

**FELLSMERE WATER CONTROL DISTRICT**

**Basic Financial Statements  
with  
Independent Auditors' Report**

**Year ended September 30, 2010**

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**KMETZ NUTTALL ELWELL GRAHAM, PLLC**  
Certified Public Accountants

**Independent Auditors' Report**

To the Board of Supervisors  
Fellsmere Water Control District  
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 Fellsmere Water Control District (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 District as of September 30, 2010, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants  
Vero Beach, Florida

January 10, 2011

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2800 Ocean Drive Vero Beach, Florida 32963 T: 772.231.6902 F: 772.231.4099

[www.knegcpa.com](http://www.knegcpa.com)

Michael L. Kmetz, CPA, PFS   Scott A. Nuttall, CPA, CFP   Brian J. Elwell, CPA   Patrick K. Graham, CPA, MA  
Teresa M. LaSota, CPA   David P. Reisinger, CPA   Melissa M. Medlock, CPA   Sonu (Sonny) Patel, CPA



**FELLSMERE WATER CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

As management of the Fellsmere Water Control District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2010. This overview and analysis is required by generally accepted accounting principles (GAAP) in the United States of America in Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34).

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,059,212 (net assets). The District's total net assets decreased by \$298,693 or 9% in comparison with prior year net assets.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,938,575, a decrease of \$283,831 or 9% in comparison with the prior year balances. All of the \$2,938,575 is available for spending at the government's discretion (unreserved fund balance).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net assets* presents information on all of the District's assets (both short-term spendable resources and capital assets) and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements present functions of the District (*governmental activities*) that are principally supported by taxes and intergovernmental revenues (primarily capital grants). The governmental activities of the District include water control and resource management, and capital acquisition and construction.

The government-wide financial statements include only the District. There are no component units for which the District is financially accountable.

The government-wide financial statements can be found on pages 9 and 10 of this report.

**FELLSMERE WATER CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

***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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

***Governmental fund*** – *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 District adopts an annual appropriated budget for all funds. Government accounting standards require the District to report a budgetary comparison statement for the general fund and any major special revenue or enterprise funds. A budgetary comparison statement has been provided for the general fund. The District has no major special revenue funds.

The basic governmental fund financial statements can be found on pages 11 – 13 of this report.

***Notes to the financial statements*** – The notes provide additional information that is essential to an full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 - 21 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,059,212, at September 30, 2010.

\$120,637 (4%) of the District's net assets reflects its investment in capital assets (e.g. land, buildings, equipment and water control structures). The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.



**FELLSMERE WATER CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**FELLSMERE WATER CONTROL DISTRICT'S NET ASSETS**

	2010	2009
Current assets	\$ 2,940,230	\$ 3,225,606
Capital assets, net	120,637	135,499
<b>Total Assets</b>	<b>3,060,867</b>	<b>3,361,105</b>
<b>Current liabilities</b>	<b>1,655</b>	<b>3,200</b>
Net Assets		
Invested in capital assets	120,637	135,499
Unrestricted, reported in:		
Governmental activities	2,438,575	2,722,406
Designated for contingencies	500,000	500,000
<b>Total Net Assets</b>	<b>\$ 3,059,212</b>	<b>\$ 3,357,905</b>

The remaining portion of the District's net assets (96%) represents *unrestricted net assets*, which may be used to meet the government's ongoing obligations to citizens.

At the end of the current fiscal year, the District is able to report positive balances in both categories of net assets.

**FELLSMERE WATER CONTROL DISTRICT'S CHANGE IN NET ASSETS**

	2010	2009
Revenues		
General revenues:		
Maintenance taxes, net of discounts	\$ 245,035	\$ 243,870
Other	20,778	117,286
<b>Total revenues</b>	<b>265,813</b>	<b>361,156</b>
Expenses		
Aquatic weed control	178,340	166,850
Ditch maintenance	129,192	130,143
General and administrative	256,974	283,934
<b>Total expenses</b>	<b>564,506</b>	<b>580,927</b>
<b>Increase (decrease) in net assets</b>	<b>(298,693)</b>	<b>(219,771)</b>
<b>Net assets, beginning of year</b>	<b>3,357,905</b>	<b>3,577,676</b>
<b>Net assets, end of year</b>	<b>\$ 3,059,212</b>	<b>\$ 3,357,905</b>

**Governmental activities** – The District relies heavily on general revenues (i.e. property taxes, sale of right of ways, etc.) to fund the expenses of the governmental activities. General revenues comprise 100% of total revenues.

