



CITY OF SATELLITE BEACH, FLORIDA

**Financial Statements
Year Ended September 30, 2011**

CITY OF SATELLITE BEACH, FLORIDA

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CITY OF SATELLITE BEACH, FLORIDA

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CITY OF SATELLITE BEACH, FLORIDA

City Officials

As of September 30, 2011

Mayor

Joseph Ferrante

Vice Mayor

Michael Chase

Council Members

Bill Higginson

Jeffrey Fleis

Scott Rhodes

City Attorney

James P. Beadle

City Manager

Michael P. Crotty

City Clerk, CMC

Barbara Montanaro

Finance Director, CGFO, CFE

Brenda Raver

Independent Auditors' Report

The Honorable Mayor and City Council
of the City of Satellite Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Satellite Beach, Florida, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Satellite Beach, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Satellite Beach, Florida, 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 March 10, 2012, on our consideration of the City of Satellite Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (pages 7 through 14), and the required supplementary information (pages 52 through 59) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and City Council
of the City of Satellite Beach, Florida
Page Two

The accompanying schedule of expenditures of federal awards (page 67) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Satellite Beach, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Melbourne, Florida
March 10, 2012

Management's Discussion and Analysis

As management of the City of Satellite Beach, Florida (the "City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City of Satellite Beach, Florida, for the fiscal year ended September 30, 2011.

Financial Highlights

- The assets of the City of Satellite Beach, Florida, exceeded its liabilities at the close of the most recent fiscal year by \$22,687,847 (net assets). Of this amount, (\$1,105,710) represents the unrestricted net deficit due to recording of the net OPEB obligation of \$1,060,000 and compensated absences of \$675,907 which are not currently funded.
- The City's total net assets increased by \$270,083. This increase is attributable to fiscal year revenues exceeding expenses, which caused a positive net asset increase.
- As of the close of the current fiscal year, the City of Satellite Beach, Florida's governmental funds reported combined ending fund balances of \$2,536,786, a decrease of \$771,081 in comparison with the prior year. Approximately 18 percent of this total amount, \$465,248, is available for spending at the City's discretion (unassigned fund balance reported in the general fund).
- The City of Satellite Beach, Florida's total long-term liabilities decreased by \$346,458 during the current fiscal year. The decreases are due mainly to principal payments made on notes/leases payable of \$715,862 and a net increase in the OPEB liability of \$362,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Satellite Beach, Florida's basic financial statements. The City of Satellite Beach, Florida's basic financial statements comprise three components: 1) government-wide financial statements (GASB-34), 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information (RSI) in addition to the basic financial statements themselves.

Government-wide financial statements (GASB-34). The government-wide financial statements are designed to provide readers with a broad overview of the City of Satellite Beach, Florida's finances, in a manner similar to a private-sector business. All of the City's activities are reported as governmental activities in the government-wide financial statements.

The statement of net assets presents information on all of the City of Satellite Beach, Florida's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Satellite Beach, Florida is improving or deteriorating.

The statement of activities presents information showing how the City'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.

The government-wide financial statements can be found on pages 17-18 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Satellite Beach, Florida, 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 City of Satellite Beach, Florida can be divided into two categories: governmental funds and fiduciary funds.

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

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

The City of Satellite Beach, Florida, maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the community redevelopment agency fund, the stormwater utility fund, and the capital assets fund, which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation called “nonmajor funds”.

The basic governmental fund financial statements can be found on pages 20-24 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Satellite Beach, Florida's own programs. Fiduciary fund financial statements are prepared using the accrual basis of accounting.

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-49 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the City of Satellite Beach, Florida's budgetary compliance, other postemployment benefits, and pension obligations. The City of Satellite Beach, Florida adopts an annual appropriated budget for its general fund and all of its major special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budgets.

Required supplementary information can be found on pages 52-59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City of Satellite Beach, Florida, assets exceeded liabilities by \$22,687,847 at the close of the most recent fiscal year.

The following table reflects the condensed statement of net assets:

CITY OF SATELLITE BEACH, FLORIDA'S Net Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 4,328,966	\$ 4,921,011
Capital assets	<u>29,588,216</u>	<u>28,725,709</u>
Total assets	<u>33,917,182</u>	<u>33,646,720</u>
Long-term liabilities outstanding	<u>9,275,788</u>	<u>9,622,246</u>
Other liabilities	<u>1,953,547</u>	<u>1,606,710</u>
Total liabilities	<u>11,229,335</u>	<u>11,228,956</u>
Net assets:		
Invested in capital assets, net of related debt	22,048,335	20,469,966
Restricted	1,745,222	1,862,742
Unrestricted	<u>(1,105,710)</u>	<u>85,056</u>
Total net assets	<u>\$ 22,687,847</u>	<u>\$ 22,417,764</u>

By far the largest portion of the City of Satellite Beach, Florida's net assets (97 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding.

The City of Satellite Beach, Florida, uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Satellite Beach, Florida's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$1,745,222 of the City's net assets represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City of Satellite Beach, Florida, is only able to report a positive balance in its investment in capital assets, net of related debt and restricted net assets. The City reported an unrestricted net deficit of (\$1,105,710) primarily due to recording of the net OPEB obligation of \$1,060,000 and compensated absences of \$675,907 which are not currently funded.

The following table shows condensed revenue and expense data:

CITY OF SATELLITE BEACH, FLORIDA'S Changes in Net Assets

	2011	2010
Revenues:		
Charges for services	\$ 1,211,950	\$ 1,239,313
Operating grants and contributions	426,500	334,242
Capital grants and contributions	1,030,633	507,160
General revenues:		
Property taxes	5,535,868	5,974,079
Franchise fees	1,610,338	1,635,820
Shared revenues not restricted to specific programs	934,766	964,804
Grants and contributions not restricted to specific programs	11,879	112,472
Unrestricted investment earnings	55,648	85,349
Miscellaneous	219,769	96,044
Total revenues	<u>11,037,351</u>	<u>10,949,283</u>
Expenses:		
General government	2,722,538	2,690,675
Public safety	4,808,480	4,447,626
Public works	2,164,604	2,588,456
Recreation	720,816	733,763
Interest on long term debt	350,830	395,068
Total expenses	<u>10,767,268</u>	<u>10,855,588</u>
Increase in net assets	270,083	93,695
Net assets – beginning	<u>22,417,764</u>	<u>22,324,069</u>
Net assets – ending	<u>\$ 22,687,847</u>	<u>\$ 22,417,764</u>

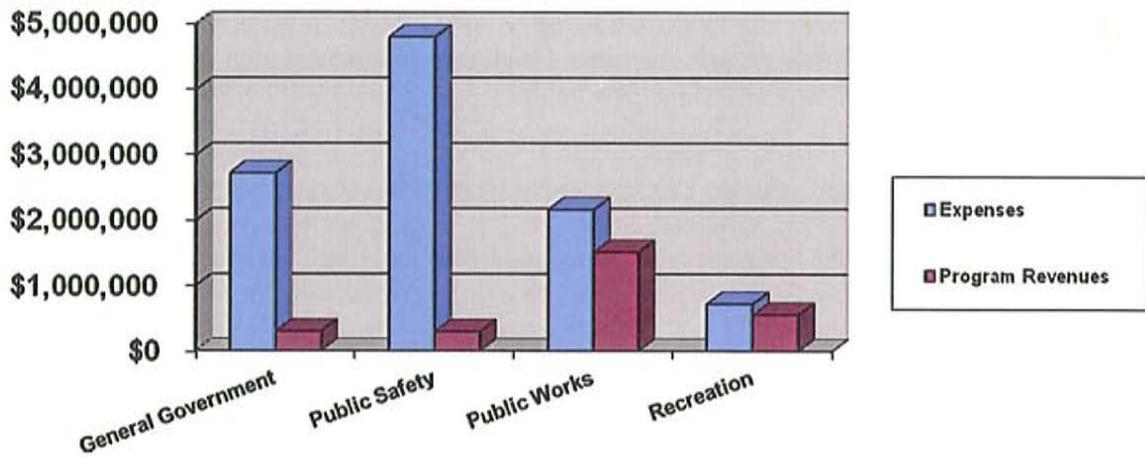
The City's net assets increased by \$270,083 during the current fiscal year. This is due to increased revenues, followed by lowered outflow of resources which encouraged a positive net asset increase.

Key elements of this increase are as follows:

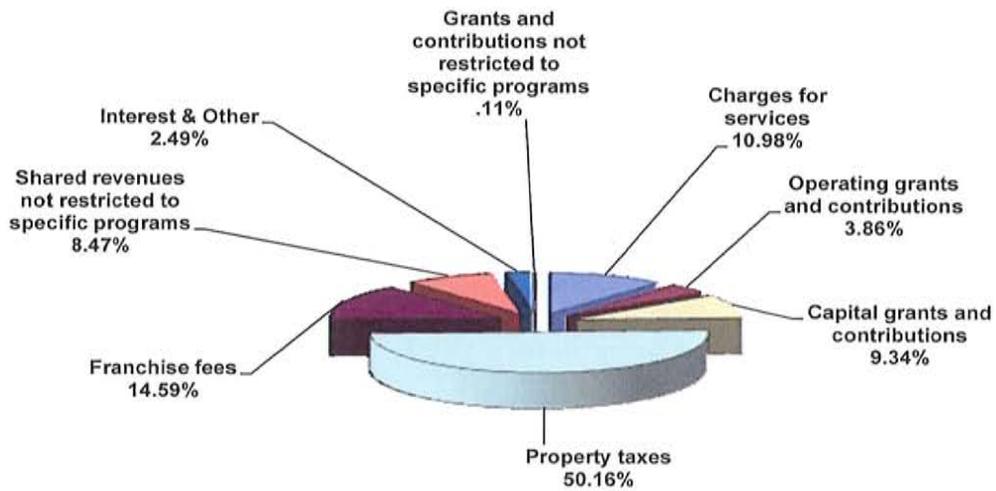
- Capital grants and contributions increased by \$523,473 due largely to two capital grant projects in the stormwater utility fund.
- Property taxes decreased by \$438,211 due mainly to lower assessed property values.
- Miscellaneous increased \$123,725 due mainly to the PILOT payment.

