



City of Satellite Beach, Florida

FINANCIAL STATEMENTS

Year Ended September 30, 2014



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September 30, 2014

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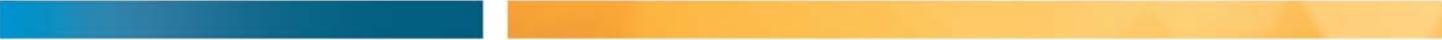
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**City of Satellite Beach, Florida
City Officials
September 30, 2014**

Mayor
Frank Catino

Vice Mayor
Lorraine Gott

Council Members
Mark Brimer
Sheryl Denan
Dominick Montanaro

City Attorney
James P. Beadle

City Manager
Courtney Barker

City Clerk, CMC
Leonor Olexa

Assistant City Manager
Andy Stewart

Comptroller
Jennifer Howland

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, 2014, 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, 2014, 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.

Change in Accounting Principle

As discussed in Note 1 D. 10. to the financial statements, the City implemented the provisions of GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 67, *Financial Reporting for Pension Plans*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 9-17), the required budgetary comparison information (pages 66-69), pension and the other postemployment benefits information (pages 70-74) 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 June 6, 2015 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.

Carl Riggs & Ingram LLC

Melbourne, Florida

June 6, 2015

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City of Satellite Beach, Florida 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, 2014.

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 \$24,525,750 (net position). Of this amount, (\$1,516,601) represents the unrestricted net deficit due to recording of the net OPEB obligation of \$1,668,000 and compensated absences of \$680,290 which are not currently funded.
- The City's total net position increased by \$497,650. 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 \$2,498,105, an increase of \$172,608 in comparison with the prior year.
- The City of Satellite Beach, Florida's total long-term liabilities increased by \$140,690 during the current fiscal year. The increases are due to an increase in capital leases in the amount of \$486,193, an increase in compensated absences of \$85,498, an increase in OPEB of \$97,000 and a decrease in notes payable of \$528,001.

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 21-22 of this report.

City of Satellite Beach, Florida Management's Discussion and Analysis

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 24-27 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 28-29 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 31-63 of this report.

City of Satellite Beach, Florida Management's Discussion and Analysis

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 66-74 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 and deferred inflows of resources by \$24,525,750 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	2014	2013
Current and other assets	\$ 3,851,561	\$ 3,518,491
Capital assets	30,603,231	30,247,378
Total assets	34,454,792	33,765,869
Long-term liabilities outstanding	8,350,644	8,209,954
Other liabilities	928,232	* 802,720
Total liabilities	9,278,876	9,012,674
Deferred inflows of resources	650,166	* 725,095
Net position:		
Net investment in		
Capital assets	24,600,877	24,203,216
Restricted	1,441,474	1,607,635
Unrestricted (deficit)	(1,516,601)	(1,782,751)
Total net position	\$ 24,525,750	\$ 24,028,100

*Reclassified to be consistent with 2014 presentation.

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 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 \$1,441,474 of the City's net position represents resources that are subject to external restrictions on how they may be used.

City of Satellite Beach, Florida Management's Discussion and Analysis

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 (\$1,516,601) primarily due to recording of the net OPEB obligation of \$1,668,000 and compensated absences of \$680,290 which are not currently funded.

The following table shows condensed revenue and expense data:

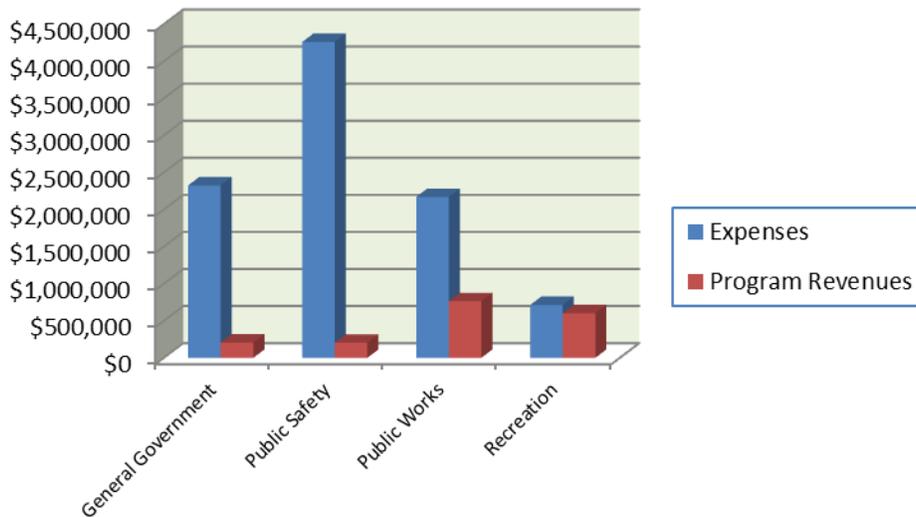
	2014	2013
CITY OF SATELLITE BEACH, FLORIDA'S Changes in Net Position		
Revenues:		
Charges for services	\$ 1,237,032	\$ 1,224,806
Operating grants and contributions	509,784	541,664
Capital grants and contributions	30,373	303,432
General revenues:		
Property taxes	5,606,772	5,283,753
Franchise fees	1,616,688	1,533,136
Shared revenues not restricted to specific programs	1,064,902	1,007,380
Grants and contributions not restricted to specific programs	665	23,561
Unrestricted investment earnings	17,143	18,914
Miscellaneous	154,938	193,208
Total revenues	10,238,297	10,129,854
Expenses:		
General government	2,326,720	2,585,150
Public safety	4,260,007	4,261,342
Public works	2,170,032	1,889,881
Recreation	713,537	740,695
Interest on long term debt	270,351	287,553
Total expenses	9,740,647	9,764,621
Increase in net position	497,650	365,233
Net position – beginning	24,028,100	23,662,867
Net position – ending	\$ 24,525,750	\$ 24,028,100

The City's net position increased by \$497,650 during the current fiscal year. The increase in net position was largely attributable to increased property tax revenues as a result of increasing property values. Franchise fees and other revenues increased as a result of better economic conditions experienced in 2014.

