



CITY OF SATELLITE BEACH, FLORIDA

**Financial Statements
Year Ended September 30, 2013**



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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, 2013

Mayor

Frank Catino

Vice Mayor

Mark Brimer

Council Members

Sheryl Denan

Lorraine Gott

Dominick Montanaro

City Attorney

James P. Beadle

City Manager

Courtney Barker

City Clerk, CMC

Leonor Olexa

Assistant City Manager

Andy Stewart



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Satellite Beach, Florida, as of September 30, 2013, and the

respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 7-14), the required budgetary comparison information (pages 55-58), pension and the other postemployment benefits information (pages 59-61) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section on pages 1-4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014 on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC
Melbourne, Florida
April 30, 2014

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, 2013.

Financial Highlights

- The assets of the City of Satellite Beach, Florida, exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$24,028,100 (net position). Of this amount, (\$1,782,751) represents the unrestricted net deficit due to recording of the net OPEB obligation of \$1,571,000 and compensated absences of \$594,792 which are not currently funded.
- The City's total net position increased by \$365,233. This increase is attributable to fiscal year revenues exceeding expenses, which caused a positive net position 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 \$2,325,497, a decrease of \$53,361 in comparison with the prior year.
- The City of Satellite Beach, Florida's total long-term liabilities decreased by \$513,230 during the current fiscal year. The decreases are due to principal payments made on notes/leases payable of \$787,186, a net increase in the OPEB liability of \$254,000 and a net decrease in compensated absences of \$18,237.

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

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

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, and the capital assets fund, which are considered to be major funds. Data from the other three 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 27-52 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 55-61 of this report.

Government-wide Financial Analysis

As noted earlier, net position 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 \$24,028,100 at the close of the most recent fiscal year.

The following table reflects the condensed statement of net position:

CITY OF SATELLITE BEACH, FLORIDA'S Net Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 3,518,491	\$ 4,208,393
Capital assets	<u>30,247,378</u>	<u>30,140,074</u>
Total assets	<u>33,765,869</u>	<u>34,348,467</u>
Long-term liabilities outstanding	8,209,954	8,723,184
Other liabilities	<u>831,305</u>	<u>1,962,416</u>
Total liabilities	<u>9,041,259</u>	<u>10,685,600</u>
Deferred inflows of resources	<u>696,510</u>	<u>--</u>
Net position:		
Net investment in		
Capital assets	24,203,216	23,346,919
Restricted	1,607,635	2,128,047
Unrestricted (deficit)	<u>(1,782,751)</u>	<u>(1,812,099)</u>
Total net position	<u>\$ 24,028,100</u>	<u>\$ 23,662,867</u>

By far the largest portion of the City of Satellite Beach, Florida's net position (100 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 reports net investment in capital assets, 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 \$1,607,635 of the City's net position 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 net investment in capital assets and restricted net position. The City reported an unrestricted net deficit of (\$1,782,751) primarily due to recording of the net OPEB obligation of \$1,571,000 and compensated absences of \$594,792 which are not currently funded.

The following table shows condensed revenue and expense data:

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

	2013	2012
Revenues:		
Charges for services	\$ 1,224,806	\$ 1,163,118
Operating grants and contributions	541,664	448,822
Capital grants and contributions	303,432	1,294,161
General revenues:		
Property taxes	5,283,753	5,255,269
Franchise fees	1,533,136	1,562,214
Shared revenues not restricted to specific programs	1,007,380	904,241
Grants and contributions not restricted to specific programs	23,561	33,437
Unrestricted investment earnings	18,914	33,867
Miscellaneous	193,208	146,348
Total revenues	10,129,854	10,841,477
Expenses:		
General government	2,585,150	2,382,204
Public safety	4,261,342	4,520,260
Public works	1,889,881	1,951,699
Recreation	740,695	691,930
Interest on long term debt	287,553	320,364
Total expenses	9,764,621	9,866,457
Increase in net position	365,233	975,020
Net position – beginning	23,662,867	22,687,847
Net position – ending	\$ 24,028,100	\$ 23,662,867

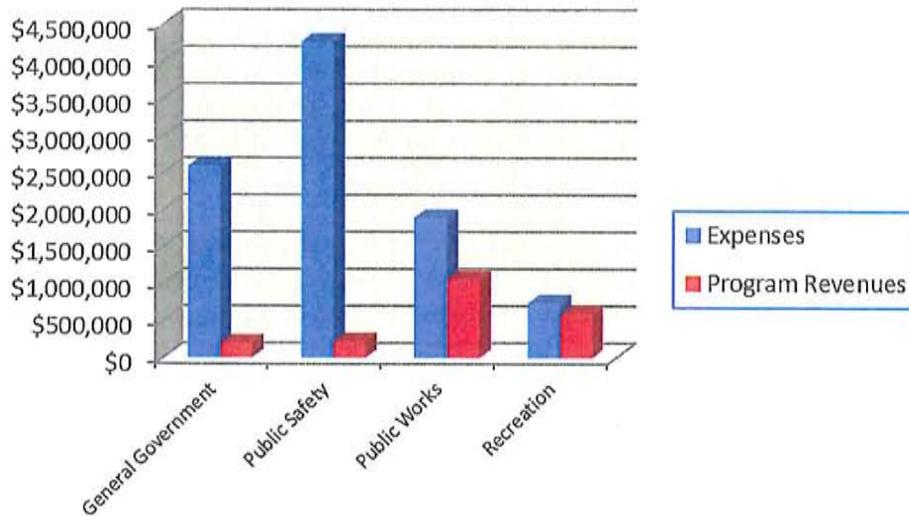
The City's net position increased by \$365,233 during the current fiscal year. This is due to decreased revenues, offset by lowered outflow of resources which encouraged a positive net position increase.