General government expenses increased \$31,863 due to higher insurance premiums. Public safety expenses increased \$360,854 due primarily to payroll related costs. Public works expenses decreased \$423,852 due primarily to a decrease in road repair projects. Interest on long term debt decreased by \$44,238 due to refinancing capital leases.

Expenses and Program Revenues



Revenues by Source



Financial Analysis of the City's Funds

As noted earlier, the City of Satellite Beach, Florida, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Satellite Beach, Florida's governmental funds reported combined ending fund balances of \$2,536,786, a decrease of \$771,081 in comparison with the prior year. Approximately 18 percent of this total amount \$465,248 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it is obligated for prepaid items \$190,024, restricted for specific purposes \$1,741,106, committed by formal action of the City Council (\$6,470), or assigned to pay for obligations previously authorized by the City \$133,938.

The general fund is the chief operating fund of the City of Satellite Beach, Florida. At the end of the current fiscal year, unassigned fund balance of the general fund was \$465,248, assigned fund balance was \$133,938, while total fund balance was \$791,564. As a measure of the general fund's liquidity, it may be useful to compare unassigned plus assigned fund balance to total fund operating expenditures. Unassigned plus assigned fund balance is 7% of total general fund expenditures. The fund balance of the City of Satellite Beach, Florida's general fund decreased by \$653,561 during the current fiscal year.

The community redevelopment agency special revenue fund has a total fund balance of \$696,837, which is nonspendable for prepaid items \$1,310 and restricted for the community redevelopment agency special revenue fund activities \$695,527. The net increase in fund balance during the current year in the community redevelopment agency special revenue fund of \$408,060 was due primarily to few capital projects ongoing within the redevelopment area and less transfers out to the general fund in the current year.

The stormwater utility special revenue fund has a total fund balance of \$352,654, which is nonspendable for prepaid items \$2,806 and restricted for stormwater utility projects \$349,848. The net decrease in fund balance during the current year in the stormwater utility special revenue fund was \$614,531. This was due to two large capital grant projects in progress or completed during the fiscal year.

The capital assets fund has a total fund balance of \$377,483, all of which is restricted for capital assets. The net increase in fund balance during the current year in the capital assets fund was \$79,366. This was due mainly to a reduction in lease payments and a decrease in capital outlay.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget (net increase of \$730,489 in appropriated expenditures and transfers out) can be briefly summarized as follows:

- \$37,636 in increases in general government services, administrative and finance
- \$838,034 in increases in public safety
- \$14,964 in increases allocated to physical environment
- \$3,762 in increases allocated to recreation
- \$162,511 in decreases allocated to transfers out
- \$1,396 in decreases in capital outlay

This increase in expenditures corresponds to a \$646,462 increase in revenues as follows; \$356,361 from taxes; \$121,932 from intergovernmental increases; \$63,669 from charges for services increases; \$75,000 from interest and other increases; and a \$29,500 increase in appropriated transfers in to the general fund. The above items resulted in a net change of \$71,654 whereby the original adopted budget included a negative change in fund balance of \$245,718, compared to a net reduction in fund balance of \$317,372 per the final amended budget.

Capital Asset and Debt Administration

Capital assets. The City of Satellite Beach, Florida's investment in capital assets as of September 30, 2011, amounts to \$29,588,216 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the City of Satellite Beach, Florida's investment in capital assets for the current fiscal year was approximately 3 percent.

CITY OF SATELLITE BEACH, FLORIDA'S Capital Assets
(net of depreciation)

	2011	2010
Land	\$ 11,680,950	\$ 11,680,950
Buildings	2,885,421	2,981,997
Improvements other than buildings	3,255,053	3,352,600
Equipment	1,261,152	1,138,973
Infrastructure	8,314,606	8,372,493
Construction in progress	2,191,034	1,198,696
Total	<u>\$ 29,588,216</u>	<u>\$ 28,725,709</u>

Additional information on the City of Satellite Beach, Florida's capital assets can be found in Note 4.B. on page 37 of this report.

Notes payable. At the end of the current fiscal year, the City of Satellite Beach, Florida, had notes payable outstanding of \$6,713,947.

The City's notes payable balance decreased by \$457,762 during the current fiscal year due to scheduled principal payments on the notes.

Capital leases payable. At the end of the current fiscal year, the City of Satellite Beach, Florida, had total capital leases outstanding of \$825,934.

**CITY OF SATELLITE BEACH, FLORIDA'S Outstanding Debt -
Capital Leases**

	2011	2010
Capital lease DRS Comm. Center	\$ 694,365	\$ 830,313
Capital lease city vehicles	114,563	226,584
Capital lease defibrillator	1,819	5,961
Capital lease safety gear	15,187	21,176
Total capital leases	<u>\$ 825,934</u>	<u>\$ 1,084,034</u>

The City of Satellite Beach, Florida's total capital lease obligations had a net decrease of \$258,100 (24 percent) during the current fiscal year.

Compensated absences. Employees are permitted to accrue earned and unused vacation leave up to a maximum of one and one-half times the annual rate of accrual.

Sick leave is permitted to accrue up to 1,080 hours for employees who are scheduled for forty (40) hours a week and 1,620 hours for employees who are scheduled for fifty-six (56) hours a week.

Upon termination, with restrictions, employees will be paid fifty percent (50%) of up to seven hundred twenty (720) hours or a maximum of three hundred sixty (360) hours of unused sick leave and one hundred percent (100%) of accrued vacation leave.

At the end of the current fiscal year, the City of Satellite Beach, Florida, had total compensated absences of \$675,907. The City's total compensated absences increased by a net amount of \$7,404 during the year, which includes additions of \$491,483 and reductions of \$484,079.

For 2012, it is estimated that \$483,588 of these compensated absences will be due within one year based upon average usage over the three prior years.

Additional information on the City of Satellite Beach, Florida's long-term debt can be found in Note 4.D. on pages 38 through 41 of this report.

Economic Factors and Next Year's Budgets and Rates

Inflationary trends in the region compare to national indices. Among other factors, this was considered in preparing the City of Satellite Beach, Florida's budget for the 2012 fiscal year.

The City of Satellite Beach, Florida, has appropriated \$133,938 of fund balance for spending in the 2012 fiscal year budget and is classified as assigned on the Balance Sheet of the General Fund.

Requests for Information

This financial report is designed to provide a general overview of the City of Satellite Beach, Florida's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Satellite Beach, 565 Cassia Blvd., Satellite Beach, Florida, 32937.

BASIC FINANCIAL STATEMENTS

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CITY OF SATELLITE BEACH, FLORIDA

Statement of Net Assets - Governmental Activities

September 30, 2011

ASSETS

Cash and cash equivalents	\$ 2,250,801
Investments	11,730
Accounts receivable	255,840
Due from other governments	636,231
Prepays	190,024
Deferred outflow of resources - interest rate swap	984,340
Capital assets:	
Nondepreciable	
Land	11,680,950
Construction in progress	2,191,034
Depreciable, net of accumulated depreciation	
Buildings	2,885,421
Improvements other than buildings	3,255,053
Equipment	1,261,152
Infrastructure	8,314,606
Total assets	<u>33,917,182</u>

LIABILITIES

Accounts payable	497,123
Accrued expenses	269,912
Accrued interest	35,814
Unearned revenue	37,106
Underfunded pension costs	125,553
Due to other governments	3,699
Derivative instrument liability - interest rate swap	984,340
Noncurrent liabilities:	
Due within one year	1,380,314
Due in more than one year	7,895,474
Total liabilities	<u>11,229,335</u>

NET ASSETS

Invested in capital assets, net of related debt	22,048,335
Restricted for:	
Community Redevelopment Agency	696,837
Community services	275,929
Law enforcement	42,319
Capital assets	377,483
Stormwater	352,654
Unrestricted (deficit)	(1,105,710)
Total net assets	<u>\$ 22,687,847</u>

The accompanying notes are an integral part of this financial statement.