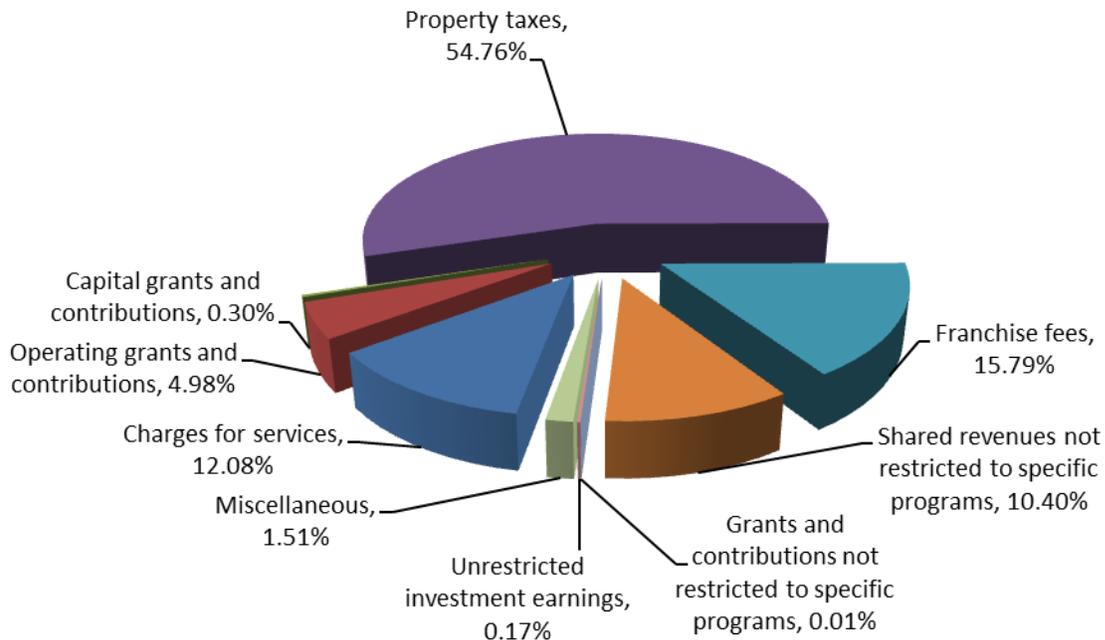
Expenses were also \$23,974 less than 2013 as a result of the City becoming more competitive with vendor pricing and reducing overall departmental costs throughout the City.

City of Satellite Beach, Florida Management's Discussion and Analysis

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.

City of Satellite Beach, Florida Management's Discussion and Analysis

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 \$2,498,105, an increase of \$172,608 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 \$189,352, restricted for specific purposes \$1,441,474, or committed to pay for obligations previously authorized by the City \$562,244. Unrestricted unassigned fund balance was \$305,035 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 \$309,688, while total fund balance was \$1,161,210. 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 3.7% of total general fund expenditures. The fund balance of the City of Satellite Beach, Florida's general fund increased by \$301,439 during the current fiscal year. The increase is due to increased ad-valorem revenues as a result of higher property values and the continuation of the Community Redevelopment Agency Tax Increment return to the General Fund.

The community redevelopment agency special revenue fund has a total fund balance of \$957,721, which is nonspendable for prepaid items of \$1,290 and restricted for the community redevelopment agency special revenue fund activities of \$956,431. The net increase in fund balance during the current year in the community redevelopment agency special revenue fund of \$63,141 was due primarily to a reduction in operating expenditures within the legal services line item

The capital assets fund has a total fund balance of \$205,982, which is nonspendable for prepaid items of \$42,661 and restricted for capital asset purchases of \$163,321. The net decrease in fund balance during the current year in the capital assets fund was \$197,353. 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 decrease of \$37,928 in appropriated expenditures and transfers out) can be briefly summarized as follows:

- \$28,871 in increases in general government services, legislative, city clerk's office and support services
- \$73,300 in decreases in recreation
- \$81,067 in decreases allocated to public works
- \$56,318 in increases allocated to transfers out
- \$52,256 in increases allocated to police and fire
- \$22,840 in decreases in capital outlay
- \$1,834 in increases in building and zoning

City of Satellite Beach, Florida Management's Discussion and Analysis

This decrease in expenditures corresponds to a \$45,574 decrease in revenues and other financing sources as follows; \$69,323 from taxes decreasing; \$35,753 from licenses and permits increases; \$11,531 from intergovernmental increases; \$3,710 from charges for services increases; \$9,140 from fines and forfeitures increases; \$48,088 from interest and other increases; and a \$84,473 decrease in appropriated transfers in to the general fund. The above items resulted in a net change of \$7,646 whereby the original adopted budget included a positive change in fund balance of \$200,116, compared to a net increase in fund balance of \$192,470 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, 2014, amounts to \$30,603,231 (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 1 percent.

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

	2014	2013
Land	\$ 11,680,950	\$ 11,680,950
Buildings	2,598,538	2,693,705
Improvements other than buildings	3,089,890	3,215,572
Equipment	1,995,723	1,198,249
Infrastructure	10,013,721	10,279,722
Construction in progress	1,224,409	1,179,180
Total	\$ 30,603,231	\$ 30,247,378

Additional information on the City of Satellite Beach, Florida's capital assets can be found in Note 4.B. on page 44 of this report.

Notes payable. At the end of the current fiscal year, the City of Satellite Beach, Florida, had notes payable outstanding of \$5,202,033.

The City's notes payable balance decreased by \$528,001 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 \$800,321.

City of Satellite Beach, Florida Management's Discussion and Analysis

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

	2014	2013
Capital lease DRS Comm. Center	\$ -	\$ 284,198
Capital lease City vehicles	398,979	29,930
Capital lease Police Records Mgmnt	401,342	-
Total capital leases	\$ 800,321	\$ 314,128

The City's total capital lease obligations had a net increase of \$486,193 (155%) during the current fiscal year. The City entered into a new capital lease for a fire truck in the amount of \$374,825 and records management computer aided dispatch system of \$421,316 and had repayments on all leases of \$309,948 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 \$680,290. Total compensated absences increased by a net amount of \$85,498 during the year, which includes additions of \$409,393 and reductions of \$323,895.

It is estimated that \$378,226 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 45 through 49 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 2014/15 fiscal year.

The City of Satellite Beach, Florida, in 2014/15 allocated \$138,195 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 \$34,639 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.



City of Satellite Beach, Florida Management's Discussion and Analysis

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.