Key elements of this increase are as follows:

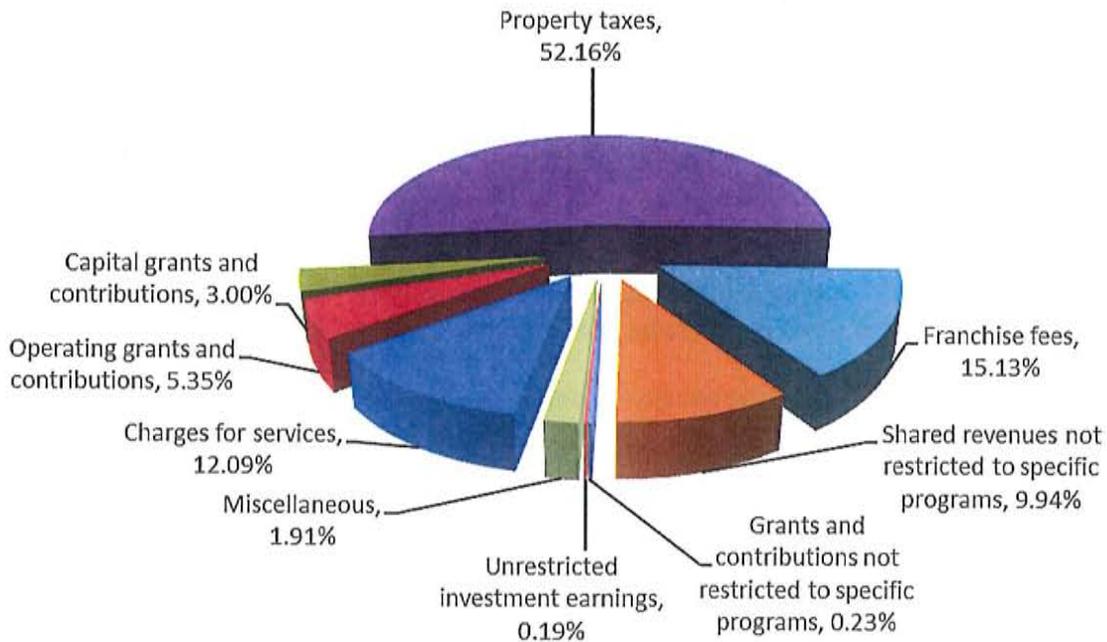
- Charges for services increased by \$61,688 due mainly to increased recreation user fees.
- Capital grants and contributions decreased by \$990,729 due largely to completion of capital grant projects in the stormwater utility fund.
- Shared revenues not restricted to specific programs increased by \$103,139 due mainly to one-time donations and capital lease proceeds.
- Miscellaneous increased \$46,860 due mainly to insurance refunds.

General government expenses increased \$202,946 due to an Interlocal agreement with Brevard County for the refund of unused tax incremental financing (TIF) money. Public safety expenses decreased \$258,918 due primarily to attrition and cost saving measures. Public works expenses decreased \$61,818 due primarily to attrition.

Statement of Activities – Government-wide Expenses and Program Revenues



Statement of Activities – Government-wide 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 \$2,325,497, a decrease of \$53,361 in comparison with the prior year. The fund balances of nonspendable, restricted or committed indicate that it is not available for new spending because it is obligated for prepaid items \$89,641, restricted for specific purposes \$1,607,635, or committed to pay for obligations previously authorized by the City \$367,274. Unrestricted unassigned fund balance was \$260,947 at year end.

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 was \$260,947, while total fund balance was \$859,771. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund operating expenditures. Unassigned fund balance is 3.3% of total general fund expenditures. The fund balance of the City of Satellite Beach, Florida's general fund increased by \$459,092 during the current fiscal year due mainly to increasing revenues from property taxes and decreasing labor and related expenses in general government, public safety and public works.

The community redevelopment agency special revenue fund has a total fund balance of \$894,580, which is nonspendable for prepaid items of \$370 and restricted for the community redevelopment agency special revenue fund activities of \$894,210. The net decrease in fund balance during the current year in the community redevelopment agency special revenue fund of \$165,606 was due primarily to the repayment of unused tax incremental financing (TIF) money through an Interlocal agreement with Brevard County.

The capital assets fund has a total fund balance of \$403,335, all of which is restricted for capital asset purchases. The net decrease in fund balance during the current year in the capital assets fund was \$19,330. This was due mainly to an emphasis being placed on replacing worn equipment and vehicles.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget (net increase of \$128,791 in appropriated expenditures and transfers out) can be briefly summarized as follows:

- \$138,836 in increases in general government services, legislative, city clerk's office and support services
- \$80,116 in increases in recreation
- \$38,854 in decreases allocated to public works
- \$31,208 in decreases allocated to transfers out
- \$21,740 in decreases allocated to police and fire
- \$17,648 in increases in capital outlay
- \$15,997 in decreases in building and zoning

This increase in expenditures corresponds to a \$419,911 increase in revenues and other financing sources as follows; \$18,155 from taxes increasing; \$32,403 from licenses and permits decreases; \$12,585 from intergovernmental increases; \$48,184 from charges for services increases; \$23,117 from fines and forfeitures decreases; \$44,653 from interest and other increases; \$10,919 from insurance proceed increases, \$2,900 from the sale of fixed assets increasing and a \$338,035 increase in appropriated transfers in to the general fund. The above items resulted in a net change of \$291,120 whereby the original adopted budget included a positive change in fund balance of \$143,681, compared to a net increase in fund balance of \$434,801 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, 2013, amounts to \$30,247,378 (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 3.6 percent.

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

	2013	2012
Land	\$ 11,680,950	\$ 11,680,950
Buildings	2,693,705	2,789,211
Improvements other than buildings	3,215,572	3,086,553
Equipment	1,198,249	1,162,341
Infrastructure	10,279,722	8,053,697
Construction in progress	1,179,180	3,367,322
Total	<u>\$ 30,247,378</u>	<u>\$ 30,140,074</u>

Additional information on the City of Satellite Beach, Florida's capital assets can be found in Note 4.B. on page 38 of this report.

Notes payable. At the end of the current fiscal year, the City of Satellite Beach, Florida, had notes payable outstanding of \$5,730,034.

The City's notes payable balance decreased by \$503,741 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 \$314,128.

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

	2013	2012
Capital lease DRS Comm. Center	\$ 284,198	\$ 511,090
Capital lease city vehicles	29,930	38,726
Capital lease safety gear	-	9,564
Total capital leases	<u>\$ 314,128</u>	<u>\$ 559,380</u>

The City's total capital lease obligations had a net decrease of \$245,252 (44%) during the current fiscal year. The City entered into a new capital lease for a police vehicle in the amount of \$38,193 and had repayments on all leases of \$283,445 during the 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 \$594,792. Total compensated absences decreased by a net amount of \$18,237 during the year, which includes additions of \$408,371 and reductions of \$426,608.

It is estimated that \$400,141 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 39 through 42 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 2013/14 fiscal year.

The City of Satellite Beach, Florida, in 2013/14 allocated \$367,274 of the total fund balance as a committed balance to be utilized as an emergency reserve per Ordinance 936. In addition, the City increased the unassigned fund balance by \$260,947 from the previous fiscal year. The increases in the general fund balance and the creation of an emergency reserve in 2013 will assist the City in managing any unforeseen future economic factors that may negatively affect the City. In addition, the City anticipates an increase in property values and revenues that will assist the City in maintaining or decreasing millage rates for future budgets while maintaining service delivery.