CITY OF SATELLITE BEACH, FLORIDA

Statement of Activities - Governmental Activities

Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,722,538	\$ 229,026	\$ 72,330	\$ -	\$ (2,421,182)
Public safety	4,808,480	146,461	55,052	92,671	(4,514,296)
Public works	2,164,604	314,331	299,118	902,301	(648,854)
Recreation	720,816	522,132	-	35,661	(163,023)
Interest on long term debt	350,830	-	-	-	(350,830)
Total governmental activities	<u>\$ 10,767,268</u>	<u>\$ 1,211,950</u>	<u>\$ 426,500</u>	<u>\$ 1,030,633</u>	<u>(8,098,185)</u>
General revenues					
Property taxes					5,535,868
Franchise fees					1,610,338
Shared revenues not restricted to specific programs					934,766
Grants and contributions not restricted to specific programs					11,879
Unrestricted investment earnings					55,648
Miscellaneous					219,769
Total general revenues					<u>8,368,268</u>
Change in net assets					270,083
Net assets, beginning					<u>22,417,764</u>
Net assets, ending					<u>\$ 22,687,847</u>

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CITY OF SATELLITE BEACH, FLORIDA

Balance Sheet - Governmental Funds

September 30, 2011

	General	Community Redevelopment Agency	Stormwater Utility	Capital Assets
ASSETS				
Cash and cash equivalents	\$ 825,511	\$ 691,293	\$ 141,748	\$ 274,636
Investments	2,114	9,330	-	-
Accounts receivable	171,105	-	-	81,866
Due from other governments	151,439	-	450,751	34,041
Prepaid items	185,908	1,310	2,806	-
Total assets	<u>\$ 1,336,077</u>	<u>\$ 701,933</u>	<u>\$ 595,305</u>	<u>\$ 390,543</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 316,446	\$ 1,896	\$ 163,201	\$ 13,060
Accrued expenses	187,262	3,200	79,450	-
Unearned revenue	37,106	-	-	-
Due to other governments	3,699	-	-	-
Total liabilities	<u>544,513</u>	<u>5,096</u>	<u>242,651</u>	<u>13,060</u>
Fund balances:				
Nonspendable	185,908	1,310	2,806	-
Restricted	-	695,527	349,848	377,483
Committed	6,470	-	-	-
Assigned	133,938	-	-	-
Unassigned	465,248	-	-	-
Total fund balances	<u>791,564</u>	<u>696,837</u>	<u>352,654</u>	<u>377,483</u>
Total liabilities and fund balances	<u>\$ 1,336,077</u>	<u>\$ 701,933</u>	<u>\$ 595,305</u>	<u>\$ 390,543</u>

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

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

Negative pension obligation resulting from underfunding of the City's defined benefit pension plans.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Net assets of governmental activities

Nonmajor Funds	Total Governmental Funds
\$ 317,613	\$ 2,250,801
286	11,730
2,869	255,840
-	636,231
-	190,024
<u>\$ 320,768</u>	<u>\$ 3,344,626</u>

\$ 2,520	\$ 497,123
-	269,912
-	37,106
-	3,699
<u>2,520</u>	<u>807,840</u>

-	190,024
318,248	1,741,106
-	6,470
-	133,938
-	465,248
<u>318,248</u>	<u>2,536,786</u>
<u>\$ 320,768</u>	

29,588,216

(125,553)

(9,275,788)

(35,814)

\$ 22,687,847

CITY OF SATELLITE BEACH, FLORIDA

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

September 30, 2011

	General	Community Redevelopment Agency	Stormwater Utility	Capital Assets
Revenues				
Taxes	\$ 6,161,894	\$ 395,833	\$ -	\$ 397,134
Licenses and permits	870,355	-	-	-
Intergovernmental	1,009,096	-	902,301	106,372
Charges for services	581,483	-	312,549	-
Fines and forfeitures	78,104	-	-	-
Interest and other	127,408	13,995	11,630	12,923
Total revenues	<u>8,828,340</u>	<u>409,828</u>	<u>1,226,480</u>	<u>516,429</u>
Expenditures				
Current:				
General government	2,046,395	331,667	-	-
Public safety	4,466,663	-	-	-
Public works	1,539,005	-	54,279	-
Recreation	703,311	-	-	-
Capital outlay	19,274	26,904	1,104,321	425,238
Debt service:				
Principal retired	-	243,300	214,462	258,100
Interest	-	224,543	97,076	31,598
Total expenditures	<u>8,774,648</u>	<u>826,414</u>	<u>1,470,138</u>	<u>714,936</u>
Excess (deficiency) of revenues over (under) expenditures	<u>53,692</u>	<u>(416,586)</u>	<u>(243,658)</u>	<u>(198,507)</u>
Other financing sources (uses)				
Transfers in	130,000	829,646	-	277,873
Transfers out	(849,646)	(5,000)	(370,873)	-
Insurance proceeds	8,393	-	-	-
Sale of fixed assets	4,000	-	-	-
Net other financing sources (uses)	<u>(707,253)</u>	<u>824,646</u>	<u>(370,873)</u>	<u>277,873</u>
Net change in fund balances	<u>(653,561)</u>	<u>408,060</u>	<u>(614,531)</u>	<u>79,366</u>
Fund balances, beginning of year	1,445,125	288,777	967,185	298,117
Fund balances, end of year	<u>\$ 791,564</u>	<u>\$ 696,837</u>	<u>\$ 352,654</u>	<u>\$ 377,483</u>

Nonmajor Funds	Total Governmental Funds
\$ -	\$ 6,954,861
-	870,355
-	2,017,769
8,827	902,859
5,314	83,418
30,500	196,456
<u>44,641</u>	<u>11,025,718</u>
-	2,378,062
387	4,467,050
11,900	1,605,184
4,304	707,615
6,465	1,582,202
-	715,862
-	353,217
<u>23,056</u>	<u>11,809,192</u>
<u>21,585</u>	<u>(783,474)</u>
20,000	1,257,519
(32,000)	(1,257,519)
-	8,393
-	4,000
<u>(12,000)</u>	<u>12,393</u>
9,585	(771,081)
308,663	3,307,867
<u>\$ 318,248</u>	<u>\$ 2,536,786</u>

CITY OF SATELLITE BEACH, FLORIDA

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

Year Ended September 30, 2011

Net change in fund balances - total governmental funds \$ (771,081)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. 870,775

In the statement of activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold. (8,268)

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. This transaction has no effect on net assets. 715,862

Some expenses are reported in the statement of activities when earned or incurred. As they do not require the use of current financial resources, they are not reported as expenditures in governmental funds until they have matured. This is the amount of such expenses reported in the statement of activities in the prior year that have matured in the current year. (5,689)

Overfunded and underfunded pension contributions are reported as expenditures in the fund financial statements and recorded as a net pension asset or obligation on the statement of net assets. This is the amount by which the net pension asset decreased and the net pension obligation increased in the current year. (169,516)

Expenses related to the City's net OPEB obligation reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (362,000)

Change in net assets of governmental activities \$ 270,083

CITY OF SATELLITE BEACH, FLORIDA

Statement of Fiduciary Net Assets - Pension Trust Funds

September 30, 2011

ASSETS

Cash and cash equivalents	\$ 534,240
Receivables:	
City contributions	235,030
Participant loan	17,183
Investments, at fair value:	
U.S. government and other debt securities	5,787,327
Mutual stock funds	7,868,580
Total assets	<u>14,442,360</u>

LIABILITIES

-

NET ASSETS

Held in trust for pension benefits	<u>\$ 14,442,360</u>
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CITY OF SATELLITE BEACH, FLORIDA

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds

Year Ended September 30, 2011

ADDITIONS

Contributions:

Employees	\$ 284,756
City	1,009,263
State	163,393
Total contributions	<u>1,457,412</u>

Investment earnings:

Net appreciation in fair value of investments	121,705
Interest and dividends	843
Total investment earnings	<u>122,548</u>

Total additions 1,579,960

DEDUCTIONS

Benefit payments	1,133,752
Administrative expenses	47,108
Total deductions	<u>1,180,860</u>

Change in net assets 399,100

Net assets held in trust for pension benefits, beginning of year 14,043,260

Net assets held in trust for pension benefits, end of year \$ 14,442,360

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Satellite Beach, Florida (the "City") was created pursuant to Chapter 73-129, Laws of Florida, in 1957. The City operates under a chartered council-manager form of government. The accompanying financial statements present the government and its blended component units, an entity for which the government is considered to be financially accountable. A blended component unit, although a legally separate entity, is, in substance, part of the government's operations.

Blended component units. The Community Redevelopment Agency (the "Agency") was established by the City Council in June 2002 to promote the rehabilitation, conservation and/or redevelopment of the Community Redevelopment Area (the "Area"). The Agency is governed by a board comprised of five commissioners who serve also as members of the City Council. Revenue sources for the Agency consist primarily of property taxes from the Area and support from the City's general fund. Any bond issue authorizations are approved by the City Council and the legal liability for the general obligation portion of the Agency's debt remains with the government. The Agency is reported as a major special revenue fund.

The City of Satellite Beach police officers and firefighters participate in the City of Satellite Beach Police Officers' and Firefighters' Retirement System (Police Officers' and Firefighters' System). The Police Officers' and Firefighters' Retirement System functions for the benefit of these employees and is governed by a five-member pension board of trustees. The City appoints two members and the police and firefighters select two members to serve as trustees. The four-member board elects the fifth member who is appointed by City Council as a ministerial duty to serve as a trustee. The City is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels.

The City of Satellite Beach general employees participate in the City of Satellite Beach General Employees' Retirement System (General Employees' System) if they were hired prior to September 30, 1996 or the General Employees' Money Purchase Pension Plan (Money Purchase Plan) if they were hired subsequent to September 30, 1996. Both plans function for the benefit of all regular city employees, but the General Employees' System is governed by a five-member pension board of trustees. The City appoints three members and the employees select two members to serve as trustees. The City is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels for the General Employees' System and is financially responsible for also funding the Money Purchase Plan.

The Police Officers' and Firefighters' System, the General Employees' System, and the Money Purchase Plan are recorded as pension trust funds in the fiduciary funds.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices located at:

565 Cassia Blvd.
Satellite Beach, Florida 32937

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are those which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The government reports the following major governmental funds:

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

The *Community Redevelopment Agency Fund* accounts for the resources accumulated and payments made for the rehabilitation, conservation and/or redevelopment of the Community Redevelopment Area. The Community Redevelopment Agency fund is presented separately as a major fund, which is also in compliance with Florida Statute 163.387.

The *Stormwater Utility Fund* accounts for the proceeds from Stormwater Utility assessments. These funds are to be used for the operation and maintenance of the City's stormwater management program.