**FELLSMERE WATER CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

As of the end of the current fiscal year, the District's governmental fund (general fund) reported an ending fund balance of \$2,938,575, constituting *unreserved fund balance*, which is available for spending at the District's discretion.

The general fund is the only operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,938,575. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance exceeded expenditures by \$2,388,931 or 81%.

The fund balance of the District's general fund decreased by \$283,831, during the year ended September 30, 2010, due to normal operations.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year the District did not amend its annual budget and ended the most recent fiscal year with \$451,611 less in actual revenue than was budgeted. The actual expenditures were some \$167,780 less than the budgeted amount.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets** – The District's investment in capital assets for its governmental activities as of September 30, 2010, amounted to \$120,637 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment. No major capital asset additions or deletions occurred during the current year. The District has elected not to retroactively report infrastructure amounts and related depreciation, as allowed by GASB 34. Additional information on the District's capital assets can be found in Notes 1 and 3 on pages 16 and 19 of this report.



**FELLSMERE WATER CONTROL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Long-term debt** – The District has no long-term debt as of September 30, 2010.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The District generally receives the majority of its revenues from a property tax levied on acreage that makes up the physical boundaries of the District.
- Due to the continued decrease in interest rates on certificates of deposits, the District anticipates Interest income for the 2010-2011 fiscal year to be similar to the prior year.

All of these factors were considered in preparing the District's budget for the 2010-2011 fiscal year.

**OTHER CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

***Climatological Review***

Florida escaped the effects of any land-falling hurricane during 2010. We experienced a very unusual year with near drought conditions for the first fiscal quarter, then an unusually wet and cold winter and spring with above normal sporadic rainfall events and several consecutive days of freezing, or near freezing temperatures extending into early spring.

***City of Fellsmere***

The City of Fellsmere continues to develop strategies to improve its drainage infrastructure, including additional paving and drainage grants, developing a City-wide drainage swale plan for driveway culverts, and the possibility of a stormwater utility to fund drainage improvements on a regional scale.

In an effort to assist the City of Fellsmere in the permitting and proposed increase of their potable water allocation, the District granted conceptual approval for the installation of water control structures to be placed in Sub-laterals 12, 13 and 13-A (railroad ditch) to aid in recharging the superficial aquifer in the vicinity of the well field. An extension of this conceptual approval has recently been granted.

***Investments***

The national financial crisis is expected to continue to undermine the return on the Districts Investments.

***Non Ad Valorem Assessments***

Because of the national financial crisis and resulting extremely low interest rates on the Districts invested funds, the Board of Supervisors voted to raise the District's Non Ad Valorem Assessment by .50 cents per acre for the fiscal year ending September 30, 2011. The impact to the community was discussed at length, however, the Board decided that it was necessary in order to start bringing the assessments up to where they cover operating expenditures.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Rodney Tillman, Treasurer, Fellsmere Water Control District, P.O. Box 438, Fellsmere, Florida 32948.



**Fellsmere Water Control District**  
**Statement of Net Assets**

September 30, 2010

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash, collateralized	\$ 113,605	\$ -	\$ 113,605
Investments	2,826,625	-	2,826,625
Capital assets, net	120,637	-	120,637
<b>Total Assets</b>	<b>3,060,867</b>	<b>-</b>	<b>3,060,867</b>
<b>Liabilities</b>			
Accounts Payable	1,655	-	1,655
<b>Total Liabilities</b>	<b>1,655</b>	<b>-</b>	<b>1,655</b>
<b>Net Assets</b>			
Invested in capital assets	120,637	-	120,637
Unrestricted, reported in:			
Governmental activities	2,438,575	-	2,438,575
Designated for contingencies	500,000	-	500,000
<b>Total Net Assets</b>	<b>\$ 3,059,212</b>	<b>\$ -</b>	<b>\$ 3,059,212</b>

See accompanying notes to the financial statements.