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 Assistant City Manager, 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 Position - Government-wide

September 30, 2013

ASSETS

Cash and cash equivalents	\$ 2,273,617
Investments	6,613
Accounts receivable	205,592
Due from other governments	246,518
Prepays	89,641
Derivative instrument - interest rate swap	696,510
Capital assets:	
Nondepreciable	
Land	11,680,950
Construction in progress	1,179,180
Depreciable, net of accumulated depreciation	
Buildings	2,693,705
Improvements other than buildings	3,215,572
Equipment	1,198,249
Infrastructure	10,279,722
Total assets	<u>33,765,869</u>

LIABILITIES

Accounts payable	80,472
Accrued expenses	202,576
Accrued interest	32,156
Unearned revenue	28,585
Underfunded pension costs	302,665
Due to other governments	184,851
Noncurrent liabilities:	
Due within one year	1,219,380
Due in more than one year	6,990,574
Total liabilities	<u>9,041,259</u>

DEFERRED INFLOWS OF RESOURCES

Accumulated increase in fair value of derivative instrument - interest rate swap	<u>696,510</u>
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NET POSITION

Net investment in capital assets	24,203,216
Restricted for:	
Emergency reserves	149,868
Community Redevelopment Agency	894,210
Community services	135,774
Law enforcement	23,004
Capital assets	403,335
Stormwater	1,444
Unrestricted (deficit)	(1,782,751)
Total net position	<u>\$ 24,028,100</u>

CITY OF SATELLITE BEACH, FLORIDA

Statement of Activities - Government-wide

Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 2,585,150	\$ 198,182	\$ -	\$ -	\$ (2,386,968)
Public safety	4,261,342	130,331	59,145	30,000	(4,041,866)
Public works	1,889,881	314,332	482,519	266,890	(826,140)
Recreation	740,695	581,961	-	6,542	(152,192)
Interest on long-term debt	287,553	-	-	-	(287,553)
Total governmental activities	<u>\$ 9,764,621</u>	<u>\$ 1,224,806</u>	<u>\$ 541,664</u>	<u>\$ 303,432</u>	<u>(7,694,719)</u>
General revenues					
Property taxes					5,283,753
Franchise fees					1,533,136
Shared revenues not restricted to specific programs					1,007,380
Grants and contributions not restricted to specific programs					23,561
Unrestricted investment earnings					18,914
Miscellaneous					193,208
Total general revenues					<u>8,059,952</u>
Change in net position					365,233
Net position, beginning					<u>23,662,867</u>
Net position, ending					<u>\$ 24,028,100</u>

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CITY OF SATELLITE BEACH, FLORIDA

Balance Sheet - Governmental Funds

September 30, 2013

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds
ASSETS				
Cash and cash equivalents	\$ 763,976	\$ 983,867	\$ 358,221	\$ 167,553
Investments	1,192	5,260	-	161
Accounts receivable	157,165	-	45,555	2,872
Due from other governments	147,980	90,175	-	8,363
Prepaid items	81,682	370	-	7,589
Total assets	<u>\$ 1,151,995</u>	<u>\$ 1,079,672</u>	<u>\$ 403,776</u>	<u>\$ 186,538</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 56,263	\$ 5,041	\$ 441	\$ 18,727
Accrued expenses	202,576	-	-	-
Unearned revenue	28,585	-	-	-
Due to other governments	4,800	180,051	-	-
Total liabilities	<u>292,224</u>	<u>185,092</u>	<u>441</u>	<u>18,727</u>
Fund balances:				
Nonspendable	81,682	370	-	7,589
Restricted	149,868	894,210	403,335	160,222
Committed	367,274	-	-	-
Unassigned	260,947	-	-	-
Total fund balances	<u>859,771</u>	<u>894,580</u>	<u>403,335</u>	<u>167,811</u>
Total liabilities and fund balances	<u>\$ 1,151,995</u>	<u>\$ 1,079,672</u>	<u>\$ 403,776</u>	<u>\$ 186,538</u>

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

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

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 position of governmental activities

Total
Governmental
Funds

\$ 2,273,617
6,613
205,592
246,518
89,641

\$ 2,821,981

\$ 80,472
202,576
28,585
184,851

496,484

89,641
1,607,635
367,274
260,947

2,325,497

30,247,378

(302,665)

(8,209,954)

(32,156)

\$ 24,028,100

CITY OF SATELLITE BEACH, FLORIDA

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

Year Ended September 30, 2013

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds
Revenues				
Taxes	\$ 6,100,914	\$ 334,990	\$ 382,000	\$ -
Licenses and permits	802,064	-	-	-
Intergovernmental	949,474	90,175	7,618	273,253
Charges for services	655,176	-	-	315,635
Fines and forfeitures	48,139	-	-	6,276
Interest and other	87,634	8,634	31,521	21,451
Total revenues	<u>8,643,401</u>	<u>433,799</u>	<u>421,139</u>	<u>616,615</u>
Expenditures				
Current:				
General government	1,965,498	276,171	-	-
Public safety	4,007,950	-	-	2,663
Public works	1,303,960	-	-	20,347
Recreation	726,664	-	-	960
Capital outlay	20,848	154,740	161,108	501,720
Debt service:				
Principal retired	-	265,000	283,445	238,741
Interest	-	202,780	14,935	72,797
Total expenditures	<u>8,024,920</u>	<u>898,691</u>	<u>459,488</u>	<u>837,228</u>
Excess (deficiency) of revenues over (under) expenditures	<u>618,481</u>	<u>(464,892)</u>	<u>(38,349)</u>	<u>(220,613)</u>
Other financing sources (uses)				
Transfers in	436,051	605,859	3,400	3,092
Transfers out	(609,259)	(306,573)	(22,574)	(109,996)
Capital lease proceeds	-	-	38,193	-
Insurance proceeds	10,919	-	-	-
Sale of fixed assets	2,900	-	-	-
Net other financing sources (uses)	<u>(159,389)</u>	<u>299,286</u>	<u>19,019</u>	<u>(106,904)</u>
Net change in fund balances	459,092	(165,606)	(19,330)	(327,517)
Fund balances, beginning of year	400,679	1,060,186	422,665	495,328
Fund balances, end of year	<u>\$ 859,771</u>	<u>\$ 894,580</u>	<u>\$ 403,335</u>	<u>\$ 167,811</u>

Total
Governmental
Funds

\$ 6,817,904
802,064
1,320,520
970,811
54,415
149,240

10,114,954

2,241,669
4,010,613
1,324,307
727,624
838,416

787,186
290,512

10,220,327

(105,373)

1,048,402
(1,048,402)
38,193
10,919
2,900

52,012
(53,361)
2,378,858

\$ 2,325,497

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, 2013

Net change in fund balances - total governmental funds \$ (53,361)