The *Capital Assets Fund* accounts for the proceeds from utility service taxes. These funds are to be used to fund the acquisition and construction of certain capital assets.

Additionally, the government reports the following fund type:

Pension trust funds account for the activities of the City's single-employer, defined benefit pension plan that covers all police and fire employees, its single-employer, defined benefit pension plan that covers all general employees if they were hired prior to September 30, 1996, and its defined contribution plan for general employees hired after September 30, 1996. The plans accumulate resources for pension benefit payments to qualified employees.

The City's nonmajor governmental funds consist of a community services fund and a law enforcement trust fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements.

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

Expenses for compensated absences are allocated based on a percentage of total salaries and wages for the year for the various functions.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. *Cash and investments*

State statutes authorize the government to invest in the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, SEC registered money market funds with the highest credit quality rating, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury.

The City invests certain surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the "State Pool"). The State Pool is administered by the Florida State Board of Administration ("SBA"), who provides regulatory oversight. On September 30, 2008, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restriction on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools ("Florida PRIME" (formerly LPIG) and "Fund B").

The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a7-like fund. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the City's position in the pool is equal to the value of pooled shares.

Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio.

The City pools the investments of its governmental funds. Investment earnings of the pool are allocated to the participating funds at the end of each month based on the ratio of each participant funds' investment to the total pooled investment.

During the year ended September 30, 2011, the City participated in the Florida Treasury Investment Pool, which combines short and intermediate term fixed income investment strategies. The asset structure is designed to provide strong liquidity using short term, high quality investments and additional investment income using intermediate investments. Funds of organizations can be used if they are participating in the Treasury Special Purpose Investment Accounts ("SPIA"). This is a pool of investments in which the City owns a share of the pool and not the underlying securities.

Cash and cash equivalents include cash deposits, cash funds held in broker accounts, investments held in Florida PRIME, and investments held in the SPIA pool.

Within the pension trust fund, the City of Satellite Beach Police Officers' and Firefighters' Retirement System is authorized within certain limitations by its governing board to invest in time, savings, and money market deposits, obligations of the U.S. government and government agencies, stocks, commingled funds administered by national or state banks, mutual funds, bonds, and foreign securities. The City of Satellite Beach General Employees' Retirement System is authorized within certain limitations by its governing board to invest in certificates of deposit, repurchase agreements, commercial paper, obligations of the U.S. government and government agencies, stocks, bonds, and foreign securities.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

1. *Cash and investments (continued)*

Pension trust fund investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. The average cost method is used for computing realized gains and losses on marketable equity securities in the pension funds. The difference between the excess of fair value over cost represents unrealized gains.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balance outstanding between the governmental activities and the fiduciary - pension trust funds are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are considered to be fully collectible.

The City is permitted by State law to levy taxes up to 10 mills on assessed valuation. However, Chapter 74-430, Laws of Florida, a special act applicable only to governmental units in Brevard County, limits the annual increase to 10% of the prior year's millage. During a Special Session in June 2007, the Florida Legislature adopted HB1B, which limits municipal property tax rates effective with the 2007-2008 fiscal year. This legislation establishes reductions in the millage rate based on a calculated growth in per capita taxes between the 2002 and 2007 fiscal years. The Legislature did authorize local governments to use the rolled back millage rate if approved by a super majority vote of the governing body. The Satellite Beach City Council tax levy for the fiscal year ended September 30, 2011 was 8.1439 mills, the rolled back rate as approved by a majority vote.

As provided by law, the Brevard County Property Appraiser assesses all properties for ad valorem taxing purposes and the Brevard County Tax Collector collects and distributes all taxes. Ad valorem taxes are levied based on property valuation as of January 1. The fiscal year for which ad valorem taxes are levied begins on October 1. Taxes are due beginning November 1, delinquent on April 1, and lien on May 30. Property tax revenues are recognized in the fiscal year for which they are budgeted and also become due and payable. Virtually all unpaid taxes are collected via tax sale certificates sold on or prior to June 1.

3. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In the fund financial statement, payments on notes or capital lease payables that are not due and payable are recorded as prepaid items.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year, except for the Capital Assets fund which uses a \$3,000 threshold. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Building improvements	12-20
Infrastructure	60
Vehicles	5-12
Equipment	3-18
Leased property	3-12

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. *Swap agreements*

The City has engaged in effective interest rate swap agreements and has recorded the swap agreements at fair market value in accordance with GASB Statement No. 53.

7. *Unearned revenues*

Unearned revenues include amounts collected before the revenue recognition criteria are met. The unearned items consist primarily of business tax receipts recorded by the general fund that relate to the subsequent year.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

8. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. The City has no bond premiums, discounts, or issuance costs associated with its long-term obligations.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

9. *Fund equity*

The City adopted GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended September 30, 2011. The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City 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 Fund Balance – Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) as well as property acquired for resale.

Restricted Fund Balance - Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts that can be used only for specific purposes determined by a formal action (resolution, etc.) of the City Council, the City’s highest level of decision making authority. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – Includes spendable fund balance amounts established by the City Manager or his designee that are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned Fund Balance – This is the residual classification for the General Fund. This represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

The City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information. The City has elected, as permitted by GASB No. 34, to disclose all budgetary information in the notes to the required supplementary information.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds and net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, if any, are not due and payable in the current period and therefore are not reported in the funds”. The details of this \$(9,275,788) difference are as follows:

Note payable – CRA	\$ (5,080,000)
Notes payable – Stormwater	(1,633,947)
Capital leases payable	(825,934)
Net OPEB obligation	(1,060,000)
Compensated absences	<u>(675,907)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets-governmental activities	<u>\$ (9,275,788)</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$870,775 difference are as follows:

Capital outlay	\$ 1,582,202
Depreciation expense	<u>(711,427)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 870,775</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)

Another element of that reconciliation states that “some expenses that do not require the use of current financial resources are not reported as expenditures in the governmental funds until they have matured.” The details of this \$(5,689) difference, which is the amount of expenses that were reported in the statement of activities in the prior year, that have matured in the current year, are as follows:

Compensated absences	\$ (7,404)
Interest expense	<u>1,715</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (5,689)</u>

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

At September 30, 2011, the government’s carrying amount of deposits was \$394,820 and the bank balance was \$556,194. At September 30, 2011, the pension trust funds carrying amount of deposits was \$241,698 and the bank balance was \$241,698. In addition, the City reported petty cash of \$2,357. As of September 30, 2011, all of the City’s noninterest bearing accounts and \$250,000 of the City’s bank balances are covered by federal depository insurance (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes.

At September 30, 2011, the City had the following investments:

Primary government:	
SBA (Florida PRIME)	\$ 84,764
SBA Fund B	11,730
SPIA	<u>1,768,860</u>
Primary government total	<u>\$ 1,865,354</u>
Pension trust funds:	
Bond mutual fund	\$ 5,787,327
Stock mutual fund	6,895,829
International stock mutual fund	<u>1,265,293</u>
Pension trust funds total	<u>\$ 13,948,449</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk

The City's investment policy, and the investment policy for the City's Police Officers' and Firefighters' and the General Employees' Pension Systems, limit investments to securities with specific ranking criteria. As of September 30, 2011, \$5,787,327 of the City's pension trust funds' investment in bond mutual funds was rated AA/V4 by Fitch Ratings. As of September 30, 2011, the City's investment in the Florida PRIME was rated AAAM by Standard & Poors. As of September 30, 2011, the City's investment in the Fund B was unrated. As of September 30, 2011, the City's investment in the SPIA pool was rated Af by Standard & Poors.

Interest rate risk

The General Employees' Retirement System investment policy limits interest rate risk by requiring that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities in the open market prior to maturity. The City's investment policy and the investment policy of the City's Police Officers' and Firefighters' Pension System do not address interest rate risk. As of September 30, 2011, the City's pension trust fund investments in bond mutual funds had a weighted average maturity of 6.74 years. As of September 30, 2011, the Florida PRIME had a weighted average maturity of 38 days and the Fund B had a weighted average life of 4.82 years. As of September 30, 2011, the SPIA pool had an effective duration of 2.13 years.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,680,950	\$ -	\$ -	\$ 11,680,950
Construction in progress	1,198,696	1,238,277	(245,939)	2,191,034
Total capital assets, not being depreciated	<u>12,879,646</u>	<u>1,238,277</u>	<u>(245,939)</u>	<u>13,871,984</u>
Capital assets, being depreciated:				
Buildings	4,465,707	-	-	4,465,707
Improvements other than buildings	4,511,666	72,576	-	4,584,242
Equipment	3,398,439	316,446	(70,656)	3,644,229
Infrastructure	15,556,241	200,842	-	15,757,083
Total capital assets being depreciated	<u>27,932,053</u>	<u>589,864</u>	<u>(70,656)</u>	<u>28,451,261</u>
Less accumulated depreciation for:				
Buildings	(1,483,710)	(96,576)	-	(1,580,286)
Improvements other than buildings	(1,159,066)	(170,123)	-	(1,329,189)
Equipment	(2,259,466)	(185,999)	62,388	(2,383,077)
Infrastructure	(7,183,748)	(258,729)	-	(7,442,477)
Total accumulated depreciation	<u>(12,085,990)</u>	<u>(711,427)</u>	<u>62,388</u>	<u>(12,735,029)</u>
Total capital assets, being depreciated, net	<u>15,846,063</u>	<u>(121,563)</u>	<u>(8,268)</u>	<u>15,716,232</u>
Governmental activities capital assets, net	<u>\$ 28,725,709</u>	<u>\$ 1,116,714</u>	<u>\$ (254,207)</u>	<u>\$ 29,588,216</u>