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BASIC FINANCIAL STATEMENTS

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City of Satellite Beach, Florida
Statement of Net Position - Government-wide

September 30, 2014

ASSETS

Cash and cash equivalents	\$ 2,672,868
Accounts receivable	210,886
Due from other governments	159,510
Prepays	189,352
Derivative instrument - interest rate swap	618,945
Capital assets:	
Nondepreciable	
Land	11,680,950
Construction in progress	1,224,409
Depreciable, net of accumulated depreciation	
Buildings	2,598,538
Improvements other than buildings	3,089,890
Equipment	1,995,723
Infrastructure	10,013,721
Total assets	34,454,792

LIABILITIES

Accounts payable	485,214
Accrued expenses	216,274
Accrued interest	30,209
Underfunded pension costs	194,733
Due to other governments	1,802
Noncurrent liabilities:	
Due within one year	1,034,605
Due in more than one year	7,316,039
Total liabilities	9,278,876

DEFERRED INFLOWS OF RESOURCES

Accumulated increase in fair value of derivative instrument - interest rate swap	618,945
Deferred revenue - business tax receipts	31,221
Total deferred inflows of resources	650,166

NET POSITION

Net investment in capital assets	24,600,877
Restricted for:	
Emergency reserves	149,868
Community Redevelopment Agency	956,431
Community services	148,782
Law enforcement	23,072
Capital assets	163,321
Unrestricted (deficit)	(1,516,601)
Total net position	\$ 24,525,750

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

City of Satellite Beach, Florida
Statement of Activities - Government-wide

Year ended September 30, 2014

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	\$ 2,326,720	\$ 207,424	\$ -	\$ -	\$ (2,119,296)
Public safety	4,260,007	127,559	68,043	8,607	(4,055,798)
Public works	2,170,032	315,315	437,120	11,397	(1,406,200)
Recreation	713,537	586,734	4,621	10,369	(111,813)
Interest on long-term debt	270,351	-	-	-	(270,351)
Total governmental activities	\$ 9,740,647	\$ 1,237,032	\$ 509,784	\$ 30,373	(7,963,458)
General revenues					
					5,606,772
					1,616,688
					1,064,902
					665
					17,143
					154,938
					8,461,108
					497,650
					24,028,100
					\$ 24,525,750

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

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City of Satellite Beach, Florida
Balance Sheet - Governmental Funds

September 30, 2014

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds
ASSETS				
Cash and cash equivalents	\$ 1,417,974	\$ 963,330	\$ 114,391	\$ 177,173
Accounts receivable	159,029	-	48,962	2,895
Due from other funds	115	-	-	-
Due from other governments	155,547	-	-	3,963
Prepaid items	139,410	1,290	42,661	5,991
Total assets	\$ 1,872,075	\$ 964,620	\$ 206,014	\$ 190,022
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 461,568	\$ 6,899	\$ 32	\$ 16,715
Accrued expenses	216,274	-	-	-
Due to other funds	-	-	-	115
Due to other governments	1,802	-	-	-
Total liabilities	679,644	6,899	32	16,830
Deferred inflows of resources:				
Deferred revenue - business tax receipts	31,221	-	-	-
Fund balances:				
Nonspendable	139,410	1,290	42,661	5,991
Restricted	149,868	956,431	163,321	171,854
Committed	562,244	-	-	-
Unassigned	309,688	-	-	(4,653)
Total fund balances	1,161,210	957,721	205,982	173,192
Total liabilities and fund balances	\$ 1,872,075	\$ 964,620	\$ 206,014	\$ 190,022

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

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

	Total Governmental Funds
\$	2,672,868
	210,886
	115
	159,510
	189,352
\$	3,232,731

\$	485,214
	216,274
	115
	1,802
	703,405

	31,221
--	--------

	189,352
	1,441,474
	562,244
	305,035
	2,498,105

30,603,231

(194,733)

(8,350,644)

	(30,209)
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\$	24,525,750
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City of Satellite Beach, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

Year ended September 30, 2014

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds	Total Governmental Funds
Revenues					
Taxes	\$ 6,376,670	\$ 377,109	\$ 455,258	\$ -	\$ 7,209,037
Licenses and permits	866,435	-	-	-	866,435
Intergovernmental	993,828	25,000	8,607	-	1,027,435
Charges for services	662,179	-	-	313,964	976,143
Fines and forfeitures	47,489	-	-	33	47,522
Interest and other	58,254	4,187	1,420	24,057	87,918
Total revenues	9,004,855	406,296	465,285	338,054	10,214,490
Expenditures					
Current:					
General government	1,989,988	190,945	28,882	-	2,209,815
Public safety	4,104,425	-	-	76	4,104,501
Public works	1,496,957	-	-	18,615	1,515,572
Recreation	693,956	-	-	3,130	697,086
Capital outlay	31,660	62,758	1,106,512	44,704	1,245,634
Debt service:					
Principal retired	-	276,100	309,948	251,901	837,949
Interest	-	191,225	21,437	59,636	272,298
Total expenditures	8,316,986	721,028	1,466,779	378,062	10,882,855
Excess (deficiency) of revenues over (under) expenditures	687,869	(314,732)	(1,001,494)	(40,008)	(668,365)
Other financing sources (uses)					
Transfers in	337,540	685,802	-	50,000	1,073,342
Transfers out	(735,802)	(307,929)	(25,000)	(4,611)	(1,073,342)
Capital lease proceeds	-	-	796,141	-	796,141
Insurance proceeds	11,232	-	-	-	11,232
Gain from sale of fixed assets	600	-	33,000	-	33,600
Net other financing sources (uses)	(386,430)	377,873	804,141	45,389	840,973
Net change in fund balances	301,439	63,141	(197,353)	5,381	172,608
Fund balances, beginning of year	859,771	894,580	403,335	167,811	2,325,497
Fund balances, end of year	\$ 1,161,210	\$ 957,721	\$ 205,982	\$ 173,192	\$ 2,498,105

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

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, 2014

Net change in fund balances - total governmental funds	\$ 172,608
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.	397,796
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.	11,397
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.	(53,340)
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.	41,808
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.	(83,551)
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 decreased in the current year.	107,932
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.	(97,000)
Change in net position of governmental activities	\$ 497,650

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

City of Satellite Beach, Florida
Statement of Fiduciary Net Position - Pension Trust Funds

September 30, 2014

ASSETS

Cash and cash equivalents	\$ 447,507
Receivables:	
City contributions	355,281
Participant loans	69,072
Investments, at fair value:	
U.S. government and other debt securities	6,172,531
Mutual stock funds	13,865,406
Total assets	20,909,797

LIABILITIES

-

NET POSITION

Held in trust for pension benefits	\$ 20,909,797
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The accompanying notes are an integral part of this financial statement.