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.	112,500
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	2,000
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 position differs from the change in fund balance by the book value of the capital assets sold.	(7,196)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items	748,993
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.	20,105
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 position. This is the amount by which the net pension obligation increased in the current year.	(203,808)
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.	<u>(254,000)</u>
Change in net position of governmental activities	<u><u>\$ 365,233</u></u>

CITY OF SATELLITE BEACH, FLORIDA

Statement of Fiduciary Net Position - Pension Trust Funds

September 30, 2013

ASSETS

Cash and cash equivalents	\$ 595,236
Receivables:	
Participant loans	67,096
Investments, at fair value:	
U.S. government and other debt securities	7,209,118
Mutual stock funds	<u>11,700,863</u>
Total assets	<u>19,572,313</u>

LIABILITIES

-

NET POSITION

Held in trust for pension benefits	<u><u>\$ 19,572,313</u></u>
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CITY OF SATELLITE BEACH, FLORIDA

Statement of Changes in Fiduciary Net Position - Pension Trust Funds

For the Year Ended September 30, 2013

ADDITIONS

Contributions:

Employees	\$ 263,210
City	890,590
State	219,956
Total contributions	<u>1,373,756</u>

Investment earnings:

Net appreciation in fair value of investments	2,089,244
Interest and dividends	1,266
Total investment earnings	<u>2,090,510</u>
Total additions	<u>3,464,266</u>

DEDUCTIONS

Benefit payments	1,265,631
Administrative expenses	55,966
Total deductions	<u>1,321,597</u>

Change in net position

2,142,669

Net position held in trust for pension benefits, beginning of year

17,429,644

Net position held in trust for pension benefits, end of year

\$ 19,572,313

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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 are 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

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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

For the Year Ended September 30, 2013

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 *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, a stormwater utility fund and a law enforcement trust fund.

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

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES AND NET POSITION 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, 2013, 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

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES AND NET POSITION 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, 2013 was 8.3559 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 liened 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

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES AND NET POSITION 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 are 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

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES AND NET POSITION 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 position. 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 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, and/or the City Council that are intended to be used for specific purposes that are neither considered restricted or committed. The City has no assigned fund balance at September 30, 2013.

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.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 POSITION

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds and net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "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 \$(8,209,954) difference are as follows:

Note payable – CRA	\$ (4,561,100)
Notes payable – Stormwater	(1,168,934)
Capital leases payable	(314,128)
Net OPEB obligation	(1,571,000)
Compensated absences	(594,792)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position-governmental activities	<u>\$ (8,209,954)</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 position of governmental activities as reported in the government-wide statement of activities.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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)

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 \$112,500 difference are as follows:

Capital outlay	\$ 838,416
Depreciation expense	<u>(725,916)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 112,500</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." Neither transaction, however, has any effect on net position. The details of this \$748,993 difference are as follows:

Debt issued or incurred	
Capital lease	\$ (38,193)
Principal repayments	<u>787,186</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 748,993</u>

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 \$20,105 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	\$ 18,237
Interest expense	<u>1,868</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 20,105</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

At September 30, 2013, the government's carrying amount of deposits was \$1,647,642 and the bank balance was \$1,797,473. At September 30, 2013, the pension trust funds carrying amount of deposits was \$595,236 and the bank balance was \$595,236. In addition, the City reported petty cash of \$2,700. As of September 30, 2013, \$250,000 of the City's bank balances are covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes.

At September 30, 2013, the City had the following investments:

Primary government:	
SBA (Florida PRIME)	\$ 94,886
SBA Fund B	6,613
SPIA	528,389
Primary government total	<u>\$ 629,888</u>
Pension trust funds:	
Bond mutual fund	\$ 7,249,700
Stock mutual fund	9,624,602
International stock mutual fund	2,035,679
Pension trust funds total	<u>\$ 18,909,981</u>

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, 2013, \$7,209,117 of the City's pension trust funds' investment in bond mutual funds was rated AA/V4 by Fitch Ratings. As of September 30, 2013, the City's investment in the Florida PRIME was rated AAAM by Standard & Poor's. As of September 30, 2013, the City's investment in the Fund B was unrated. As of September 30, 2013, the City's investment in the SPIA pool was rated A+f by Standard & Poor's.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2013, the City's pension trust fund investments in bond mutual funds had a weighted average maturity of 5.54 years. As of September 30, 2013, the Florida PRIME had a weighted average maturity of 44 days and the Fund B had a weighted average life of 4.04 days. As of September 30, 2013, the SPIA pool had an effective duration of 2.65 years.

Concentration of credit risk

Concentration of credit risk is an increased risk of loss that occurs as more investments are acquired from one issuer (i.e. lack of diversification). The investment policy for the City's Police Officers' and Firefighters' and the policy for the City's General Employees' Pension Systems do not allow for an investment in the stock of any one issuer that is in excess of five percent of the respective funds' total investments. The City's investment policy does not specifically address concentration of credit risk.

Foreign currency risk

The City's pension funds contain investments in an international stock mutual fund, however, all of the investments are denominated in U.S. dollars and are not exposed to foreign currency risk.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 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	3,367,322	619,777	(2,807,919)	1,179,180
Total capital assets, not being depreciated	<u>15,048,272</u>	<u>619,777</u>	<u>(2,807,919)</u>	<u>12,860,130</u>
Capital assets, being depreciated:				
Buildings	4,465,707	-	-	4,465,707
Improvements other than buildings	4,584,242	304,445	-	4,888,687
Equipment	3,714,371	216,280	(71,965)	3,858,686
Infrastructure	15,757,083	2,507,833	-	18,264,916
Total capital assets being depreciated	<u>28,521,403</u>	<u>3,028,558</u>	<u>(71,965)</u>	<u>31,477,996</u>
Less accumulated depreciation for:				
Buildings	(1,676,496)	(95,506)	-	(1,772,002)
Improvements other than buildings	(1,497,689)	(175,426)	-	(1,673,115)
Equipment	(2,552,030)	(173,176)	64,769	(2,660,437)
Infrastructure	(7,703,386)	(281,808)	-	(7,985,194)
Total accumulated depreciation	<u>(13,429,601)</u>	<u>(725,916)</u>	<u>64,769</u>	<u>(14,090,748)</u>
Total capital assets, being depreciated, net	<u>15,091,802</u>	<u>2,302,642</u>	<u>(7,196)</u>	<u>17,387,248</u>
Governmental activities capital assets, net	<u>\$ 30,140,074</u>	<u>\$ 2,922,419</u>	<u>\$ (2,815,115)</u>	<u>\$ 30,247,378</u>

The current year increase in capital assets includes \$2,000 of donated capital assets.

