

FELLSMERE WATER CONTROL DISTRICT

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

Year ended September 30, 2011

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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, 2011, 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, 2011, 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 February 13, 2012, 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
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Vero Beach, Florida

February 13, 2012

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**FELLSMERE WATER CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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 12 – 14 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 15 - 23 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 \$2,794,926, at September 30, 2011.

\$112,378 (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, 2011**

FELLSMERE WATER CONTROL DISTRICT'S NET ASSETS

	2011	2010
Current assets	\$ 2,685,480	\$ 2,940,230
Capital assets, net	112,378	120,637
Total Assets	2,797,858	3,060,867
Current liabilities	1,655	1,655
Net Assets		
Invested in capital assets	112,378	120,637
Unrestricted, reported in:		
Governmental activities	2,182,548	2,438,575
Designated for contingencies	500,000	500,000
Total Net Assets	\$ 2,794,926	\$ 3,059,212

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

	2011	2010
Revenues		
General revenues:		
Maintenance taxes, net of discounts	\$ 257,750	\$ 245,035
Other	11,401	20,778
Total revenues	269,151	265,813
Expenses		
Aquatic weed control	161,926	178,340
Ditch maintenance	84,029	129,192
General and administrative	287,482	256,974
Total expenses	533,437	564,506
Decrease in net assets	(264,286)	(298,693)
Net assets, beginning of year	3,059,212	3,357,905
Net assets, end of year	\$ 2,794,926	\$ 3,059,212

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, 2011**

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, *unassigned 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 \$2,682,548. Of this total, \$2,182,548 constitutes *unassigned fund balance*, which is available for spending at the District's discretion, and \$500,000 which is assigned for contingencies..

The general fund is the only operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,182,548. 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 and total fund balance exceeded expenditures by \$1,657,370 and \$2,157,370, respectively.

The fund balance of the District's general fund decreased by \$256,027, during the year ended September 30, 2011, 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 \$468,838 less in actual revenue than was budgeted. The actual expenditures were some \$212,811 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, 2011, amounted to \$112,378 (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 17 and 21 of this report.

**FELLSMERE WATER CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

With the public opposition to this issue, involving questionable scientific basis of numeric nutrient criteria, excessive implementation and maintenance costs to Florida's economy and other state rights issues, the implementation of these rules has been delayed temporarily. Both the Florida state and federal legislative assemblies have filed suits against the EPA. This has become a political issue and the final outcome remains unknown at this point in time.

Flood Insurance Rate Map Modernization

In support of the National Flood Insurance Program (N.F.I.P.), the Federal Emergency Management Agency (F.E.M.A.) has undertaken an effort of flood hazard identification and mapping to update Flood Insurance Rate Maps (F.I.R.M.) for Indian River County. This F.E.M.A. modernization project includes the conversion of base elevation datum from the current 1929 (N.G.V.D. 29) to the North American Vertical Datum 1988 (N.A.V.D. 88). By making this change, Indian River County and local governments and agencies will benefit from more accurate and consistent data, and improved communication with other agencies.

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, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash, collateralized	\$ 1,205,781	\$ -	\$ 1,205,781
Investments	1,479,699	-	1,479,699
Capital assets, net	112,378	-	112,378
Total Assets	2,797,858	-	2,797,858
Liabilities			
Accounts Payable	2,932	-	2,932
Total Liabilities	2,932	-	2,932
Net Assets			
Invested in capital assets	112,378	-	112,378
Unrestricted, reported in:			
Governmental activities	2,182,548	-	2,182,548
Designated for contingencies	500,000	-	500,000
Total Net Assets	\$ 2,794,926	\$ -	\$ 2,794,926

See accompanying notes to the financial statements.

Fellsmere Water Control District
Statement of Activities

Year ended September 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Aquatic weed control	\$ 161,926	-	\$ -	\$ (161,926)	\$ -	\$ (161,926)
Ditch maintenance	84,029	-	-	(84,029)	-	(84,029)
General and administrative	287,482	-	-	(287,482)	-	(287,482)
Total Governmental Activities	\$ 533,437	-	\$ -	(533,437)	-	(533,437)
General Revenues:						
Non-Ad Valorem property taxes, net of discounts	257,750			257,750	-	257,750
Interest income	11,401			11,401	-	11,401
Total General Revenues	269,151			269,151	-	269,151
Change in Net Assets				(264,286)	-	(264,286)
Net Assets, beginning				3,059,212	-	3,059,212
Net Assets, ending				\$ 2,794,926	\$ -	\$ 2,794,926

See accompanying notes to the financial statements.



Fellsmere Water Control District
Balance Sheet - Governmental Funds

September 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash, collateralized	\$ 1,205,781	\$ -	\$ 1,205,781
Investments	1,479,699	-	1,479,699
Total Assets	\$ 2,685,480	\$ -	\$ 2,685,480
Liabilities			
Accounts Payable	\$ 2,932	\$ -	\$ 2,932
Total Liabilities	2,932	-	2,932
Fund Balances:			
Assigned for contingencies	500,000	-	500,000
Unassigned	2,182,548	-	2,182,548
Total Fund Balances	2,682,548	-	2,682,548
Total Liabilities and Fund Balances	\$ 2,685,480	\$ -	\$ 2,685,480
Total Fund Balances			\$ 2,682,548
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.			112,378
Net Assets of Governmental Activities			\$ 2,794,926

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, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes, net of discounts	\$ 257,750	\$ -	\$ 257,750
Interest income	11,401	-	11,401
Total Revenues	269,151	-	269,151
Expenditures			
Current operating:			
Aquatic weed control	158,292	-	158,292
Ditch maintenance	80,395	-	80,395
General and administrative	286,491	-	286,491
Capital outlay	-	-	-
Total Expenditures	525,178	-	525,178
Net Decrease in Fund Balance	(256,027)	-	(256,027)
Fund Balance, beginning of year	2,938,575	-	2,938,575
Fund Balance, end of year	\$ 2,682,548	\$ -	\$ 2,682,548

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, 2011

Net Change in Fund Balances - Governmental Funds	\$ (256,027)
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.	
Depreciation expense in the period.	(8,259)
Change in Net Assets of Governmental Activities	\$ (264,286)

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.