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

Governmental activities:	
General government	\$ 145,635
Public safety	65,959
Physical environment	493,889
Recreation	5,944
Total depreciation expense - governmental activities	<u>\$ 711,427</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers for the year ended September 30, 2011:

	General Fund	Community Redevelopment Agency Fund	Capital Assets Fund	Non Major Funds	Total
<u>Transfer out:</u>					
General Fund	\$ -	\$ 829,646	\$ -	\$ 20,000	\$ 849,646
Stormwater Utility Fund	98,000	-	272,873	-	370,873
Community Redevelopment Agency Fund	-	-	5,000	-	5,000
Nonmajor Funds	32,000	-	-	-	32,000
Total transfers out	<u>\$ 130,000</u>	<u>\$ 829,646</u>	<u>\$ 277,873</u>	<u>\$ 20,000</u>	<u>\$ 1,257,519</u>

Transfers are used to (1) move revenues from the fund that is required (per statute or budget) to collect them to the fund that is required (per statute or budget) to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

D. LONG-TERM DEBT

Capital leases

The government has entered into certain capital lease agreements as lessee for financing the acquisition of certain vehicles and trucks for the police, fire and public works departments. The government also has financed a recreation center by means of leases. During 2010, the City entered into a single lease agreement, which effectively consolidated the existing capital lease financing agreements. The lease requires monthly payments of \$24,086, which includes interest at a fixed rate of 3.19%, through final maturity in fiscal year 2014. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital lease are as follows:

Asset:	
Building	\$ 2,376,127
Equipment	154,496
Vehicles	325,856
Less: Accumulated depreciation	(790,524)
Total	<u>\$ 2,065,955</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

Obligations of governmental activities under capital lease at September 30, 2011, were as follows:

Year Ending Sept. 30,	Principal	Interest	Total
2012	\$ 266,554	\$ 22,472	\$ 289,026
2013	275,182	13,844	289,026
2014	284,198	4,936	289,134
Total	<u>\$ 825,934</u>	<u>\$ 41,252</u>	<u>\$ 867,186</u>

Notes payable

Stormwater Utility Notes Payable: On April 20, 2006, the City entered into a loan agreement with a bank in the amount of \$1,200,000 with an interest rate of 4.91%. Monthly payments of \$12,675, including interest and principal, are due through maturity of April 20, 2016. The note is secured by equipment.

On October 5, 2009, the City entered into a loan agreement with a bank in the amount of \$1,200,000 with an interest rate of 5.94%. Monthly payments of \$13,286, including interest and principal, are due through maturity of October 5, 2019. The note is secured by equipment.

Community Redevelopment Agency Variable Rate Tax Increment Revenue Note: On May 4, 2006, the Community Redevelopment Agency entered into a loan agreement with a bank in an amount not to exceed \$8,000,000. The initial amount drawn on the note was \$6,250,000. Quarterly payments ranging from \$114,291 to \$117,988, including principal and interest, are due through the maturity date of May 1, 2026.

The note is secured by revenues of the Community Redevelopment Agency fund. Principal and interest paid for the current fiscal year was \$467,843 and pledged gross revenues were approximately \$410,000. As of September 30, 2011, principal and interest to maturity in 2026 to be paid from pledged future revenues totaled \$6,854,094.

As a means of lowering its borrowing costs, when compared against fixed rate borrowings at the time of issuance in May 2006, the City entered into an interest rate swap agreement with the bank issuing it a \$6,250,000 variable rate note. The intention of the swap was to effectively change the City's variable rate note to a synthetic fixed rate of 4.23%.

Under the swap agreement, the City pays the counterparty interest calculated at a fixed rate of 4.23%. In return, the counterparty owes the City interest based on 63.7% of the London Interbank Offering Rate (LIBOR) plus a spread of 0.50%. Only the net difference in the interest payments is actually exchanged with the counterparty. The \$6,250,000 in note principal is not exchanged; it is only the basis on which the interest payments are calculated. The swap agreement has a term of 20 years and a notional amount of \$5,080,000 as of September 30, 2011. The associated variable-rate note has a \$5,080,000 principal amount as of the same date and has a like term. There are no embedded options on the swap agreements and no cash was paid or received when the swap agreements were entered into.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

The debt service requirements of the variable-rate debt and net swap payments are shown below assuming current interest rates remain the same. The current variable rate on the \$6,250,000 note is 0.65% as of September 30, 2011. Therefore, the interest rate related to the \$6,250,000 swap is 3.58% as of the same date, calculated as the difference between the synthetic fixed rate of 4.23% and the 0.65% variable rate.

The interest rate swap agreement has a negative fair value of \$984,340 as of September 30, 2011. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate note payable, creating lower synthetic rates. Because the payments on the City's variable-rate notes payable adjust to changing interest rates, the note payable does not have corresponding fair value increases. The fair value of the swap was obtained from the counterparty and is based on the quoted market price using the mark-to-market method. The change in fair value for the year ended September 30, 2011 is an increase of approximately \$36,000.

As of September 30, 2011, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivatives' fair value. As of September 30, 2011, the swaps' counterparty was rated AA- by Fitch Ratings. The calculation of variable interest payments is an estimate. It is calculated based upon the total interest to be paid less the calculated amount of swap interest to be paid.

The derivative (interest rate swap) contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The City or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contracts. If the swaps were terminated, the variable-rate notes and bonds would no longer carry synthetic interest rates. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value as of that date. As of September 30, 2011, the City has no intention of terminating its swap agreements.

Annual debt service requirements to maturity for the City's notes payable are as follows:

September 30,	Principal	Interest	Interest (swap)	Total
2012	\$ 480,172	\$ 118,412	\$ 177,754	\$ 776,338
2013	503,740	104,290	168,499	776,529
2014	528,001	89,398	158,839	776,238
2015	553,995	73,705	148,775	776,475
2016	514,513	55,716	140,230	710,459
2017-2021	2,144,326	140,439	517,384	2,802,149
2022-2026	1,989,200	38,556	178,320	2,206,076
Totals	<u>\$ 6,713,947</u>	<u>\$ 620,516</u>	<u>\$ 1,489,801</u>	<u>\$ 8,824,264</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Note payable – CRA	\$ 5,323,300	\$ -	\$ (243,300)	\$ 5,080,000	\$ 253,900
Notes payable – Stormwater	1,848,409	-	(214,462)	1,633,947	226,272
Capital leases payable	1,084,034	-	(258,100)	825,934	266,554
Net OPEB obligation	698,000	501,000	(139,000)	1,060,000	150,000
Compensated absences	668,503	491,483	(484,079)	675,907	483,588
Long-term liabilities	<u>\$ 9,622,246</u>	<u>\$ 992,483</u>	<u>\$ (1,338,941)</u>	<u>\$ 9,275,788</u>	<u>\$ 1,380,314</u>

For the governmental activities, compensated absences are generally liquidated by the General fund. Capital leases are generally liquidated by the Capital Assets fund. The note payable – CRA is liquidated by tax revenues received by the Community Redevelopment Agency fund. The notes payable – Stormwater is liquidated by stormwater utility fees.

E. GOVERNMENTAL FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. GOVERNMENTAL FUND BALANCES (CONTINUED)

	General	Community Redevelopment Agency	Stormwater Utility	Capital Asset	Nonmajor Funds
Nonspendable:					
Prepaid items	\$ 185,908	\$ 1,310	\$ 2,806	\$ -	\$ -
Restricted for:					
Community services	-	-	-	-	275,929
Stormwater utility	-	-	349,848	-	-
Community redevelopment	-	695,527	-	-	-
Capital assets	-	-	-	377,483	-
Law enforcement	-	-	-	-	42,319
Committed to:					
Addition to reserves	6,470	-	-	-	-
Assigned:					
Budget deficit and transfer	133,938	-	-	-	-
Unassigned	465,248	-	-	-	-
Total fund balances	<u>\$ 791,564</u>	<u>\$ 696,837</u>	<u>\$ 352,654</u>	<u>\$ 377,483</u>	<u>\$ 318,248</u>

NOTE 5 – OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance through the Florida Municipal Insurance Trust (FMIT), administered by the Florida League of Cities (FLC), Inc. Public Risk Services. Coverage provided through the FMIT includes general liability, auto liability, property and workers' compensation. The City has established a limited risk management program for workers' compensation coverage. The City self-insures the first \$2,500 of each claim. The City budgets for this self-insured portion of workers' compensation and is billed by the FMIT on an annual basis. Annual costs over the last three years for self-insuring the first \$2,500 of each workers' compensation claim totaled \$21,632 or an average of \$7,211 per year.

B. OTHER POSTEMPLOYMENT BENEFITS

The City follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB), for certain postemployment health care benefits provided by the City. The City elected to implement this statement prospectively.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

B. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan description. The City administers a single-employer defined benefit healthcare plan (the “Plan”) that provides medical insurance to its employees and their eligible dependents. Pursuant to Section 112.0801 Florida Statutes, the City is required to provide eligible retirees (as defined in the City’s pension plans) the opportunity to participate in this Plan at the same cost that is applicable to active employees.

Employees and their dependents may elect to remain in the Plan upon retirement up to age 65. After age 65 the City’s insurance coverage becomes secondary to the retiree’s Medicare insurance. The Plan has 18 retirees and spouses receiving benefits and has a total of 80 active participants and dependents. Of that total, 68 are not yet eligible to receive benefits.

Benefit provisions for the Plan were established by City Council on April 3, 1996 and may only be amended by City Council. The City has not established a trust or agency fund for the Plan. The City does not issue stand alone financial statements for this Plan. All financial information related to the Plan is accounted for in the City’s basic financial statements.