City of Satellite Beach, Florida
Statement of Changes in Fiduciary Net Position - Pension Trust Funds

For the year ended September 30, 2014

ADDITIONS

Contributions:

Employees	\$	278,954
City		816,755
State		226,178

Total contributions		1,321,887
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Investment earnings:

Net appreciation in fair value of investments		1,660,561
Interest and dividends		32,820

Total investment earnings		1,693,381
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Total additions		3,015,268
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DEDUCTIONS

Benefit payments		1,619,009
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Administrative expenses		58,775
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Total deductions		1,677,784
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Change in net position		1,337,484
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Net position held in trust for pension

benefits, beginning of year		19,572,313
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Net position held in trust for pension

benefits, end of year	\$	20,909,797
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The accompanying notes are an integral part of this financial statement.

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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’ 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 in 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 also is financially responsible for 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

Excluded from the reporting entity

The Satellite Beach Volunteer Fire Department, Inc. is a nonprofit organization separate from the City. This potential component unit is excluded from the reporting entity because the City does not exert significant influence or control over the volunteer fire department, nor does it have the right to the surplus of the volunteer fire department.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except 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.

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 and expenditures for services approved by the City Council that substitute or outsource a capital asset need identified in the capital improvements plan.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

D. ASSETS, LIABILITIES, DEFERRED INFLOWS 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"). In fiscal year 2014 the SBA distributed the principal Fund B balances in full to each Fund B participant, and the weighted average life of the fund's assets is effectively zero and is considered closed.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY (Continued)

1. Cash and investments (continued)

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, 2014, 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY (Continued)

2. Receivables and payables (continued)

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, 2014 was 8.3206 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 a lien placed 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY (Continued)

4. Capital assets (continued)

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

Assets	Years
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. Deferred inflows of resources

Resources received before time requirements have been met, which were previously reported as unearned revenue liabilities in the governmental funds, are now classified as deferred inflows of resources due to the implementation of GASB Statement No. 65.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY (Continued)

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.

On August 7, 2013, the City adopted a fund balance stabilization policy. The City’s General Fund stabilization reserve policy is 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. 80% of the current fiscal year’s additions to reserves are to be added to committed fund balance in the General Fund and used to fund expenditures for critical services in response to major natural disasters upon City Council approval.

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, 2014.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY (Continued)

9. Fund 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.

10. Accounting changes

The City has implemented GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*, which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities.

The Statement requires governments to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources, or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

Implementation required the City to analyze items previously reported as "deferred". The City reclassified unavailable revenues in governmental funds and resources received before time requirements were met to deferred revenues in the deferred inflows of resources category.

The City has implemented GASB Statement No. 67, *"Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25"*, which amends the accounts and financial reporting guidance for pension plans administered through trusts. The statement requires additional disclosures in the notes to the financial statements and required supplementary information.

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.

City of Satellite Beach, Florida
Notes to Financial Statements

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 \$(8,350,644) difference are as follows:

Note payable – CRA	\$ (4,285,000)
Notes payable – Stormwater	(917,033)
Capital leases payable	(800,321)
Net OPEB obligation	(1,668,000)
Compensated absences	(680,290)
<hr/>	
Net adjustment to reduce fund balance - total governmental funds to arrive at net position-governmental activities	\$ (8,350,644)
<hr/> <hr/>	

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$397,796 difference are as follows:

Capital outlay	\$ 1,245,634
Depreciation expense	(847,838)
<hr/>	
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net <i>position of governmental activities</i>	\$ 397,796
<hr/> <hr/>	

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 3: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

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

Another element of that reconciliation states that “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 \$41,808 difference are as follows:

Debt issued:	
Capital leases	\$ (796,141)
Principal repayments	837,949
<hr/>	
Net adjustment to increase net changes in fund balances -	
total governmental funds to arrive at changes in net	
position of governmental activities	\$ 41,808
<hr/> <hr/>	

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 \$(83,551) 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	\$ (85,498)
Interest expense	1,947
<hr/>	
Net adjustment to decrease net changes in fund balances -	
total governmental funds to arrive at changes in net	
position of governmental activities	\$ (83,551)
<hr/> <hr/>	

NOTE 4: DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

At September 30, 2014, the government’s carrying amount of deposits was \$1,481,763 and the bank balance was \$1,662,647. At September 30, 2014, the pension trust funds carrying amount of deposits was \$447,507 and the bank balance was \$447,507. In addition, the City reported petty cash of \$2,900. As of September 30, 2014, \$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, 2014, the City had the following investments:

Primary government:	
SBA (Florida PRIME)	\$ 100,883
SPIA	1,087,322
Primary government total	\$ 1,188,205
Pension trust funds:	
Bond mutual fund	\$ 3,113,067
Stock mutual fund	15,065,339
International stock mutual fund	1,859,531
Pension trust funds total	\$ 20,037,937

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, 2014, \$3,113,067 of the City’s pension trust funds’ investment in bond mutual funds was rated AA/V4 by Fitch Ratings. As of September 30, 2014, the City’s investment in the Florida PRIME was rated AAAM by Standard & Poor’s. As of September 30, 2014, the City’s investment in the SPIA pool was rated A+f by Standard & Poor’s.