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

Governmental activities:	
General government	\$ 136,286
Public safety	63,800
Physical environment	518,589
Recreation	7,241
Total depreciation expense - governmental activities	<u>\$ 725,916</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

There were no interfund balances as of September 30, 2013.

Interfund transfers for the year ended September 30, 2013:

	Transfer in:				Total
	General Fund	Community Redevelopment Agency (CRA) Fund	Capital Assets Fund	Non Major Funds	
<u>Transfer out:</u>					
General Fund	\$ -	\$ 605,859	\$ 3,400	\$ -	\$ 609,259
CRA Fund	306,573	-	-	-	306,573
Capital Assets Fund	19,482	-	-	3,092	22,574
Nonmajor Funds	109,996	-	-	-	109,996
Total	<u>\$ 436,051</u>	<u>\$ 605,859</u>	<u>\$ 3,400</u>	<u>\$ 3,092</u>	<u>\$ 1,048,402</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, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) return excess revenues not expended during the year back to the general fund at year-end in accordance with state statutes (i.e. Community Redevelopment Agency Fund).

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. During 2013, the City entered into a new capital lease to finance a police vehicle. The lease requires annual principal payments of \$8,263 and an interest rate of 4.09% through final maturity in fiscal year 2017. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception dates.

The assets acquired through capital leases are as follows:

Asset:	
Building	\$ 2,376,127
Equipment	154,496
Vehicles	358,837
Less: Accumulated depreciation	(968,320)
Total	<u>\$ 1,921,140</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

Obligations of governmental activities under capital lease at September 30, 2013, were as follows:

Year Ending Sept. 30,	Principal	Interest	Total
2014	\$ 291,238	\$ 6,160	\$ 297,398
2015	7,327	936	8,263
2016	7,626	637	8,263
2017	7,937	325	8,262
Total	<u>\$ 314,128</u>	<u>\$ 8,058</u>	<u>\$ 322,186</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 \$468,317 and pledged gross revenues were approximately \$434,000. As of September 30, 2013, principal and interest to maturity in 2026 to be paid from pledged future revenues totaled \$5,924,304.

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 \$4,561,100 as of September 30, 2013. The associated variable-rate note has a \$4,561,100 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

For the Year Ended September 30, 2013

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 0.61% as of September 30, 2013. Therefore, the interest rate related to the \$6,250,000 swap is 3.62% as of the same date, calculated as the difference between the synthetic fixed rate of 4.23% and the 0.61% variable rate.

The interest rate swap agreement has a negative fair value of \$696,510 as of September 30, 2013. 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, 2013 is a positive of approximately \$297,000.

As of September 30, 2013, 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, 2013, the swap's counterparty was rated AAA 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, 2013, 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
2014	\$ 528,001	\$ 87,638	\$ 160,599	\$ 776,238
2015	553,994	71,331	151,150	776,475
2016	514,513	55,348	140,598	710,459
2017	450,465	44,111	129,600	624,176
2018	472,338	33,744	118,131	624,213
2019-2023	2,011,623	71,196	400,570	2,483,389
2024-2026	1,199,100	9,688	67,659	1,276,447
Totals	<u>\$ 5,730,034</u>	<u>\$ 373,056</u>	<u>\$ 1,168,307</u>	<u>\$ 7,271,397</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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, 2013, 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	\$ 4,826,100	\$ -	\$ (265,000)	\$ 4,561,100	\$ 276,100
Notes payable – Stormwater	1,407,675	-	(238,741)	1,168,934	251,901
Capital leases payable	559,380	38,193	(283,445)	314,128	291,238
Net OPEB obligation	1,317,000	408,000	(154,000)	1,571,000	-
Compensated absences	613,029	408,371	(426,608)	594,792	400,141
Long-term liabilities	<u>\$ 8,723,184</u>	<u>\$ 854,564</u>	<u>\$ (1,367,794)</u>	<u>\$ 8,209,954</u>	<u>\$ 1,219,380</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 on the following page:

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. GOVERNMENTAL FUND BALANCES (CONTINUED)

	General	Community Redevelopment Agency	Capital Asset	Nonmajor Funds
Nonspendable:				
Prepaid items	\$ 81,682	\$ 370	\$ -	\$ 7,589
Restricted for:				
Emergency reserves	149,868	-	-	-
Community services	-	-	-	135,774
Stormwater utility	-	-	-	1,444
Community redevelopment				
Economic development	-	819,210	-	-
Traffic signalization improvements	-	75,000	-	-
Capital assets	-	-	403,335	-
Law enforcement	-	-	-	23,004
Committed:				
For reserves	367,274	-	-	-
Unassigned	260,947	-	-	-
Total fund balances	<u>\$ 859,771</u>	<u>\$ 894,580</u>	<u>\$ 403,335</u>	<u>\$ 167,811</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 \$14,031 or an average of \$4,677 per year.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 5 – OTHER INFORMATION (CONTINUED)

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.

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 23 retirees and spouses receiving benefits and has a total of 77 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, 2013, the City made contributions of \$151,000, 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 \$11,800 for the year ended September 30, 2013.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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, 2013, the amount actually contributed to the Plan and changes in the City's net OPEB obligation to the Plan:

Annual required contribution	\$ 428,000
Interest on net OPEB obligation	53,000
Adjustment to annual required contribution	<u>(73,000)</u>
Annual OPEB cost (expense)	408,000
Contributions made	(151,000)
Interest on employer contributions	<u>(3,000)</u>
Increase in net OPEB obligation	254,000
Net OPEB obligation – beginning of year	<u>1,317,000</u>
Net OPEB obligation – end of year	<u><u>\$ 1,571,000</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the past three fiscal years are as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/13	\$ 408,000	38%	\$ 1,571,000
9/30/12	400,000	36%	1,317,000
9/30/11	501,000	28%	1,060,000

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, 2011. Accordingly, the City will be required to obtain a subsequent actuarial valuation within three years of that date. As of October 1, 2011, the actuarial accrued liability for benefits was \$4,470,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$3,577,000 and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 125.0%.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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.

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, 2011 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, ultimate rate of 5.00% per year. 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 30 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.

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.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

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 14 year period for the General Employees' Pension Plan. The liabilities for the General Employees' Pension Plan were previously being funded over a 27 year period.

Annual pension cost. The City's annual pension cost and net pension obligation for the Plans for the current year per the actuarial valuations as of October 1, 2013, were:

	Police Officers' and Firefighters'	General Employees'
Annual pension cost	\$ 771,477	\$ 427,848
Contributions made	(721,253)	(274,264)
Increase in net pension obligation	50,224	153,584
Net pension obligation – beginning of year	77,696	21,161
Net pension obligation – end of year	<u>\$ 127,920</u>	<u>\$ 174,745</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

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 \$3,795,109 and \$1,544,276, respectively, as of October 1, 2013.