Funding policy. The City is funding the Plan on a pay-as-you-go basis. For employees hired prior to April 4, 1996, the City pays 100% of the insurance premiums for those employees’ health insurance, which represents an explicit subsidy. Retirees may also elect to have their dependents covered but must pay the premiums for such coverage. For employees hired April 4, 1996 and after, the employees and their dependents are required to pay 100% of the insurance premiums charged by the carrier. There is an implied subsidy in the insurance premiums for these employees because the premium charged for retirees is the same as the premium charged for active employees, who are younger than retirees on average.

For the year ended September 30, 2011, the City made contributions of \$136,000, which includes both an estimate of the implied subsidy described above and the explicit subsidy paid on behalf of eligible retirees. Contributions of plan members not eligible for an explicit subsidy totaled approximately \$6,700 for the year ended September 30, 2011.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

B. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB cost and net OPEB obligation. The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year ended September 30, 2011, the amount actually contributed to the Plan, and changes in the City’s net OPEB obligation to the Plan:

Annual required contribution	\$ 533,000
Interest on net OPEB obligation	28,000
Adjustment to annual required contribution	<u>(60,000)</u>
Annual OPEB cost (expense)	501,000
Contributions made	(136,000)
Interest on employer contributions	<u>(3,000)</u>
Increase in net OPEB obligation	362,000
Net OPEB obligation – beginning of year	698,000
Net OPEB obligation – end of year	<u>\$ 1,060,000</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/11	\$ 501,000	28%	\$ 1,060,000
9/30/10	502,000	28%	698,000
9/30/09	456,000	26%	336,000

Funded status and funding progress. Because the Plan has fewer than 200 members, the City is required to obtain an actuarial valuation at least every three years. The most recent actuarial valuation was performed as of October 1, 2009. Accordingly, the City will be required to obtain a subsequent actuarial valuation within three years of that date. As of October 1, 2009, the actuarial accrued liability for benefits was \$4,227,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,060,000, and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 104.1%.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

B. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the City's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the City elected to apply the statement prospectively, only two years are presented in the schedule at this time. In future years, required trend data will be presented.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (including inflation of 2.75%) and an annual healthcare cost trend rate of 10% initially (for the year ended September 30, 2011), reduced by decrements to an ultimate rate of 5% after six years. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The UAAL is being amortized using a level-dollar payment basis over an open period of 15 years.

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The government maintains a single-employer, defined benefit pension plan that covers its entire police and fire employees, a single-employer, defined benefit pension plan that covers all general employees if they were hired prior to September 30, 1996, and a defined contribution plan for general employees hired after September 30, 1996.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

Police Officers' and Firefighters' and General Employees' Pension Plans

Plan description. All regular employees are covered by retirement plans. Police and fire employees are covered by the Police Officers' and Firefighters' Pension Plan, while the other employees are covered by the General Employees' Pension Plan. These are single employer, defined benefit pension plans. Both the Police Officers' and Firefighters' Pension Plan and the General Employees' Pension Plan provide for a reduction of benefits if early retirement is taken. Both plans also provide for death and disability benefits. All benefits for these pension plans are established by City ordinance. These plans are governed by a local Board of Trustees which is autonomous. As previously outlined in Note 1.A, complete financial statements for the plans may be obtained at the City's administrative offices.

Summary of significant accounting policies - basis of accounting and valuation of investments. The financial statements of the plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The government's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the government's balance sheet date. Securities without an established market are reported at estimated fair value.

Funding policy. To participate, police and firefighters and general employees are required to contribute 8% of their annual salary to the respective pension plans. The City levies a tax, collected by the State, on property and casualty insurance premiums which partially fund the Police Officers' and Firefighters' Pension Plan. The City is required to contribute the remaining amounts to ensure that these pension plans are actuarially sound. Administrative costs are financed through investment earnings.

The City uses the Entry Age Normal Actuarial Cost Method (EANACM) for the Police Officers' and Firefighters' Pension Plan and the General Employees' Pension Plan to determine required contributions under its retirement systems because it provides for the systematic funding of the normal cost and any unfunded actuarial accrued liabilities. This is an acceptable method to the State of Florida. These liabilities are being funded over a 30 year period for the Police Officers' and Firefighters' Pension Plan and over a 27 year period for the General Employees' Pension Plan.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

Annual pension cost. The City’s annual pension cost and net pension obligation for the Plans for the current year per actuarial valuation as of October 1, 2011, were:

	Police Officers’ and Firefighters’	General Employees’
Annual pension cost	\$ 742,302	\$ 395,712
Contributions made	(652,228)	(316,270)
Increase in net pension obligation	90,074	79,442
Net pension obligation (asset) – beginning of year	(69,654)	25,691
Net pension obligation – end of year	<u>\$ 20,420</u>	<u>\$ 105,133</u>

The actuarial assumptions include an (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.75% per year. The Police Officers’ and Firefighters’ Pension Plan and General Employees’ Pension Plan have unfunded accrued actuarial liabilities of \$4,487,452 and \$1,855,323, respectively, as of October 1, 2011.

Required trend information for both plans for the three most recent fiscal years is presented below:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset) Obligation
Police Officers’ and Firefighters’ Plan	9/30/09	\$ 470,040	96%	\$ (21,362)
	9/30/10	535,868	109%	(69,654)
	9/30/11	742,302	88%	20,420
General Employees’ Plan	9/30/09	289,431	100%	-
	9/30/10	272,755	91%	25,691
	9/30/11	395,712	80%	105,133

Money Purchase Plan

Plan description and funding requirements. The City of Satellite Beach Money Purchase Plan (the “Plan”) is a defined contribution pension plan established on October 1, 1996 under City Ordinance No. 655 and is administered by the City. The Plan provides benefits at retirement to all full-time employees, except police officers and firefighters, hired after October 1, 1996. At September 30, 2011, there were 31 active plan members. Plan members are required to contribute 5% of their annual salary to the Plan, and the City is required to contribute a matching amount. State statutes require the government to contribute 4 percent of the annual covered payroll of Plan participants. Plan provisions and contribution requirements are established and may be amended by the City Council. The City and the employees contributed \$60,295 and \$62,428, respectively, to the Plan for the fiscal year 2011.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

Combining Fund Information

	Police Officers' and Firefighters'	General Employees'	Money Purchase Plan	Total
ASSETS				
Cash and cash equivalents	\$ 161,160	\$ 80,538	\$ 292,542	\$ 534,240
Receivables:				
City contributions	154,441	75,618	4,971	235,030
Participant loan	-	-	17,183	17,183
Investments: U.S. government and other debt securities	3,858,898	1,928,429	-	5,787,327
Investments: mutual stock funds	4,933,301	2,465,346	469,933	7,868,580
Total assets	<u>9,107,800</u>	<u>4,549,931</u>	<u>784,629</u>	<u>14,442,360</u>
LIABILITIES				
	-	-	-	-
NET ASSETS				
Held in trust for pension benefits	<u>\$ 9,107,800</u>	<u>\$ 4,549,931</u>	<u>\$ 784,629</u>	<u>\$ 14,442,360</u>
	Police Officers' and Firefighters'	General Employees'	Money Purchase Plan	Total
ADDITIONS				
Contributions:				
Employees	\$ 165,445	\$ 56,883	\$ 62,428	\$ 284,756
City	654,482	294,486	60,295	1,009,263
State	163,393	-	-	163,393
Total contributions	<u>983,320</u>	<u>351,369</u>	<u>122,723</u>	<u>1,457,412</u>
Total investment earnings				
Net appreciation (depreciation) in fair market value of investments	82,578	47,000	(7,873)	121,705
Interest and dividends	-	-	843	843
Total investment earnings	<u>82,578</u>	<u>47,000</u>	<u>(7,030)</u>	<u>122,548</u>
Total additions	<u>1,065,898</u>	<u>398,369</u>	<u>115,693</u>	<u>1,579,960</u>
DEDUCTIONS				
Benefit payments	856,903	231,350	45,499	1,133,752
Administrative expenses	29,947	17,161	-	47,108
Total deductions	<u>886,850</u>	<u>248,511</u>	<u>45,499</u>	<u>1,180,860</u>
Change in net assets	179,048	149,858	70,194	399,100
Net assets, beginning of year	<u>8,928,752</u>	<u>4,400,073</u>	<u>714,435</u>	<u>14,043,260</u>
Net assets, end of year	<u>\$ 9,107,800</u>	<u>\$ 4,549,931</u>	<u>\$ 784,629</u>	<u>\$ 14,442,360</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2011

NOTE 5 – OTHER INFORMATION (CONTINUED)

D. COMMITMENTS AND CONTINGENCIES

Operating Leases

The City leases certain equipment under noncancelable operating leases. The total costs of such leases were \$36,998 for the year ended September 30, 2011. The future minimum lease payments for the leases are as follows:

Year Ending September 30:	
2012	\$ 24,094
2013	14,594
2014	11,477
2015	354
Total	<u>\$ 50,519</u>

Construction Commitments

Commitments for the repair, modification, improvements, materials and new construction of City-owned property at September 30, 2011 totaled approximately \$423,000.