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, 2014, the City's pension trust fund investments in bond mutual funds had a weighted average maturity of 6.47 years. As of September 30, 2014, the Florida PRIME had a weighted average maturity of 39 days. As of September 30, 2014, the SPIA pool had an effective duration of 2.57 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

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

B. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,680,950	\$ -	\$ -	\$ 11,680,950
Construction in progress	1,179,180	45,496	(267)	1,224,409
Total capital assets, not being depreciated	12,860,130	45,496	(267)	12,905,359
Capital assets, being depreciated:				
Buildings	4,465,707	-	-	4,465,707
Improvements other than buildings	4,888,687	58,695	-	4,947,382
Equipment	3,858,686	1,116,049	(396,352)	4,578,383
Infrastructure	18,264,916	37,058	-	18,301,974
Total capital assets being depreciated	31,477,996	1,211,802	(396,352)	32,293,446
Less accumulated depreciation for:				
Buildings	(1,772,002)	(95,167)	-	(1,867,169)
Improvements other than buildings	(1,673,115)	(184,377)	-	(1,857,492)
Equipment	(2,660,437)	(265,235)	343,012	(2,582,660)
Infrastructure	(7,985,194)	(303,059)	-	(8,288,253)
Total accumulated depreciation	(14,090,748)	(847,838)	343,012	(14,595,574)
Total capital assets being depreciated, net	17,387,248	363,964	(53,340)	17,697,872
Governmental activities capital assets, net	\$ 30,247,378	\$ 409,460	\$ (53,607)	\$ 30,603,231

The current year increase in capital assets includes \$11,397 of donated capital assets.

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

Governmental activities:	
General government	\$ 155,417
Public safety	93,549
Physical environment	589,089
Recreation	9,783
Total depreciation expense - governmental activities	\$ 847,838

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of September 30, 2014, interfund loans of \$115 for short term operating purposes resulted in a due to the General Fund from the Community Services Fund. All amounts are expected to be repaid within one year.

Interfund transfers for the year ended September 30, 2014:

	Transfer in:			Total
	General Fund	Community Redevelopment Agency (CRA) Fund	Non Major Funds	
<u>Transfer out:</u>				
General Fund	\$ -	\$ 685,802	\$ 50,000	\$ 735,802
CRA Fund	307,929	-	-	307,929
Capital Assets Fund	25,000	-	-	25,000
Nonmajor Funds	4,611	-	-	4,611
Total	\$ 337,540	\$ 685,802	\$ 50,000	\$ 1,073,342

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 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.

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

Capital leases (continued)

During 2014, the City entered into a new capital lease to finance the purchase of a fire truck. The lease requires annual payments of \$42,661 which includes an annual fixed interest rate of 2.71% through final maturity in fiscal year 2024. During 2014, the City also entered into a new capital lease to finance the purchase of a records management computer aided dispatch system. The lease requires quarterly payments of \$17,004 which includes an annual fixed interest rate of 2.92% through final maturity in fiscal year 2021. 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		597,346
Vehicles		767,962
Less: Accumulated depreciation		(1,128,902)
Total		\$ 2,612,533

Obligations of governmental activities under capital lease at September 30, 2014, are as follows:

<i>Year Ending September 30,</i>	Principal	Interest	Total
2015	\$ 102,385	\$ 16,553	\$ 118,938
2016	99,754	19,185	118,939
2017	102,705	16,234	118,939
2018	97,481	13,194	110,675
2019	100,273	10,402	110,675
2020-2024	297,723	18,865	316,588
Total	\$ 800,321	\$ 94,433	\$ 894,754

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

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 to purchase real property and various capital improvements. The initial amount drawn on the note was \$6,250,000. Quarterly payments ranging from \$114,291 to \$117,988, including principal and interest, are due through the maturity date of May 1, 2026.

The note is secured by revenues of the Community Redevelopment Agency fund. Principal and interest paid for the current fiscal year was \$467,325 and pledged gross revenues were approximately \$406,000. As of September 30, 2014, principal and interest to maturity in 2026 to be paid from pledged future revenues totaled \$5,459,603.

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 \$4,285,000 as of September 30, 2014. The associated variable-rate note has a \$4,285,000 principal amount as of the same date and has a like term. There are no embedded options on the swap agreements and no cash was paid or received when the swap agreements were entered into.

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 0.60% as of September 30, 2014. Therefore, the interest rate related to the \$6,250,000 swap is 3.63% as of the same date, calculated as the difference between the synthetic fixed rate of 4.23% and the 0.60% variable rate.

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

Notes payable (continued)

The interest rate swap agreement has a negative fair value of \$618,945 as of September 30, 2014. 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, 2014 is a positive of approximately \$78,000.

As of September 30, 2014, 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, 2014, the swap's counterparty was rated A+ by Standard & Poor's. 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, 2014, 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:

<i>September 30,</i>	Principal		Interest		Interest (swap)		Total
2015	\$	553,994	\$	71,441	\$	151,039	\$ 776,474
2016		516,965		55,565		140,382	712,912
2017		450,465		44,438		129,273	624,176
2018		472,338		34,186		117,689	624,213
2019		495,222		23,342		105,604	624,168
2020-2024		1,937,100		59,166		327,776	2,324,042
2025-2026		775,949		6,705		26,521	809,175
Totals	\$	5,202,033	\$	294,843	\$	998,284	\$ 6,495,160

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, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Note payable – CRA	\$ 4,561,100	\$ -	\$ (276,100)	\$ 4,285,000	\$ 288,200
Notes payable – Stormwater	1,168,934	-	(251,901)	917,033	265,794
Capital leases payable	314,128	796,141	(309,948)	800,321	102,385
Net OPEB obligation	1,571,000	281,000	(184,000)	1,668,000	-
Compensated absences	594,792	409,393	(323,895)	680,290	378,226
Long-term liabilities	\$ 8,209,954	\$ 1,486,534	\$ (1,345,844)	\$ 8,350,644	\$ 1,034,605

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

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

E. GOVERNMENTAL FUND BALANCES (Continued)

	General	Community Redevelopment Agency	Capital Asset	Nonmajor Funds
Nonspendable:				
Prepaid items	\$ 139,410	\$ 1,290	\$ 42,661	\$ 5,991
Restricted for:				
Emergency reserves	149,868	-	-	-
Community services	-	-	-	148,782
Community redevelopment				
Economic development	-	956,431	-	-
Capital assets	-	-	163,321	-
Law enforcement	-	-	-	23,072
Committed:				
For reserves	562,244	-	-	-
Unassigned	309,688	-	-	(4,653)
Total fund balances	\$ 1,161,210	\$ 957,721	\$ 205,982	\$ 173,192

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 \$12,512 or an average of \$4,171 per year.

B. OTHER POSTEMPLOYMENT BENEFITS

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

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Employees and their dependents may elect to remain in the Plan upon retirement up to age 65. After age 65 the City’s insurance coverage becomes secondary to the retiree’s Medicare insurance. The Plan has 22 retirees and spouses receiving benefits and has a total of 72 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, 2014, the City made contributions of \$180,000, 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 \$7,138 for the year ended September 30, 2014.