**Fellsmere Water Control District**  
Statement of Activities

Year ended September 30, 2010

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
<b>Governmental activities:</b>								
Aquatic weed control	\$ 178,340		\$ -	-	\$ -	\$ (178,340)	\$ -	\$ (178,340)
Ditch maintenance	129,192		-	-	-	(129,192)	-	(129,192)
General and administrative	256,974		-	-	-	(256,974)	-	(256,974)
<b>Total Governmental Activities</b>	<b>\$ 564,506</b>		<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>(564,506)</b>	<b>-</b>	<b>(564,506)</b>
<b>General Revenues:</b>								
Non-Ad Valorem property taxes, net of discounts						245,035	-	245,035
Interest income						20,778	-	20,778
<b>Total General Revenues</b>						<b>265,813</b>	<b>-</b>	<b>265,813</b>
<b>Change in Net Assets</b>						<b>(298,693)</b>	<b>-</b>	<b>(298,693)</b>
<b>Net Assets, beginning</b>						<b>3,357,905</b>	<b>-</b>	<b>3,357,905</b>
<b>Net Assets, ending</b>						<b>\$ 3,059,212</b>	<b>\$ -</b>	<b>\$ 3,059,212</b>

See accompanying notes to the financial statements.



**Fellsmere Water Control District**  
**Balance Sheet - Governmental Funds**

September 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash, collateralized	\$ 113,605	\$ -	\$ 113,605
Investments	2,826,625	-	2,826,625
<b>Total Assets</b>	<b>\$ 2,940,230</b>	<b>\$ -</b>	<b>\$ 2,940,230</b>
<b>Liabilities</b>			
Accounts Payable	\$ 1,655	\$ -	\$ 1,655
<b>Total Liabilities</b>	<b>1,655</b>	<b>-</b>	<b>1,655</b>
<b>Fund Balances:</b>			
Unreserved, reported in:			
General fund	2,438,575	-	2,438,575
Designated for contingencies	500,000	-	500,000
<b>Total Fund Balances</b>	<b>2,938,575</b>	<b>-</b>	<b>2,938,575</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,940,230</b>	<b>\$ -</b>	<b>\$ 2,940,230</b>

Amounts reported for governmental activities in the  
statement of net assets is different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported in the governmental funds.

120,637

Net Assets of Governmental Activities

\$ 3,059,212

See accompanying notes to the financial statements.

**Fellsmere Water Control District**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**

Year ended September 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes, net of discounts	\$ 245,035	\$ -	\$ 245,035
Interest income	20,778	-	20,778
<b>Total Revenues</b>	265,813	-	265,813
<b>Expenditures</b>			
Current operating:			
Aquatic weed control	166,007	-	166,007
Ditch maintenance	116,859	-	116,859
General and administrative	253,610	-	253,610
Capital outlay	13,168	-	13,168
<b>Total Expenditures</b>	549,644	-	549,644
<b>Net Decrease in Fund Balance</b>	(283,831)	-	(283,831)
<b>Fund Balance, beginning of year</b>	3,222,406	-	3,222,406
<b>Fund Balance, end of year</b>	\$ 2,938,575	\$ -	\$ 2,938,575

See accompanying notes to the financial statements.



**Fellsmere Water Control District**

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

Year ended September 30, 2010

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<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (283,831)</b>
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Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation expense of \$28,030 exceeds  
capital outlays of \$13,168 in the period.

(14,862)

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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (298,693)</b>
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See accompanying notes to the financial statements.

**Note 1 – Summary of Significant Accounting Policies**

**General Information**

The Fellsmere Water Control District (the District) is an independent special district, as defined by the laws of the State of Florida, and is located in Indian River County, Florida. The District was incorporated pursuant to a decree in the Circuit Court of the Fifteenth Judicial Court, in and for St. Lucie County, Florida on April 8, 1919. The District consists of landowners who receive the benefit of water management and are assessed for the maintenance and operation of the District.

**Reporting Entity**

Criteria for determining if other entities are potential component units of the District which should be reported with the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The reporting entity for the District includes all functions of government in which the Board of Supervisors exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, significant ability to influence operations and accountability for fiscal matters. As a result of applying the above reporting entity criteria, no component units exist in which the District has any oversight responsibilities which would require inclusion in the District's financial statements.

**Basis of Presentation**

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing accounting principles generally accepted in the United States of America for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant principles generally accepted in the United States of America and used by the District are discussed below.

The basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District has no business-type activities. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Reconciling items arise from differences in the measurement focuses and bases of accounting between the statements, and certain required eliminations.



**Note 1 – Summary of Significant Accounting Policies (continued)**

**Basic Financial Statements - Government-wide Statements**

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The District's net assets are reported in two parts – invested in capital assets and unrestricted net assets. When applicable, the District first utilizes restricted resources to finance qualifying activities.

The government-wide 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 which 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.