Fellsmere Water Control District

Notes to Basic Financial Statements (continued)

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.

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.



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 \$9.50 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 2010-11 fiscal year were levied on January 1, 2010. 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, 2011</u>
Lien date	January 1, 2010
Property taxes levied	October 31, 2010
Beginning of fiscal year for which taxes have been levied	October 1, 2010
Tax bills rendered	November 1, 2010
Property taxes payable:	
Maximum discount	November 30, 2010
Delinquent	April 1, 2011
Tax certificates sold on unpaid property taxes	May 30, 2011



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, 2011, 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, 2011.

Fund Balance

Beginning with fiscal year September 30, 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which redefined how fund balances of the governmental funds are presented in the financial statements. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District did not have any nonspendable resources as of September 30, 2011.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted resources as of September 30, 2011.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. These amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of September 30, 2011.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District or by an official or body to which the District delegates the authority. The District had \$500,000 assigned for contingencies as of September 30, 2011.

Unassigned – This classification includes the residual fund balance for the General Fund.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

Subsequent events have been evaluated through February 13, 2012, which is the date the financial statements were available to be issued.

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 \$1,205,781 and the bank balances were \$1,209,563. Of the bank balances, \$500,000 was covered by federal depository insurance, and \$709,563 was covered by collateral held in escrow by the bank's trust department, under the "qualified public depository" rules as previously stated.

Investments - The carrying values of investments are stated at cost, which approximates market value. At September 30, 2011, investments consisted of certificates of deposit with an original maturity date greater than three months totaling \$1,479,699.

Of the investment balances, \$250,000 was covered by federal depository insurance, and \$1,229,699 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, 2011, was as follows:

	Balance September 30, 2010	Additions	Deletions	Balance September 30, 2011
Capital assets not being depreciated:				
Land	\$ 13,871	\$ -	\$ -	\$ 13,871
Total capital assets not being depreciated	13,871	-	-	13,871
Other capital assets:				
Buildings	202,069	-	-	202,069
Improvements	15,225	-	-	15,225
Equipment	592,687	-	-	592,687
Total other capital assets, at historical cost	809,981	-	-	809,981
Less accumulated depreciation for:				
Buildings	(110,981)	(5,014)	-	(115,995)
Improvements	(8,770)	(834)	-	(9,604)
Equipment	(583,464)	(2,411)	-	(585,875)
Total accumulated depreciation	(703,215)	(8,259) *	-	(711,474)
Other capital assets, net	106,766	(8,259)	-	98,507
Governmental activities capital assets, net	\$ 120,637	\$ (8,259)	\$ -	\$ 112,378

*** Depreciation expense was charged to governmental functions as follows:**

Aquatic weed control	\$ 3,634
Ditch maintenance	3,634
General and administrative	991
	\$ 8,259

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 \$138,045, which is 100% of total payroll. The amount of vested benefits cannot be readily segregated from other state retirement system participants.

Effective July 1, 2011, the District is required by Florida Statutes to contribute 4.91% of the employee's gross salary, with the exception of the superintendent who is included under the senior management service class with a 6.27% contribution rate. Employees are required to contribute 3.00%. The amount contributed for fiscal year ended September 30, 2011, was \$14,948, 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, 2009 (the most recent actuarial valuation date), are approximately \$118 billion and \$136 billion respectively, determined through an actuarial valuation performed as of that date, leaving an over funded pension benefit of approximately \$17 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 \$148,000 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 budgeted 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, 2011

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes, net of discounts	\$ 233,381	\$ 233,381	\$ 257,750	\$ 24,369
Interest	35,000	35,000	11,401	(23,599)
Other income	469,608	469,608	-	(469,608)
Total Revenues	737,989	737,989	269,151	(468,838)
Expenditures				
Aquatic Weed Control:				
Materials and other supplies	11,950	11,950	6,661	5,289
Contractual services	91,670	91,670	35,134	56,536
Chemicals	122,500	122,500	116,497	6,003
Total Aquatic Weed Control	226,120	226,120	158,292	67,828
Ditch Maintenance:				
Salaries and wages	37,664	37,664	36,144	1,520
Employee benefits	16,290	16,290	14,360	1,930
Materials and other supplies	73,600	73,600	29,891	43,709
Total Ditch Maintenance	127,554	127,554	80,395	47,159
General and Administrative:				
Salaries and wages	98,300	98,300	101,902	(3,602)
Employee benefits	83,300	83,300	51,308	31,992
Legal and professional	50,000	50,000	53,793	(3,793)
Insurance	8,000	8,000	5,259	2,741
Other	144,715	144,715	74,229	70,486
Total General and Administrative	384,315	384,315	286,491	97,824
Capital Outlay	-	-	-	-
Total Expenditures	737,989	737,989	525,178	212,811
Net Change in Fund Balance	\$ -	\$ -	(256,027)	\$ (256,027)
Fund Balance, beginning of year			2,938,575	
Fund Balance, end of year			\$ 2,682,548	

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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 13, 2012. 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

February 13, 2012





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, 2011, and have issued our report thereon dated February 13, 2012.

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 February 13, 2012, 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 two years 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, 2011, 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, 2011. 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 not 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

February 13, 2012