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, 2014, the amount actually contributed to the Plan and changes in the City’s net OPEB obligation to the Plan:

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual required contribution	\$ 305,000
Interest on net OPEB obligation	63,000
Adjustment to annual required contribution	(87,000)
Annual OPEB cost (expense)	281,000
Contributions made	(180,000)
Interest on employer contributions	(4,000)
Increase in net OPEB obligation	97,000
Net OPEB obligation – beginning of year	1,571,000
Net OPEB obligation – end of year	\$ 1,668,000

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
9/30/2014	\$ 281,000	65%	\$ 1,668,000
9/30/2013	408,000	38%	1,571,000
9/30/2012	400,000	36%	1,317,000

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, 2014. Accordingly, the City will be required to obtain a subsequent actuarial valuation within three years of that date. As of October 1, 2014, the actuarial accrued liability for benefits was \$3,718,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$3,635,000 and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 102.3%.

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.

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2014 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

Plan description. The City maintains three retirement plans covering its regular employees. A single-employer, defined benefit pension plan that covers all regular police and fire employees, the City of Satellite Beach Police Officers' and Firefighters' Plan; a single-employer, defined benefit pension plan that covers all general employees hired prior to September 30, 1996, the City of Satellite Beach General Employees' Retirement System (the "General Employees' Plan"); and a defined contribution plan for general employees hired after September 30, 1996, the City of Satellite Beach Money Purchase Plan (the "Money Plan").

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.

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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 12 year period for the General Employees' Plan.

Funding policy. The City levies a tax, collected by the State, on property and casualty insurance premiums which partially fund the Police Officers' and Firefighters' Plan. Administrative costs are financed through investment earnings. The contribution requirement for the Police Officers' and Firefighters' Plan and the General Employees' Plan employer contributions are actuarially determined; employees must contribute 8.00% of pensionable earnings; employee contribution requirements may be amended by City ordinance, but the employer contribution requirement is subject to State minimums.

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, 2014, are:

	Police Officers' and Firefighters' and General Employees'	
Annual pension cost	\$ 729,557	\$ 364,160
Contributions made	(773,093)	(428,556)
Decrease in net pension obligation	(43,536)	(64,396)
Net pension obligation - beginning of year	127,920	174,745
Net pension obligation - end of year	\$ 84,384	\$ 110,349

Trend information for the City's two defined benefit plans is presented below:

	Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset) Obligation
Police Officers' and Firefighters' Plan	2012	\$ 764,723	93%	\$ 77,696
	2013	771,477	93%	127,920
	2014	729,557	106%	84,384
General Employees' Plan	2012	371,222	122%	21,161
	2013	427,848	64%	174,745
	2014	364,160	118%	110,349

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

The Police Officers' and Firefighters' Plan is governed by a Board of Trustees which is comprised of four members appointed by resolution of the City Council. The General Employees' Plan is governed by a Board of Trustees which is comprised of three members appointed by resolution of the City Council.

	Police Officers' and Firefighters' Plan	General Employees' Plan
<i>Plan Membership as of October 1, 2014:</i>		
Inactive plan members or beneficiaries currently receiving benefits	21	21
Inactive plan members entitled to but not yet receiving benefits	6	4
Inactive plan members due a refund of contributions	1	-
Active plan members	34	7
	62	32

<i>Plan benefits</i>	Police Officers' and Firefighters' Plan	General Employees' Plan
Employees covered	Full-time firefighters and police officers employed by the City.	Only participants as of September 30, 1986 are eligible to continue participation.
Types of benefits offered	Retirement, disability, and pre-retirement death benefits.	
Basic pension formula	3% of average earnings multiplied by service.	3% of average earnings multiplied by service prior to October 1, 2010 plus 2% of average earnings multiplied by service after September 30, 2010.
Early retirement adjustment	Retirement benefit is reduced by 3% for each year prior to early retirement age.	Basic pension formula is reduced by 1/15 for each of the first 5 years plus 1/30 of the next five years prior to early retirement age.
Disability pension	For a service connected disability, the larger of basic pension formula or 42% of average earnings. For a non-service connected disability, provided the participant has earned 10 years of service the larger of basic pension formula or 25% of average earnings.	

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

<i>Plan benefits</i>	Police Officers' and Firefighters' Plan	General Employees' Plan
Pre-retirement death benefit	Basic pension formula (payable for 10 years to the beneficiary of a vested participant beginning at the participant's early or normal retirement age or payable earlier on an actuarially equivalent basis). Return of accumulated employee contributions (payable to the beneficiary of a non-vested participant).	
Normal retirement age	52	62
Early retirement age	50, with 10 years of service.	55 with at least 10 years of service. Any age with 35 years of service.
Vesting requirement	100% after 5 years of service.	5 years of service.
Form of payment	Actuarially increased single life annuity. 10-year certain and life annuity. Actuarially equivalent 50%, 66%, 75%, or 100% joint and contingent annuity. Any other actuarially equivalent form of payment approved by the Board of Trustees.	
Average earnings	Average of the highest consecutive three years of pensionable earnings out of the last 10 years.	
Cost of living adjustment	No automatic cost-of-living adjustment is provided.	
Legal authority	Plan was established May 22, 1972 pursuant to City ordinance, and as since amended.	Plan was established May 22, 1973 pursuant to City ordinance, and as since amended.
Changes	The benefit terms did not change from the prior measurement date since GASB 67 is first effective for this measurement period.	