**Basic Financial Statements – Fund Financial Statements**

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The District's major governmental funds are as follows:

**General Fund** - Used to account for all financial resources not required to be accounted for in another fund.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues become available when they are collectable within the current period, or soon enough thereafter to be used to pay liabilities of the period. Property taxes are recorded as revenue when received; uncollected property taxes are insignificant to the overall operations of the District and therefore are not accrued. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except unmatured interest on long-term debt, which should be recognized when due. The principal exception to this general rule is that prepaid items are generally not accrued.



**Fellsmere Water Control District**  
Notes to Basic Financial Statements (continued)

**Note 1 – Summary of Significant Accounting Policies** (continued)

**Budgetary Basis Accounting**

The annual budget is adopted for the governmental funds and approved by the Board of Supervisors. Once approved, the District may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. The District prepares the budget on a basis consistent with generally accepted accounting principles. Appropriations for the General Fund lapse at the end of the fiscal year. Budgetary control is established at the fund level. Expenditures in excess of appropriation in one or more funds does not constitute a violation of budgetary controls as long as total expenditures do not exceed total appropriations for the major fund.

**Encumbrances**

The District does not utilize encumbrance accounting.

**Cash and Cash Equivalents**

For purposes of statement presentation, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash or cash equivalents.

**Capital Assets and Depreciation**

Expenditures for capital assets acquired for general District purposes are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated assets are recorded at fair market value at the date of donation. The District maintains a capitalization threshold of \$500. Major outlays for capital assets and improvements are capitalized as projects are completed; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than building have not been capitalized in the past. As a phase 3 government with revenues less than \$10 million, the District has elected not to retroactively report these assets. As required, the District has elected effective October 1, 2003, to capitalize all current and future costs.

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

Buildings	10-40 years
Improvements	7-10 years
Equipment	3-7 years

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Payments made within sixty days after year end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Fellsmere Water Control District**  
Notes to Basic Financial Statements (continued)

**Note 1 – Summary of Significant Accounting Policies** (continued)

**Compensated Absences**

Vacation expenditures are recognized when payments are made to the employees. Employees are entitled to vacation after one year of employment. Any vacation earned but not taken by the employee's anniversary date is forfeited by the employee unless an extension is granted by the Board of Supervisors, thus no liability is recorded. Sick leave is available to all employees after one year of continuous service, earned at a rate of 1 ¼ days per month up to a maximum of 15 days per year. Unused sick leave shall accumulate from year to year to a maximum of 60 days. Accumulated sick leave is not paid upon termination; thus no liability is recorded

**Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

**Property Taxes**

The District is authorized by Section 298.54, Florida Statutes, to levy property taxes of \$9 per acre on property located within the District. The property assessment and tax collection functions are performed by appropriate officials of county government. Commissions are paid to the county for these appraisal and collection services.

Property tax revenues recognized for the 2009-10 fiscal year were levied on January 1, 2009. Virtually all unpaid taxes are collected via the sale of tax certificates prior to fiscal year end. Therefore, there were no significant tax receivables at year-end.

Key dates in the property tax cycle (latest date where appropriate) are as follow:

	<u>Revenues for Fiscal Year Ended September 30, 2010</u>
Lien date	January 1, 2009
Property taxes levied	October 31, 2009
Beginning of fiscal year for which taxes have been levied	October 1, 2009
Tax bills rendered	November 1, 2009
Property taxes payable:	
Maximum discount	November 30, 2009
Delinquent	April 1, 2010
Tax certificates sold on unpaid property taxes	May 30, 2010



**Fellsmere Water Control District**  
Notes to Basic Financial Statements (continued)

**Note 1 – Summary of Significant Accounting Policies** (continued)

**Interfund Activity**

Loans between governmental funds are reported as interfund receivables or payables as appropriate and are subject to elimination upon consolidation. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. During the year ended September 30, 2010, the District made no interfund transfers.

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Supervisors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended September 30, 2010.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

**Note 2 – Cash and Investments**

Florida statutes require state and local governmental units to deposit monies with financial institutions classified as "qualified public depositories", a multiple financial institution pool whereby groups of securities pledged by the various financial institutions provide common collateral for their deposits of public funds. This pool is provided as additional insurance to the federal depository insurance and allows for additional assessments against the member institutions, providing full insurance for public deposits. Further, Florida Statutes limit such investment and deposit accounts in "qualified public depositories" to savings accounts, demand deposit accounts, certificates of deposits and direct obligations of the U.S. Treasury and other federal agencies or entities.

Deposits – At year-end, the carrying amount of the District's cash and cash equivalent deposits were \$113,605 and the bank balances were \$127,911. The bank balances, was covered by federal depository insurance.