Community Redevelopment Agency Fund

The City has received communication from the Joint Legislative Auditing Committee (the "Committee") in response to the use of public funds allocated to, and deposited in, the Satellite Beach Community Redevelopment Agency (CRA) Fund. There is a difference of opinion as to whether the City was authorized to transfer restricted CRA funds to the City's General Fund and expend the funds on general government expenditures. The questioned transfers totaled \$2,289,177 for the police department, which were incurred from the 2003/2004 fiscal year through the 2009/2010 fiscal year, and for the fire department from the 2005/2006 fiscal year through the 2009/2010 fiscal year. The Committee has suggested to the City to request an opinion of the Attorney General on the matter. The City initially proceeded with the preparation of a letter seeking the Attorney General's opinion, but City Council is now considering alternatives regarding the amount of and time for reimbursement of funds from the City to the CRA. The amount of the reimbursement that will be made by the General Fund to the CRA Fund cannot be determined at this time.

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**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CITY OF SATELLITE BEACH, FLORIDA

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

General Fund

Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 6,088,019	\$ 6,444,380	\$ 6,161,894	\$ (282,486)
Licenses and permits	889,875	889,875	870,355	(19,520)
Intergovernmental	935,351	1,057,283	1,009,096	(48,187)
Charges for services	560,404	624,073	581,483	(42,590)
Fines and forfeitures	82,763	82,763	78,104	(4,659)
Interest and other	74,670	149,670	127,408	(22,262)
Total revenues	<u>8,631,082</u>	<u>9,248,044</u>	<u>8,828,340</u>	<u>(419,704)</u>
Expenditures				
Departments:				
Legislative	11,000	11,000	8,377	2,623
Administrative and finance	814,206	830,048	828,293	1,755
General governmental services	1,188,896	1,210,690	1,209,725	965
Police	2,320,677	2,699,774	2,666,645	33,129
Fire	1,355,198	1,814,135	1,800,018	14,117
Building and zoning	249,968	255,892	255,777	115
Public works	1,278,960	1,288,000	1,283,228	4,772
Recreation	719,434	723,196	703,311	19,885
Capital outlay	20,825	19,429	19,274	155
Total expenditures	<u>7,959,164</u>	<u>8,852,164</u>	<u>8,774,648</u>	<u>77,516</u>
Excess of revenues over expenditures	<u>671,918</u>	<u>395,880</u>	<u>53,692</u>	<u>(342,188)</u>
Other financing sources (uses)				
Transfers in	100,500	130,000	130,000	-
Transfers out	(1,018,136)	(855,625)	(849,646)	5,979
Insurance proceeds	-	8,373	8,393	20
Sale of fixed assets	-	4,000	4,000	-
Net other financing sources (uses)	<u>(917,636)</u>	<u>(713,252)</u>	<u>(707,253)</u>	<u>5,999</u>
Net change in fund balances	<u>(245,718)</u>	<u>(317,372)</u>	<u>(653,561)</u>	<u>(336,189)</u>
Fund balances, beginning of year	<u>1,445,125</u>	<u>1,445,125</u>	<u>1,445,125</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,199,407</u>	<u>\$ 1,127,753</u>	<u>\$ 791,564</u>	<u>\$ (336,189)</u>

CITY OF SATELLITE BEACH, FLORIDA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Community Redevelopment Agency Fund
 Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 398,969	\$ 398,969	\$ 395,833	\$ (3,136)
Interest and other	76,600	1,600	13,995	12,395
Total revenues	<u>475,569</u>	<u>400,569</u>	<u>409,828</u>	<u>9,259</u>
Expenditures				
Department:				
General government	636,857	405,759	331,667	74,092
Capital outlay	222,686	31,186	26,904	4,282
Debt service:				
Principal retired	243,300	243,300	243,300	-
Interest	221,356	224,556	224,543	13
Total expenditures	<u>1,324,199</u>	<u>904,801</u>	<u>826,414</u>	<u>78,387</u>
Deficiency of revenues under expenditures	<u>(848,630)</u>	<u>(504,232)</u>	<u>(416,586)</u>	<u>87,646</u>
Other financing sources (uses)				
Transfers in	760,625	835,625	829,646	(5,979)
Transfers out	-	-	(5,000)	(5,000)
Net other financing sources (uses)	<u>760,625</u>	<u>835,625</u>	<u>824,646</u>	<u>(10,979)</u>
Net change in fund balances	<u>(88,005)</u>	<u>331,393</u>	<u>408,060</u>	<u>76,667</u>
Fund balances, beginning of year	<u>288,777</u>	<u>288,777</u>	<u>288,777</u>	<u>-</u>
Fund balances, end of year	<u>\$ 200,772</u>	<u>\$ 620,170</u>	<u>\$ 696,837</u>	<u>\$ 76,667</u>

CITY OF SATELLITE BEACH, FLORIDA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Stormwater Utility Fund

Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 2,079,733	\$2,376,072	\$ 902,301	\$ (1,473,771)
Charges for services	319,903	319,903	312,549	(7,354)
Interest and other	24,000	24,000	11,630	(12,370)
Total revenues	<u>2,423,636</u>	<u>2,719,975</u>	<u>1,226,480</u>	<u>(1,493,495)</u>
Expenditures				
Department:				
Public works	49,676	56,114	54,279	1,835
Capital outlay	2,799,019	2,519,708	1,104,321	1,415,387
Debt service:				
Principal retired	213,988	214,461	214,462	(1)
Interest	97,549	97,076	97,076	-
Total expenditures	<u>3,160,232</u>	<u>2,887,359</u>	<u>1,470,138</u>	<u>1,417,221</u>
Deficiency of revenues under expenditures	<u>(736,596)</u>	<u>(167,384)</u>	<u>(243,658)</u>	<u>(76,274)</u>
Other financing uses				
Transfers out	<u>(98,000)</u>	<u>(370,873)</u>	<u>(370,873)</u>	-
Net other financing uses	<u>(98,000)</u>	<u>(370,873)</u>	<u>(370,873)</u>	-
Net change in fund balances	<u>(834,596)</u>	<u>(538,257)</u>	<u>(614,531)</u>	<u>(76,274)</u>
Fund balances, beginning of year	967,185	967,185	967,185	-
Fund balances, end of year	<u>\$ 132,589</u>	<u>\$ 428,928</u>	<u>\$ 352,654</u>	<u>\$ (76,274)</u>

CITY OF SATELLITE BEACH, FLORIDA

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Capital Assets Fund

Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 410,355	\$ 410,355	\$ 397,134	\$ (13,221)
Intergovernmental	34,041	72,330	106,372	34,042
Interest and other	1,138	11,138	12,923	1,785
Total revenues	<u>445,534</u>	<u>493,823</u>	<u>516,429</u>	<u>22,606</u>
Expenditures				
Capital outlay	29,600	485,704	425,238	60,466
Debt service:				
Principal retired	257,238	258,100	258,100	-
Interest	30,713	30,926	31,598	(672)
Total expenditures	<u>317,551</u>	<u>774,730</u>	<u>714,936</u>	<u>59,794</u>
Excess (deficiency) of revenues over expenditures	<u>127,983</u>	<u>(280,907)</u>	<u>(198,507)</u>	<u>82,400</u>
Other financing sources				
Transfers in	-	272,873	277,873	5,000
Net other financing sources	<u>-</u>	<u>272,873</u>	<u>277,873</u>	<u>5,000</u>
Net change in fund balances	127,983	(8,034)	79,366	87,400
Fund balances, beginning of year	298,117	298,117	298,117	-
Fund balances (deficits), end of year	<u>\$ 426,100</u>	<u>\$ 290,083</u>	<u>\$ 377,483</u>	<u>\$ 87,400</u>

CITY OF SATELLITE BEACH, FLORIDA

Schedule of Funding Progress - Other Postemployment Benefits

Three Most Recent Actuarial Valuations

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability AAL (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL a % of Covered Payroll ((b-a)/c)
10/1/2009	\$ -	\$ 4,227,000	\$ 4,227,000	0.0%	\$ 4,060,000	104.1%
10/1/2007	-	3,449,000	3,449,000	0.0%	3,844,000	89.7%

Note: Because fiscal year 2009 was the year of implementation of GASB Statement No 45 and the City elected to apply the statement prospectively, only two years are presented in the schedule at this time. In future years, required trend data will be presented.

CITY OF SATELLITE BEACH, FLORIDA

Schedules of Funding Progress – Pensions

Required Supplementary Pension Information - For the Last Six Fiscal Years

September 30, 2011

POLICE OFFICERS' AND FIREFIGHTERS' PENSION PLAN

Actuarial Valuation Date	(*) Actuarial Value of Assets (a)	(*)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/ c)
		Actuarial Accrued Liability (AAL) - Entry Age (b)					
10/01/11	\$ 10,103,821	\$ 14,591,273		\$ 4,487,452	69.3%	\$ 2,048,798	219.0%
10/01/10	9,659,543	13,709,165		4,049,622	70.5%	2,043,402	198.2%
10/01/09	9,018,455	12,754,341		3,735,886	70.7%	2,078,591	179.7%
10/01/08	8,687,759	11,212,042		2,524,283	77.5%	2,181,995	115.7%
10/01/07	8,060,797	10,284,753		2,223,956	78.4%	1,941,552	114.5%
10/01/06	7,275,600	9,672,616		2,397,016	75.2%	1,913,857	125.2%

* Actuarial valuations have been adjusted to eliminate assets and liabilities related to excess State contributions received by the Plan.