Over the past 4 fiscal years, the City made contributions of \$6,304 (FY10), \$165,647 (FY11), \$171,252 (FY12) and \$9,673 (FY13) for a total of \$352,876 in contributions to the Police Officers' and Firefighters' Plan in excess of the minimum amount that was required to be contributed pursuant to Chapter 211, Florida Statutes. These excess contributions are referred to by the actuary as "advance employer contributions" since they can be applied by the City to the minimum required contributions for the 2013/2014 plan year or for any later plan year.

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	9/30/11	\$ 742,302	88%	\$ 20,420
	9/30/12	764,723	93%	77,696
	9/30/13	771,477	93%	127,920
General Employees' Plan	9/30/11	395,712	80%	105,133
	9/30/12	371,222	122%	21,161
	9/30/13	427,848	64%	174,745

Funded status and funding progress. The funded status of each plan as of October 1, 2013, the most recent actuarial valuation date, is as follows:

	Police Officers' and Firefighters'	General Employees'
Actuarial Valuation Date	10/01/13	10/01/13
Actuarial Value of Assets (a)	\$ 12,361,582	\$ 5,714,233
Actuarial Accrued Liability (AAL)-Entry Age (b)	16,156,691	7,258,509
Unfunded AAL (UAAL) (b - a)	3,795,109	1,544,276
Funded Ratio (a/b)	76.51%	78.72%
Covered Payroll (c)	1,980,916	366,815
UAAL as a % of Covered Payroll ((b - a)/c)	191.58%	421.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 5 – OTHER INFORMATION (CONTINUED)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (CONTINUED)

Additional information as of the latest actuarial valuation follows:

	Police Officers' and Firefighters' Pension Plan	General Employees' Pension Plan
Actuarial valuation date	10/01/13	10/01/13
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage, Closed	Level Dollar, Closed
Remaining amortization period	30 years	13 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%

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, 2013, there were 34 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 each contributed \$56,174 to the Plan for fiscal year 2013.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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	\$ 164,670	\$ 76,873	\$ 353,693	\$ 595,236
Receivables:				
Participant loans	-	-	67,096	67,096
Investments: U.S. government and other debt securities	4,914,771	2,294,347	-	7,209,118
Investments: mutual stock funds	7,587,493	3,542,046	571,324	11,700,863
Total assets	<u>12,666,934</u>	<u>5,913,266</u>	<u>992,113</u>	<u>19,572,313</u>
LIABILITIES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Held in trust for pension benefits	<u>\$ 12,666,934</u>	<u>\$ 5,913,266</u>	<u>\$ 992,113</u>	<u>\$ 19,572,313</u>
	Police Officers' and Firefighters'	General Employees'	Money Purchase Plan	Total
ADDITIONS				
Contributions:				
Employees	\$ 161,132	\$ 35,318	\$ 66,760	\$ 263,210
City	560,152	274,264	56,174	890,590
State	219,956	-	-	219,956
Total contributions	<u>941,240</u>	<u>309,582</u>	<u>122,934</u>	<u>1,373,756</u>
Total investment earnings				
Net appreciation in fair market value of investments	1,335,905	638,768	114,571	2,089,244
Interest and dividends	-	-	1,266	1,266
Total investment earnings	<u>1,335,905</u>	<u>638,768</u>	<u>115,837</u>	<u>2,090,510</u>
Total additions	<u>2,277,145</u>	<u>948,350</u>	<u>238,771</u>	<u>3,464,266</u>
DEDUCTIONS				
Benefit payments	731,233	445,948	88,450	1,265,631
Administrative expenses	33,750	22,216	-	55,966
Total deductions	<u>764,983</u>	<u>468,164</u>	<u>88,450</u>	<u>1,321,597</u>
Change in net position	1,512,162	480,186	150,321	2,142,669
Net position, beginning of year	11,154,772	5,433,080	841,792	17,429,644
Net position, end of year	<u>\$ 12,666,934</u>	<u>\$ 5,913,266</u>	<u>\$ 992,113</u>	<u>\$ 19,572,313</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

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 \$40,830 for the year ended September 30, 2013. The future minimum lease payments for the leases are as follows:

Year Ending September 30:		
2014	\$	36,350
2015		9,078
2016		8,724
2017		7,997
Total	\$	<u>62,149</u>

Community Redevelopment Agency Fund

The City received communication from the Joint Legislative Auditing Committee (the "Committee"), dated July 8, 2011, 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 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 instead decided to approve a settlement agreement between the City and the CRA. The agreement dated October 4, 2012, states that the City will transfer a total of \$565,408 at zero percent interest. The total is payable annually beginning December 31, 2012 through December 31, 2027, in the amount of \$35,338 per year. Nothing contained in the agreement constitutes a pledge of the full faith and credit of the City, or constitutes or creates a lien on the City's ad valorem revenues, funds, or real, personal, tangible or intangible properties.

The Community Redevelopment Agency continues to utilize tax increment financing to fund redevelopment projects in accordance with F.S. 163.

On August 20, 2013, Brevard County executed an inter-local Agreement with the City of Satellite Beach and the Satellite Beach Community Redevelopment Agency for Tax Increment Financing (TIF) contributions. The purpose of the agreement was to return unused Tax Increment Financing (TIF) to the City and the County from the CRA. In exchange for entering into this agreement, Brevard County agreed not to pursue any future litigation against the City regarding the repayment of questionable transfers identified by the Joint Legislative Auditing Committee in July of 2011. The agreement also assists the City with increasing fund balance by returning the unused tax increment revenue from the Community Redevelopment Agency to the General Fund.

CITY OF SATELLITE BEACH, FLORIDA

Notes to Financial Statements

For the Year Ended September 30, 2013

NOTE 5 – OTHER INFORMATION (CONTINUED)

D. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The allocated amounts of TIF funds to be provided for fiscal years 2012/2013 through 2018/2019 are \$1,173,688 to the County and \$1,311,213 to the City's reserves. The annual amounts, to be paid each September 30th for the duration of the agreement, are based on anticipated tax revenues and the operating needs of the CRA and, therefore, fluctuate each year. Nothing contained in the agreement constitutes a pledge of the full faith and credit of the City, or constitutes or creates a lien on the City's ad valorem revenues, funds, or real, personal, tangible or intangible properties.