Investments - The carrying values of investments are stated at cost, which approximates market value. At September 30, 2010, investments consisted of certificates of deposit with an original maturity date greater than three months totaling \$2,826,625.

Of the investment balances, \$250,000 was covered by federal depository insurance, and \$2,576,625 was covered by collateral held in escrow by the bank's trust department, under the "qualified public depository" rules as stated above.

**Fellsmere Water Control District**  
Notes to Basic Financial Statements (continued)

**Note 3 – Capital Assets**

Capital asset activity for governmental activities for the year ended September 30, 2010, was as follows:

	Balance September 30, 2009	Additions	Deletions	Balance September 30, 2010
<b>Capital assets not being depreciated:</b>				
Land	\$ 13,871	\$ -	\$ -	\$ 13,871
Total capital assets not being depreciated	13,871	-	-	13,871
<b>Other capital assets:</b>				
Buildings	205,289	-	(3,220)	202,069
Improvements	13,169	6,555	(4,499)	15,225
Equipment	588,262	6,613	(2,188)	592,687
Total other capital assets, at historical cost	806,720	13,168	(9,907)	809,981
<b>Less accumulated depreciation for:</b>				
Buildings	(108,328)	(5,873)	3,220	(110,981)
Improvements	(13,169)	(100)	4,499	(8,770)
Equipment	(563,595)	(22,057)	2,188	(583,464)
Total accumulated depreciation	(685,092)	(28,030) *	9,907	(703,215)
Other capital assets, net	121,628	(14,862)	-	106,766
Governmental activities capital assets, net	\$ 135,499	\$ (14,862)	\$ -	\$ 120,637
<b>* Depreciation expense was charged to governmental functions as follows:</b>				
Aquatic weed control				\$ 12,333
Ditch maintenance				12,333
General and administrative				3,364
				\$ 28,030



#### **Note 4 - Retirement System**

The District participates in the Florida Retirement System, a retirement plan administered by the Department of Administration of the State of Florida pursuant to Chapter 121, Florida Statutes. This plan is a cost-sharing, multiple-employer public employee retirement system (PERS). The plan covers all employees in a regulatory established position in the District. Total current year payroll covered under the plan is \$131,663, which is 100% of total payroll. The amount of vested benefits cannot be readily segregated from other state retirement system participants.

Effective July 1, 2010, the District is required by Florida Statutes to contribute 10.77% of the employee's gross salary, with the exception of the superintendent who is included under the senior management service class with a 14.57% contribution rate. Employees are not required to contribute. The amount contributed for fiscal year ended September 30, 2010, was \$15,872, which is less than 1% of the plan total.

The pension benefit obligation is a standardized disclosure and measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employees service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers.

The system does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation and the total net assets available for benefits of the Florida Retirement System as of June 30, 2008 (the most recent actuarial valuation date), are approximately \$124 billion and \$131 billion respectively, determined through an actuarial valuation performed as of that date, leaving an over funded pension benefit of approximately \$7 billion.

For further information, including 10-year historical trend information, refer to the State of Florida's Comprehensive Annual Financial Report or the various publications from the Florida Department of Administration, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, Florida 32399-1560.

#### **Note 5 – Risk Management Programs**

Workers' compensation coverage is provided by the District. Employees of the District are covered by purchased health insurance. The District contributes monthly for each employee to the plan, and employees at their option, authorize payroll withholdings to pay for dependents. Employees authorize payroll withholdings and are responsible for all premiums.

General liability, professional liability, and property coverage's are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Commercial coverage has not been exceeded.

#### **Note 6 – Economic Dependency**

Approximately \$153,000 in tax revenue was received from Fellsmere Joint Venture, a large agricultural concern and major landowner within the District.



**Fellsmere Water Control District**  
Notes to Basic Financial Statements (continued)

**Note 7 – Designated for Contingencies**

A portion of the governmental activities/general fund has been earmarked by the Board of Supervisors for the purpose of acquisition of future assets and any contingency expenditures, which may arise. A total of \$500,000 has been designated for such contingencies.