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

<u>Plan benefits</u>	<u>Police Officers' and Firefighters' Plan</u>	<u>General Employees' Plan</u>
Deferred Retirement Option Plan A DROP is available for both the Police Officers' and Firefighters' Plan and the General Employees' Plan. The Police Officers' and Firefighters' Plan DROP program is available for those participants who have attained their normal retirement age and individuals may participate in the DROP for up to 60 months; DROP accounts are credited with interest based on the actual investment return minus 0.1875%. The General Employees Plan DROP program is available for those participants who are at least age 57 and who have attained their early or normal retirement age and individuals may participate in the DROP for 12 to 60 months; DROP accounts are credited with interest at the rate of return earned by the market value of assets less a 0.1875% quarterly administration charge.		
DROP balance as of October 1, 2014	\$ 84,179	\$ -

The components of the net pension liability of the sponsor on September 30, 2014 were as follows:

	<u>Police Officers' and Firefighters' Plan</u>	<u>General Employees' Plan</u>
Total pension liability	\$ 16,951,368	\$ 7,254,445
Less: Fiduciary net position	(13,145,022)	(6,388,350)
Net pension liability	<u>\$ 3,806,346</u>	<u>\$ 866,095</u>
Plan Fiduciary Net Position as a percentage of the total pension liability	78%	88%

The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014 using the following actuarial assumptions:

	<u>Police Officers' and Firefighters' Plan</u>	<u>General Employees' Plan</u>
Discount rate	8.07% per annum (3.59% per annum is attributable to long-term inflation); this rate was used to discount all future benefit payments.	
Salary increases	For both plans, 4.75% per annum.	
Cost-of-living increases	For both plans, not assumed.	

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

<i>Actuarial Assumptions</i>	Police Officers' and Firefighters' Plan	General Employees' Plan
Mortality basis	For both plans, sex-distinct rates set forth in the RP-2000 Mortality Table for non-annuitants and annuitants, projected to 2007 by Scale AA, as published by the Internal Revenue Service (IRS) for purposes of Internal Revenue Code (IRC) section 430; future generational improvements in mortality have not been reflected.	
Retirement	100% retirement is assumed to occur at age 52 with five years of service; participants who are age 50 with 10 years of service are assumed to retire at the rate of 2.50% per year; participants who have attained normal retirement age are assumed to retire no earlier than one year after the valuation date.	100% retirement is assumed at age 62 with five years of service or 5.00% retirement per year is assumed with 35 years of service or 2.50% retirement per year is assumed at age 55 with 10 years of service; a participant who has attained his normal retirement age as of the valuation date is assumed to retire one year later.
Other decrements	Assumed employment termination is based on the Scale 155 Table; assumed disability is based on the Wyatt 1985 Disability Study (Class 4).	Assumed employment termination is based on the Scale 155 Table; assumed disability is based on the Wyatt 1985 Disability Study (Class 1).
Non-investment expenses	1.25% of future payroll.	1.75% of future payroll.
Future contributions	Contributions from the employer and employees are assumed to be made as legally required; employer contributions are assumed to equal \$729,233 for the 2014/15 fiscal year.	Contributions from the employer and employees are assumed to be made as legally required; employer contributions are assumed to equal \$370,855 for the 2014/15 fiscal year.
Changes	The actuarial assumptions did not change from the prior measurement date since GASB 67 is first effective for this measurement period.	

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major assets class.

These ranges are combined to produce the long term expected rate of return by weighting the expected real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation was of September 30, 2014 are summarized in the following table:

Investment Category	Target Allocation	Expected Long-Term Real Ret
Core bonds	16%	2.29% per annum
Multi-Sector	24%	2.78% per annum
U.S. large cap equity	39%	5.68% per annum
U.S. small cap equity	11%	6.24% per annum
Non U.S. equity	10%	5.44% per annum
<hr/>		
Total or weighted arithmetic average	100%	4.48% per annum

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Comparison of Net Pension Liability Using Alternative Discount Rates

	1% Decrease	Present Discount Rate	1% Increase
<i>Police Officers' and Firefighters' Plan</i>			
	7.07%	8.07%	9.07%
Total pension liability	\$ 18,870,292	\$ 16,951,368	\$ 15,328,931
Less: fiduciary net position	(13,145,022)	(13,145,022)	(13,145,022)
Net pension liability	\$ 5,725,270	\$ 3,806,346	\$ 2,183,909
<hr/>			
<i>General Employees' Plan</i>			
	1% Decrease 7.07%	Present Discount Rate	1% Increase 9.07%
Total pension liability	\$ 7,909,038	\$ 7,254,445	\$ 6,687,143
Less: fiduciary net position	(6,388,350)	(6,388,350)	(6,388,350)
Net pension liability	\$ 1,520,688	\$ 866,095	\$ 298,793

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Both Plans' issue a stand-alone financial report each year, which contains information about the Plans' fiduciary net position. The Plans' fiduciary net position has been determined on the same basis used by the pension Plans' and is equal to the market value of assets calculated under the accrual basis of accounting. These reports are available to the public at the Plans' administrative office: Retirement Department, Florida League of Cities, Inc., P.O. Box 1757, Tallahassee, FL 32302, (800) 342-8112.

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, 2014, there were 38 active plan members. Plan members are required to contribute 5% of their annual salary to the Plan, and the City is required to contribute a matching amount. State statutes require the government to contribute 4 percent of the annual covered payroll of Plan participants. Plan provisions and contribution requirements are established and may be amended by the City Council. The City and the employees contributed \$75,576 and \$78,471, respectively, to the Plan for fiscal year 2014.

Combining Fund Information

	Police Officers' and Firefighters'	General Employees'	Money Purchase Plan	Total
ASSETS				
Cash and cash equivalents	\$ 78,448	\$ 38,292	\$ 330,767	\$ 447,507
Receivables:				
Accounts receivable	349,122	6,159	-	355,281
Participant loans	-	-	69,072	69,072
Investments: U.S. government and other debt securities	5,151,403	1,021,128	-	6,172,531
Investments: mutual stock funds	7,844,779	5,322,633	697,994	13,865,406
Total assets	13,423,752	6,388,212	1,097,833	20,909,797
LIABILITIES				
	-	-	-	-
NET POSITION				
Held in trust for pension benefits	\$ 13,423,752	\$ 6,388,212	\$ 1,097,833	\$ 20,909,797

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

	Police Officers' and Firefighters'	General Employees'	Money Purchase Plan	Total
ADDITIONS				
Contributions:				
Employees	\$ 170,359	\$ 30,124	\$ 78,471	\$ 278,954
City	312,623	428,556	75,576	816,755
State	226,178	-	-	226,178
Total contributions	709,160	458,680	154,047	1,321,887
Total investment earnings				
Net appreciation in fair market value of investments	1,071,546	509,332	79,683	1,660,561
Interest and dividends	-	-	32,820	32,820
Total investment earnings	1,071,546	509,332	112,503	1,693,381
Total additions	1,780,706	968,012	266,550	3,015,268
DEDUCTIONS				
Benefit payments	987,787	470,392	160,667	1,619,009
Administrative expenses	36,101	22,674	163	58,775
Total deductions	1,023,888	493,066	160,830	1,677,784
Change in net position	756,818	474,946	105,720	1,337,484
Net position, beginning of year	12,666,934	5,913,266	992,113	19,572,313
Net position, end of year	\$13,423,752	\$6,388,212	\$1,097,833	\$20,909,797

D. COMMITMENTS AND CONTINGENCIES

Operating Leases

The City leases certain equipment under noncancelable operating leases. The total costs of such leases were \$86,840 for the year ended September 30, 2014. The future minimum lease payments for the leases are as follows:

<i>Year Ending September 30:</i>	
2015	\$ 59,037
2016	11,263
2017	10,536
2018	2,539
Total	\$ 83,375

NOTE 5: OTHER INFORMATION (Continued)

D. COMMITMENTS AND CONTINGENCIES (Continued)

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.

