserve	FDEP Park LWCF	FEMA Fellsmere Flood Study
REVENUES				
Taxes:				
Motor fuel	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Other revenues	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current:				
Physical environment	-	-	-	-
Transportation	-	-	-	-
Capital outlay	77,245	2,523	-	1,000
Total expenditures	77,245	2,523	-	1,000
Excess (deficiency) of revenues over (under) expenditures	(77,245)	(2,523)	-	(1,000)
OTHER FINANCING SOURCES (USES)				
Transfers in	77,245	2,523	-	1,000
Transfers out	-	-	-	-
Total other financing sources (uses)	77,245	2,523	-	1,000
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -	\$ -

Special Revenue

Culture Facilities	North Regional Lake	Historic Train Village	Special Projects	Total
\$ -	\$ -	\$ -	\$ -	\$ 162,858
-	72,063	-	-	147,023
-	-	-	33,600	39,000
-	72,063	-	33,600	348,881
-	-	-	4,701	4,701
-	-	-	-	36,947
55,397	160,160	78,112	-	894,898
55,397	160,160	78,112	4,701	936,546
(55,397)	(88,097)	(78,112)	28,899	(587,665)
55,397	88,097	82,194	-	765,132
-	-	-	-	(107,080)
55,397	88,097	82,194	-	658,052
-	-	4,082	28,899	70,387
-	-	-	70,848	181,518
\$ -	\$ -	\$ 4,082	\$ 99,747	\$ 251,905

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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, 2017, 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 April 12, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. However, as described below we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described below to be material weaknesses [2017-001 and 2017-002].

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. We consider the deficiency described below to be a significant deficiency. [2017-003].

Finding 2017-001 RETAINAGE PAYABLE – *Material Weakness*

Condition: An adjusting journal entry of \$20,587 in the nonmajor governmental funds was required to record retainage withheld on construction projects as of September 30, 2017.

Criteria: 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 a liability. Retainage payable should be recorded for all invoices for on services received on or before the balance sheet date.

Cause: The City believed that the retainage withheld on construction projects was not considered a liability until the funds were due to be paid to the contractor.

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: In recent history the City has either not had retainage payable at year-end or has not recorded retainage payable at year-end. Management was unaware of the GASB requirement to record retainage payable, but upon clarification by the auditor, booked the retainage payable. That corrected the "material weakness" cited by the audit. Since the \$20,587 was spread across three non-major governmental funds management does not view the amount as material to the governmental financial statement presentation as a whole. The weakness has been corrected because now this transaction will be included in future financial statement year-end closing procedures.

Finding 2017-002 CAPITAL ASSET TRACKING – *Material Weakness*

Condition: Management does not have procedures in place to provide reasonable assurance that capital assets are free of material misstatements. During the audit, CRI noted capital asset additions were not consistently recorded in accordance with Generally Accepted Accounting Principles. Land was recorded for which the City did not hold title, multiple invoices for work completed prior to the balance sheet date had been capitalized twice, and items which met the City's capitalization criteria in the enterprise funds were expensed instead of being capitalized. In addition, capital outlay did not reconcile to additions in the governmental funds, and capital asset subsidiary ledgers were not properly being maintained and reconciled to the general ledger. As a result, adjustments for governmental activities (additions and deletions) totaled \$353,752 for a net decrease of \$196,082 in capital outlay, and adjustments in the Water Fund (additions and deletions) totaled \$135,329 for a net increase of \$125,339 in capitalized costs.

Criteria: Accounting policies and procedures should be in place that provide reasonable assurance that capital assets are free of material misstatements.

Cause: Management is not properly maintaining capital asset subsidiary ledgers, nor is a reconciliation of capital outlay accounts properly being executed. Source documents for land additions are not undergoing proper review and the City does not have proper controls in place to prevent capital expenditures and related liabilities from being recorded twice.