## **REQUIRED SUPPLEMENTARY INFORMATION**

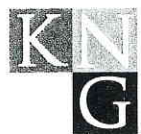
**Fellsmere Water Control District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Governmental Funds Budget and Actual - General Fund**

Year ended September 30, 2010

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Taxes, net of discounts	\$ 250,000	\$ 250,000	\$ 245,035	\$ (4,965)
Interest	96,055	96,055	20,778	(75,277)
Other income	371,369	371,369	-	(371,369)
<b>Total Revenues</b>	<b>717,424</b>	<b>717,424</b>	<b>265,813</b>	<b>(451,611)</b>
<b>Expenditures</b>				
<b>Aquatic Weed Control:</b>				
Materials and other supplies	16,298	16,298	5,842	10,456
Contractual services	91,626	91,626	53,984	37,642
Chemicals	125,890	125,890	106,181	19,709
<b>Total Aquatic Weed Control</b>	<b>233,814</b>	<b>233,814</b>	<b>166,007</b>	<b>67,807</b>
<b>Ditch Maintenance:</b>				
Salaries and wages	35,661	35,661	34,445	1,216
Employee benefits	15,836	15,836	15,629	207
Materials and other supplies	51,083	51,083	66,785	(15,702)
<b>Total Ditch Maintenance</b>	<b>102,580</b>	<b>102,580</b>	<b>116,859</b>	<b>(14,279)</b>
<b>General and Administrative:</b>				
Salaries and wages	93,644	93,644	97,217	(3,573)
Employee benefits	84,594	84,594	58,670	25,924
Legal and professional	50,000	50,000	31,773	18,227
Insurance	15,560	15,560	6,676	8,884
Other	137,232	137,232	59,274	77,958
<b>Total General and Administrative</b>	<b>381,030</b>	<b>381,030</b>	<b>253,610</b>	<b>127,420</b>
<b>Capital Outlay</b>	<b>-</b>	<b>-</b>	<b>13,168</b>	<b>(13,168)</b>
<b>Total Expenditures</b>	<b>717,424</b>	<b>717,424</b>	<b>549,644</b>	<b>167,780</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(283,831)</b>	<b>\$ (283,831)</b>
<b>Fund Balance, beginning of year</b>			<b>3,222,406</b>	
<b>Fund Balance, end of year</b>			<b>\$ 2,938,575</b>	

See accompanying notes to the financial statements.





KMETZ NUTTALL ELWELL GRAHAM, PLLC  
Certified Public Accountants

**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***

To the Board of Supervisors  
Fellsmere Water Control District  
Fellsmere, Florida

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fellsmere Water Control District (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. 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. The District's response to the finding identified in our audit is described below. We did not audit the District's response, accordingly, we express no opinion on it.

To the Board of Supervisors  
Fellsmere Water Control District  
Fellsmere, Florida

### **Segregation of Duties**

The limited size of the District's staff does not allow for proper segregation of duties in each phase of operations. This is not unusual in an organization of this size. Although segregation of duties is necessary for optimum efficiency in internal controls, management does not believe it is cost beneficial for the District. The high degree of involvement by the Board of Supervisors in the financial process also provides a degree of compensating control for this weakness.

### ***Management Response***

Due to the limited size of the staff and funding limitations, segregation of duties will continue to be a deficiency. The Board of Supervisors will continue to participate to a high degree in the financial process, which will compensate to some extent for the inherent control deficiency.

### **Compliance and Other Matters**

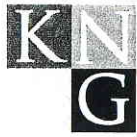
As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

This report is intended solely for the information and use of the Board of Supervisors and management of Fellsmere Water Control District, and the State of Florida Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants  
Vero Beach, Florida

January 10, 2011





KMETZ NUTTALL ELWELL GRAHAM, PLLC  
*Certified Public Accountants*

**Independent Auditors' Management Letter**

To the Board of Supervisors  
Fellsmere Water Control District  
Fellsmere, Florida

We have audited the basic financial statements of the Fellsmere Water Control District, as of and for the year ended September 30, 2010, and have issued our report thereon dated January 10, 2011.

We have 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. We have issued our Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting. Disclosures in that report, if any, which are dated January 10, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida. Those rules require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(i)1.) 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. The segregation of duties reportable condition noted in the prior year has not been corrected.

The Rules of the Auditor General (Section 10.554(1)(i)2.), requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Fellsmere Water Control District complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)3.), requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

The Rules of the Auditor General (Section 10.554(1)(i)4.), requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.

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



To the Board of Supervisors  
Fellsmere Water Control District  
Fellsmere, Florida

The Rules of the Auditor General (Section 10.554(1)(i)7.a.), require a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Fellsmere Water Control District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)7.b.), require that we determine whether the annual financial report for the Fellsmere Water Control District for the fiscal year ended September 30, 2010, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is no limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information of the Fellsmere Water Control District and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Kmetz, Nuttall, Elwell, Graham, PLLC  
Certified Public Accountants  
Vero Beach, Florida

January 10, 2011