The allocated amounts of TIF funds to be provided to the County for the year ending September 30, 2013 were \$180,051 and have been included with general government expenditures in the Community Redevelopment Agency Fund. Future payments are as follows:

Year Ending September 30:	
2014	\$ 117,316
2015	101,718
2016	144,341
2017	142,923
2018	210,008
2019	277,331

The allocated amounts of TIF funds to be provided to the City for the year ending September 30, 2013 were \$306,573 and have been included with transfers out in the Community Redevelopment Agency Fund. Future payments are as follows:

Year Ending September 30:	
2014	\$ 199,755
2015	173,195
2016	245,771
2017	243,355
2018	142,564

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board ("GASB") has issued statements that will become in subsequent fiscal years. The Statements address:

- Items previously reported as assets and liabilities;
- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The City is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

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

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CITY OF SATELLITE BEACH, FLORIDA

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

General Fund

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 6,082,679	\$ 6,100,834	\$ 6,100,914	\$ 80
Licenses and permits	834,467	802,064	802,064	-
Intergovernmental	939,048	951,633	949,474	(2,159)
Charges for services	606,025	654,209	655,176	967
Fines and forfeitures	73,410	50,293	48,139	(2,154)
Interest and other	40,751	85,404	87,634	2,230
Total revenues	<u>8,576,380</u>	<u>8,644,437</u>	<u>8,643,401</u>	<u>(1,036)</u>
Expenditures				
Departments:				
Legislative	8,655	11,844	11,326	518
Administrative and finance	660,787	520,445	519,554	891
City Clerk	-	157,063	157,063	-
General governmental services	1,155,272	1,274,198	1,277,555	(3,357)
Police	2,482,374	2,366,033	2,363,753	2,280
Fire	1,551,436	1,646,027	1,644,197	1,830
Building and zoning	226,155	210,158	209,231	927
Public works	1,161,572	1,122,718	1,094,729	27,989
Recreation	650,099	730,215	726,664	3,551
Capital outlay	3,200	20,848	20,848	-
Total expenditures	<u>7,899,550</u>	<u>8,059,549</u>	<u>8,024,920</u>	<u>34,629</u>
Excess (deficiency) of revenues over (under) expenditures	<u>676,830</u>	<u>584,888</u>	<u>618,481</u>	<u>33,593</u>
Other financing sources (uses)				
Transfers in	98,996	437,031	436,051	(980)
Transfers out	(632,145)	(600,937)	(609,259)	(8,322)
Insurance proceeds	-	10,919	10,919	-
Sale of fixed assets	-	2,900	2,900	-
Net other financing sources (uses)	<u>(533,149)</u>	<u>(150,087)</u>	<u>(159,389)</u>	<u>(9,302)</u>
Net change in fund balances	<u>143,681</u>	<u>434,801</u>	<u>459,092</u>	<u>24,291</u>
Fund balances, beginning of year	<u>400,679</u>	<u>400,679</u>	<u>400,679</u>	<u>-</u>
Fund balances, end of year	<u>\$ 544,360</u>	<u>\$ 835,480</u>	<u>\$ 859,771</u>	<u>\$ 24,291</u>

CITY OF SATELLITE BEACH, FLORIDA

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

Community Redevelopment Agency Fund

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 509,604	\$ 334,990	\$ 334,990	\$ -
Intergovernmental	179,500	-	90,175	90,175
Interest and other	8,300	8,479	8,634	155
Total revenues	<u>697,404</u>	<u>343,469</u>	<u>433,799</u>	<u>90,330</u>
Expenditures				
Department:				
General government	243,000	289,485	276,171	13,314
Capital outlay	507,177	167,169	154,740	12,429
Debt service:				
Principal retired	265,000	265,000	265,000	-
Interest	109,990	202,780	202,780	-
Total expenditures	<u>1,125,167</u>	<u>924,434</u>	<u>898,691</u>	<u>25,743</u>
Deficiency of revenues under expenditures	<u>(427,763)</u>	<u>(580,965)</u>	<u>(464,892)</u>	<u>116,073</u>
Other financing sources				
Transfers in	597,537	597,537	605,859	8,322
Transfers out	(17,000)	(306,573)	(306,573)	-
Net other financing sources	<u>580,537</u>	<u>290,964</u>	<u>299,286</u>	<u>8,322</u>
Net change in fund balances	<u>152,774</u>	<u>(290,001)</u>	<u>(165,606)</u>	<u>124,395</u>
Fund balances, beginning of year	<u>1,060,186</u>	<u>1,060,186</u>	<u>1,060,186</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,212,960</u>	<u>\$ 770,185</u>	<u>\$ 894,580</u>	<u>\$ 124,395</u>

CITY OF SATELLITE BEACH, FLORIDA

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

Capital Assets Fund

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 369,000	\$ 336,445	\$ 382,000	\$ 45,555
Intergovernmental	-	7,618	7,618	-
Interest and other	2,500	31,460	31,521	61
Total revenues	<u>371,500</u>	<u>375,523</u>	<u>421,139</u>	<u>45,616</u>
Expenditures				
Capital outlay	110,606	181,297	161,108	20,189
Debt service:				
Principal retired	275,182	283,445	283,445	-
Interest	14,544	14,801	14,935	(134)
Total expenditures	<u>400,332</u>	<u>479,543</u>	<u>459,488</u>	<u>20,055</u>
Deficiency of revenues under expenditures	<u>(28,832)</u>	<u>(104,020)</u>	<u>(38,349)</u>	<u>65,671</u>
Other financing uses				
Transfers in	-	3,400	3,400	-
Transfers out	-	(22,574)	(22,574)	-
Capital lease proceeds	31,000	38,193	38,193	-
Net other financing uses	<u>31,000</u>	<u>19,019</u>	<u>19,019</u>	<u>-</u>
Net change in fund balances	2,168	(85,001)	(19,330)	65,671
Fund balances, beginning of year	422,665	422,665	422,665	-
Fund balances, end of year	<u>\$ 424,833</u>	<u>\$ 337,664</u>	<u>\$ 403,335</u>	<u>\$ 65,671</u>

CITY OF SATELLITE BEACH, FLORIDA

Notes to Required Supplementary Information

For the Year Ended September 30, 2013

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 community redevelopment agency fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and does not constitute a deficit.