Effect: There is significant potential that capital assets owned by the City are not being recorded on the City's general ledger and subsidiary ledgers which will result in inaccurate reporting of capital assets and inaccurate reporting of the City's net position on the annual financial statements.

Recommendation: We recommend management develop and adopt procedures to provide reasonable assurance that capital assets are free of material misstatements. Specifically, management should develop a process for tracking of the City's capital assets, so that all assets can be properly recorded and reconciled back to the trial balance. Additionally, year-end schedules and reconciliations should be reviewed and approved to ensure that assets are properly being captured, depreciated, and reconciled.

Management's Response: In the past, management has done a preliminary reconciliation of fixed assets for the July month-end close. This year the City experienced a damaging lightning strike in late July that diverted management's attention from this process. Then Hurricane Irma struck on 9/11/17 further stretching our limited personnel resources. We agree that our process to reconcile this year was far too complicated and error prone and have taken steps to perform a quarterly capital asset reconciliation going forward.

Finding 2017-003 TRIAL BALANCE – *Significant Deficiency*

Condition: During the audit, approximately twenty journal entries were needed to true up the trial balance.

Criteria: Accounting policies and procedures should be in place that provide reasonable assurance that the trial balance is complete at year end.

Cause: A final review of the trial balance was not completed prior to the start of the audit.

Effect: Information presented in the financial report could be misstated.

Recommendation: We recommend management develop and adopt procedures at year end to provide that the trial balance is complete and all closing entries have been recorded.

Management's Response: In August, September and October the City experienced employee turnover, Hurricane Irma and new employee training that diverted staff attention from the proper closing of the year-end financials. Management believes this perfect storm of complications is not likely to occur again. With our limited staff losing one long-term trusted employee is a key disruption in the month-end close process. We not only trained our new staff but we are cross-training other staff to fill in for critical shortage situations.

Compliance and Other Matters

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

City of Fellsmere, Florida's Responses to Findings

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

Purpose of this Report

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

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

Melbourne, Florida

April 12, 2018



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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, 2017, and have issued our report thereon dated April 12, 2018.

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 Reporting Requirements

We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants’ Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Florida Auditor General. Disclosures in those reports, which are dated April 12, 2018, 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 address the finding and recommendation made in the preceding annual financial audit as noted below:

Prior Year Internal Control Findings

IC 2015-001 Year-end accruals of liabilities Cleared

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 and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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 to identify 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 for the City of Fellsmere. 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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, had the following recommendation:

Finding 2017-04 EXPENDITURES EXCEED APPROPRIATIONS – *Other Matter*

Condition: During the audit, we noted expenditures exceeded appropriations for the infrastructure fund.

Criteria: The City's legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is defined by the City as being at the fund level. The City Council is required to approval all adjustments to the budget at or above the fund level. The City Manager is authorized to make shifts in appropriations within the fund, so long as total appropriations for the fund are not changed.

Cause: Review of budget to actual expenditures was not sufficient to identify that expenditures exceeded appropriations.

Effect: The City was out of compliance with the policy and Florida statutes.

Recommendation: We recommend the City implement procedures to ensure that all cash and accrual transactions are entered into the general ledger on a timely basis. This will ensure internal financial reports are complete and accurate and therefore can be used to compare actual to budgeted appropriations to ensure compliance with the City's policy and with Florida Statutes.

Management's Response: The enhancements to our monthly closing process discussed in Findings 2017-002 and 2017-003 will ensure that management has the ability to close the year-end timely and make any required budget amendments or adjustments necessary within the allowed timeframe.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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, 2017, 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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.

Carly Riggs & Ingram, L.L.C.

Melbourne, Florida
April 12, 2018

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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, 2017. Management of the City of Fellsmere is responsible for the City of Fellsmere's compliance with the specified requirements. Our responsibility is to express an opinion on the City of Fellsmere's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City of Fellsmere complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City of Fellsmere complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence obtained is sufficient and appropriate to provide 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 requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2017.

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
April 12, 2018