GENERAL EMPLOYEES' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/ c)
		Accrued Liability (AAL) - Entry Age (b)					
10/01/11	\$ 4,827,250	\$ 6,682,573		\$ 1,855,323	72.2%	\$ 723,291	256.5%
10/01/10	4,793,677	6,343,023		1,549,346	75.6%	709,569	218.4%
10/01/09	4,701,112	6,098,153		1,397,041	77.1%	865,615	161.4%
10/01/08	4,487,893	5,682,787		1,194,894	79.0%	858,236	139.2%
10/01/07	4,171,919	5,454,487		1,282,568	76.5%	821,201	156.2%
10/01/06	3,756,549	4,834,074		1,077,525	77.7%	798,644	134.9%

CITY OF SATELLITE BEACH, FLORIDA

Schedules of Contributions from the Employer and Other Contributing Entities
 Required Supplementary Pension Information - For the Last Six Fiscal Years

September 30, 2011

POLICE OFFICERS' AND FIREFIGHTERS' PENSION PLAN

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 742,974	\$ 654,482	\$ 163,393 *	110%
2010	536,483	424,258	166,029 *	110%
2009	470,040	282,091	170,774 *	96%
2008	470,284	302,622	170,774 *	100%
2007	428,082	257,308	170,774 *	100%
2006	411,213	240,439	170,774 *	100%

GENERAL EMPLOYEES' PENSION PLAN

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 395,830	\$ 316,270	\$ -	80%
2010	272,755	247,064	-	91%
2009	289,431	289,685	-	100%
2008	323,399	323,399	-	100%
2007	242,393	242,393	-	100%
2006	207,985	207,985	-	100%

* "Frozen" per Chapter 175 and 185, F.S., as amended.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Required Supplementary Information

September 30, 2011

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The City Manager or their designee may make transfers of appropriations within a department as long as the total budget of the department is not increased. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The Council made several supplemental budgetary appropriations during the year.

Encumbrance accounting is employed in governmental funds. Open commitments are recognized as expenditures in the period in which the actual goods or services are received and a liability is incurred. Encumbrances (e.g., contracts) outstanding at year end for unfulfilled obligations are cancelled and reappropriated in the succeeding year's budget. Accordingly, there were no encumbrances outstanding at year end.

Budgeted and actual expenditures exceeded revenues (net change in fund balance) in the general fund and the stormwater utility special revenue fund. Budgeted expenditures exceeded revenues in the capital assets special revenue fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and does not constitute a deficit.

B. ADDITIONAL ACTUARIAL INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police Officers' and Firefighters' Pension Plan	General Employees' Pension Plan
Actuarial valuation date	10/01/11	10/01/11
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage, Closed	Level Dollar, Closed
Remaining amortization period	30 years	15 years
Asset valuation method	Four-year smoothed market	Four-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.75%	4.75%

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**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and City Council
City of Satellite Beach, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Satellite Beach, Florida, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 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

Management of the City of Satellite Beach, Florida is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Satellite Beach, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Satellite Beach, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Satellite Beach, Florida'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.

Compliance and Other Matters

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

The Honorable Mayor and City Council
City of Satellite Beach, Florida
Page Two

We noted a certain other matter that was reported to management of the City of Satellite Beach, Florida in a separate letter, Independent Auditors' Management Letter, dated March 10, 2012.

This report is intended solely for the information and use of management, City Council, others within the entity, state and federal awarding agencies, the Florida Auditor General, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs + Ingram, LLC

Carr, Riggs & Ingram, LLC
Melbourne, Florida
March 10, 2012

**Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Federal Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and Members of the City Council
City of Satellite Beach, Florida

Compliance

We have audited the City of Satellite Beach, Florida's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Satellite Beach, Florida's major federal programs for the year ended September 30, 2011. The City of Satellite Beach, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Satellite Beach, Florida's management. Our responsibility is to express an opinion on the City of Satellite Beach, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Satellite Beach, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Satellite Beach, Florida's compliance with those requirements.

In our opinion, the City of Satellite Beach, Florida, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the City of Satellite Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Satellite Beach, Florida's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Satellite Beach, Florida's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, state and federal awarding agencies, the Florida Auditor General, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Melbourne, Florida
March 10, 2012

THE CITY OF SATELLITE BEACH, FLORIDA
Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2011

Section I—Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major federal programs:

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

Type of auditors’ report issued on compliance for major federal programs: Unqualified

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

Identification of major federal programs:

<u>Federal CFDA Numbers</u>	<u>Federal Program or Cluster</u>
66.460	Nonpoint Source Implementation FY2007
97.039	Hazard Mitigation Grant Program FY2009

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

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

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

THE CITY OF SATELLITE BEACH, FLORIDA
Summary Schedule of Prior Audit Findings and Corrective Action Plan
Fiscal Year Ended September 30, 2011

Prior Year Audit Finding:

FINDINGS – FEDERAL AWARD PROGRAM AUDIT

U.S. ENVIRONMENTAL PROTECTION AGENCY

SA 2010-01 Nonpoint Source Implementation Grant – CFDA No. 66.460; Grant No. G0162; Grant period –
Years ended September 30, 2004 through September 30, 2006

Condition: During the audit, we noted the City did not verify that the general contractor performing work under the Nonpoint Source Implementation Grant was not either suspended or debarred.

Corrective Action: The City verified that the general contractor performing work under this grant was not either suspended or debarred. A procurement policy revision has been drafted to require the City's Engineer to obtain the certification form from all winning bidders at contract signing.

Corrective Action Plan:

There were no audit findings in the current year independent auditors' reports that required a corrective action.

CITY OF SATELLITE BEACH, FLORIDA

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2011

Federal Agency/ Pass-through Grantor/ Program Title	Grant or Contract Number	CFDA Number	Total Federal Expenditures
<u>U.S. Department of Justice</u>			
Pass through Florida Department of Law Enforcement			
Local Law Enforcement Block Grant	2011-JAGD-BREV-4-B3-109	16.738	\$ 2,484
<u>Florida Department of Agriculture & Consumer Services</u>			
Energy Upgrades - ARRA	17543	81.041	34,041
<u>U.S. Environmental Protection Agency</u>			
Pass through Florida Department of Environmental Protection			
Nonpoint Source Implementation Grant- FY 2007 Cassia Drainage Basin Phase II & III	G-0163	66.460	* 374,227
<u>U.S. Department of Homeland Security</u>			
FEMA	EMW-2009-FO-05431	97.044	80,000
<u>Federal Emergency Management</u>			
Pass through Florida Department of Emergency Management			
Hazard Mitigation Grant-FY 2009	09-HM-23-06-15-02-011	97.039	* 554,782
<u>Florida Highway Administration</u>			
Pass through Florida Department of Transportation			
Highway Planning and Construction	428564-1-58-02	20.205	<u>72,330</u>
Total Expenditures of Federal Awards			<u>\$ 1,117,864</u>

Note: The Schedule of Expenditures of Federal Awards is a summary of the activity of the City's Federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

* Denotes major program

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Independent Auditors' Management Letter

The Honorable Mayor and City Council
City of Satellite Beach, Florida

We have audited the financial statements of the City of Satellite Beach, Florida as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 10, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 10, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

- ❖ Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, as noted below:

Prior Year Internal Control Finding Over the
Major Federal Program:

SA 2010-01 Verification of Suspended or Debarred Vendors	Revised/Repeated in Management Letter
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Prior Year Management Letter Comment:

ML 2010-01 Expenditures in Excess of Appropriations	Corrected
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- ❖ Section 10.554(1)(i)2., Rules of the Auditor General, 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 City of Satellite Beach, Florida complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had the following such recommendation:

ML 2011-01 Nonpoint Source Implementation Grant – CFDA No. 66.460; Grant No. G-0163;
Grant period – Years ended September 30, 2006 through September 30, 2010

Criteria: In accordance with the terms of its Nonpoint Source Implementation Grant agreement issued by the Florida Department of Environmental Protection, the City is required to verify that contractors performing work (greater than \$25,000) that is funded by the grant are not either suspended or debarred. This verification may be accomplished by checking the Excluded Party List System (EPLS) maintained by the federal government, collecting a certification form from the entity, or adding a clause or condition to the covered transaction with the entity.

Condition: During the audit, we noted the City did verify that the general contractor performing work under the Nonpoint Source Implementation Grant was not either suspended or debarred, but did not revise its procurement policy to require verification that vendors are not suspended or debarred during fiscal year September 30, 2011.

Cause: The City did not revise its procurement policy to require verification that vendors are not suspended or debarred when procuring services under federal contracts.

Effect: Without a formal policy, the City could use a suspended or debarred vendor and be out of compliance with its Nonpoint Source Implementation Grant agreement issued by the Florida Department of Environmental Protection Agency.

Recommendation: We recommend the City implement revisions to its procurement policy to require verification that vendors are not suspended or debarred. The policy may relate only to those contracts funded by grants, or the policy may relate to all contracts over a certain threshold, regardless of the funding source.

Management Response: The City concurs with the Auditors' recommendation regarding the need to update the written policy regarding the verification of suspended or debarred vendors to protect the City from doing business with prohibited vendors. As the Auditors found, the practice was in place but the written policy had not been updated until the current fiscal year fieldwork was underway. The finalized policy which was adhered to is now in place.

- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, 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 determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, 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.

- ❖ Section 10.554(l)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the City of Satellite Beach, Florida is disclosed in the footnotes. The City of Satellite Beach, Florida includes the following component units:

<u>Component Unit:</u>	<u>Established by:</u>
1. City of Satellite Beach Police Officers' and Firefighters' Retirement System	City Ordinance
2. City of Satellite Beach General Employees Retirement System	City Ordinance
3. City of Satellite Beach Community Redevelopment Agency	City Ordinance

- ❖ Section 10.554(l)(i)7.a., Rules of the Auditor General, requires 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 special condition(s) met. In connection with our audit, we determined that the City of Satellite Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(l)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Satellite Beach, Florida 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 Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Satellite Beach, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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 and use of management, City Council, others within the entity, state and federal awarding agencies, the Florida Auditor General, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Melbourne, Florida
March 10, 2012