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 as a % of Covered Payroll ((b-a)/c)
10/1/2011	\$ -	\$ 4,470,000	\$ 4,470,000	0.0%	\$ 3,577,000	125.0%
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%

CITY OF SATELLITE BEACH, FLORIDA

Schedules of Funding Progress - Pensions

Required Supplementary Pension Information - For the Last Six Fiscal Years

September 30, 2013

POLICE OFFICERS' AND FIREFIGHTERS' PENSION PLAN

Actuarial Valuation Date	(*) Actuarial Value of Assets (a)	(*) Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/ c)
10/01/13	\$ 12,361,582	\$ 16,156,691	\$ 3,795,109	76.5%	\$ 1,980,916	191.6%
10/01/12	10,993,450	15,391,050	4,397,600	71.4%	1,982,849	221.8%
10/01/11	10,103,821	14,591,273	4,487,452	69.2%	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%

* 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 Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/ c)
10/01/13	\$ 5,714,233	\$ 7,258,509	\$ 1,544,276	78.7%	\$ 366,815	421.0%
10/01/12	5,384,278	7,239,284	1,855,006	74.4%	505,167	367.2%
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%

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, 2013

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>
2013	\$ 771,711	\$ 560,152	\$ 219,956	101%
2012	764,561	707,925	173,205	115%
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 *	101%

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>
2013	\$ 428,556	\$ 274,264	\$ -	64%
2012	374,300	438,757	-	117%
2011	395,830	316,270	-	80%
2010	272,755	247,064	-	91%
2009	289,431	289,685	-	100%
2008	323,399	323,399	-	100%

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

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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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Satellite Beach, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Satellite Beach, Florida's basic financial statements, and have issued our report thereon dated April 30, 2014.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Satellite Beach, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Satellite Beach, Florida's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

Carr, Riggs & Ingram, LLC
Melbourne, Florida
April 30, 2014

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 (the "City") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated April 30, 2014.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated April 30, 2014, 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' report:

- ❖ 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 not been taken to completely address the finding and recommendation made in the preceding annual financial audit report as ML 2012-02 - Financial Condition. This comment has been revised and repeated below. Corrective actions have been taken to address the finding and recommendation made in the preceding annual financial audit report, as noted below:

Prior Year Management Letter Comment:

ML 2012-01 Improper Fund Transfer
Debarred Vendors

Corrected

- ❖ 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 noted the following recommendations:

ML 2013-01 JOURNAL ENTRY AND SCHEDULE REVIEW PROCEDURES

Criteria: Financial statement account balances and supporting schedules should be properly recorded.

Condition: Beginning fund balance in the General and Capital Assets Funds did not agree to the prior year audited balances. As a result, an adjustment was required to correct beginning fund balance in the General and Capital Projects Funds. In addition, the long term debt schedule did not agree to the general ledger. As a result, a new capital lease for a vehicle had to be added to the schedule in order to agree the schedule to the general ledger.

Cause: An immaterial adjusting journal entry from fiscal year 2012 in the amount of \$7,436 was inadvertently not made and a new immaterial capital lease for a vehicle in 2013 of \$38,193 was omitted from the long term debt schedule. Review of journal entries and the long term debt schedule was not sufficient to identify the recording deficiencies.

Effect: Adjusting journal entries were required to correct beginning fund balance and the long term debt schedule.

Recommendation: We recommend management reconcile all schedules to the general ledger and compare ending prior year fund balance to the current year beginning fund balance. In addition management should ensure all capital leases are recorded at year end.

Management Response: The City concurs with the auditors' recommendations regarding reconciliation of all schedules to the general ledger and will compare the ending prior year fund balance to the current year beginning fund balance. In addition, the City will ensure all capital leases are recorded at year end. Management has reassigned staff responsibilities and duties to ensure the necessary oversight of these functions.

ML 2013-02 EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

Condition: During the audit, we noted expenditures exceeded appropriations for general government services in the general fund by \$3,357, general fund transfers out exceeded appropriations by \$8,322 and interest expense in the capital assets fund exceeded appropriations by \$134.

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

Effect: The City was out of compliance with its Charter and with Florida Statutes.

Recommendation: We recommend there be more careful review of expenditures and appropriations to ensure compliance with the City's Charter and with Florida Statutes.

Management Response: The City will ensure all outstanding invoices are submitted, received and paid in a timely manner to provide a more reliable year-end budget amendment. Management has reassigned staff responsibilities and duties to ensure the necessary oversight of these functions.

Note: ML 2012-02 has been repeated from the fiscal year 2012 audit.

ML 2012-02 FINANCIAL CONDITION

Criteria: It is essential that governments maintain adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls. The Government Finance Officers Association recommends, at a minimum, that a general-purpose government, regardless of size, maintain unrestricted fund balance in its General Fund of no less than two months of General Fund operating expenditures.

Condition: The City's General Fund assigned and unassigned fund balance (unrestricted fund balance), cash, cash equivalents and investments decreased from 2011 to 2012, increased from 2012 to 2013 and is below the recommended minimum at September 30, 2013 of approximately \$1,338,000. The City implemented a General Fund Stabilization Reserve Policy in fiscal year 2013 to commit a minimum of 60 days of the prior year's operating expenditures, excluding capital outlay and transfers from the General Fund Balance by October 1, 2023.

<u>General Fund:</u>	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
Unassigned and Assigned Fund Balance	\$ 260,947	\$ 84,853	\$ 559,186
Cash, Cash Equivalents and Investments	765,168	391,102	827,625

Cause: Expenditures have exceeded revenues in the General Fund between 2009 and 2012 resulting in fund balance decreasing over time. Revenues exceeded expenditures in the General Fund in 2013.

Effect: The City does not have adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls.

Recommendation: We recommend that the City continue to implement its action plan to increase fund balance by increasing revenue, reducing costs, limiting additional debt and increasing cash reserves or some combination of these actions.

Management Response: The City concurs that it should continue to implement its action plan to increase fund balance by increasing revenue, reducing costs, limiting additional debt and increasing cash reserves or a combination of these actions.

- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)5., 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(1)(i)6.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 specific 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(1)(i)6.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, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Pursuant to Sections 10.554(1)(i)6.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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC
Melbourne, Florida
April 30, 2014

Communication with Those Charged with Governance

To the Honorable Mayor and City Council
of the 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 (the "City") for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During fiscal year 2013, the City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The new standard provides that deferred outflows of resources should be reported in a separate section following assets, deferred inflows of resources should be reported in a separate section following liabilities and changes the terms used on the financial statements to net position. Accordingly, there is no cumulative effect of an accounting change as of the beginning of the year related to this standard. The application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on the historical lives of similar assets and market prices. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other postemployment benefit liability is based on healthcare cost and employment assumptions developed by management. A third party actuary utilized these assumptions to calculate the year end liability. We evaluated the key factors and assumptions in determining they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosure are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pension trust funds in Note 5.C. to the financial statements due to the reported performance of plan assets.

The disclosure of the new inter-local agreement between Brevard County, the City and the Community Redevelopment Agency in Note 5.D. to the financial statements related to the tax incremental financing (TIF) contributions.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations.

To the Honorable Mayor and City Council
of the City of Satellite Beach, Florida
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If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City of Satellite Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Cam, Riggs & Ingram, LLC
Melbourne, Florida
April 30, 2014



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