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.

NOTE 5: OTHER INFORMATION (Continued)

D. COMMITMENTS AND CONTINGENCIES (Continued)

The allocated amounts of TIF funds to be provided to the County for the year ending September 30, 2014 were \$117,316 and have been included with general government expenditures in the Community Redevelopment Agency Fund. Future payments are as follows:

<u>Year Ending September 30:</u>	
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, 2014 were \$199,755 and have been included with transfers out in the Community Redevelopment Agency Fund. Future payments are as follows:

<u>Year Ending September 30:</u>	
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 effective in subsequent fiscal years. The Statements address:

- 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.

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

City of Satellite Beach, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund

<i>For the Year Ended September 30, 2014</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 6,422,153	\$ 6,352,830	\$ 6,376,670	\$ 23,840
Licenses and permits	828,700	864,453	866,435	1,982
Intergovernmental	977,029	988,560	993,828	5,268
Charges for services	660,964	664,674	662,179	(2,495)
Fines and forfeitures	38,400	47,540	47,489	(51)
Interest and other	18,722	66,810	58,254	(8,556)
Total revenues	8,945,968	8,984,867	9,004,855	19,988
Expenditures				
Departments:				
Legislative	12,356	12,919	12,873	46
Administrative and finance	628,266	676,778	665,058	11,720
City Clerk	180,589	185,874	180,565	5,309
General governmental services	1,170,713	1,145,224	1,131,492	13,732
Police	2,482,931	2,512,481	2,490,598	21,883
Fire	1,606,136	1,628,842	1,613,827	15,015
Building and zoning	236,423	238,257	234,886	3,371
Public works	1,344,884	1,263,817	1,262,071	1,746
Recreation	777,583	704,283	693,956	10,327
Capital outlay	60,500	37,660	31,660	6,000
Total expenditures	8,500,381	8,406,135	8,316,986	89,149
Excess of revenues over expenditures	445,587	578,732	687,869	109,137
Other financing sources (uses)				
Transfers in	444,013	359,540	337,540	(22,000)
Transfers out	(689,484)	(745,802)	(735,802)	10,000
Insurance proceeds	-	-	11,232	11,232
Sale of fixed assets	-	-	600	600
Net other financing sources (uses)	(245,471)	(386,262)	(386,430)	(168)
Net change in fund balances	200,116	192,470	301,439	108,969
Fund balances, beginning of year	859,771	859,771	859,771	-
Fund balances, end of year	\$ 1,059,887	\$ 1,052,241	\$ 1,161,210	\$ 108,969

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Satellite Beach, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Community Redevelopment Agency Fund

<i>For the Year Ended September 30, 2014</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 378,068	\$ 377,109	\$ 377,109	\$ -
Intergovernmental	-	25,000	25,000	-
Interest and other	12,015	4,829	4,187	(642)
Total revenues	390,083	406,938	406,296	(642)
Expenditures				
Department:				
General government	223,231	211,004	190,945	20,059
Capital outlay	76,850	62,758	62,758	-
Debt service:				
Principal retired	276,100	276,100	276,100	-
Interest	218,601	201,225	191,225	10,000
Total expenditures	794,782	751,087	721,028	30,059
Deficiency of revenues under expenditures	(404,699)	(344,149)	(314,732)	29,417
Other financing sources				
Transfers in	689,484	685,802	685,802	-
Transfers out	(284,785)	(341,653)	(307,929)	33,724
Net other financing sources	404,699	344,149	377,873	33,724
Net change in fund balances	-	-	63,141	63,141
Fund balances, beginning of year	894,580	894,580	894,580	-
Fund balances, end of year	\$ 894,580	\$ 894,580	\$ 957,721	\$ 63,141

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Satellite Beach, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Capital Assets Fund

<i>For the Year Ended September 30, 2014</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 375,000	\$ 454,285	\$ 455,258	\$ 973
Intergovernmental	-	8,607	8,607	-
Interest and other	939	1,446	1,420	(26)
Total revenues	375,939	464,338	465,285	947
Expenditures				
Current				
General government	-	2,392	28,882	(26,490)
Capital outlay	293,281	1,111,628	1,106,512	5,116
Debt service:				
Principal retired	309,948	309,948	309,948	-
Interest	21,457	22,325	21,437	888
Total expenditures	624,686	1,446,293	1,466,779	(20,486)
Deficiency of revenues under expenditures	(248,747)	(981,955)	(1,001,494)	(19,539)
Other financing uses				
Transfers in	-	6,376	-	(6,376)
Transfers out	(46,000)	(47,000)	(25,000)	22,000
Capital lease proceeds	-	796,141	796,141	-
Gain from sale of fixed assets	-	-	33,000	33,000
Net other financing uses	(46,000)	755,517	804,141	48,624
Net change in fund balances	(294,747)	(226,438)	(197,353)	29,085
Fund balances, beginning of year	403,335	403,335	403,335	-
Fund balances, end of year	\$ 108,588	\$ 176,897	\$ 205,982	\$ 29,085

The accompanying notes to required supplementary information are an integral part of this schedule.



City of Satellite Beach, Florida
Budgetary Notes to Required Supplementary Information

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

Actual expenditures exceeded appropriations for general government services in the capital assets fund by \$26,490.

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)
10/1/2014	\$ -	\$ 3,718,000	\$ 3,718,000	0.0%	\$ 3,635,000	102.3%
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%

The accompanying notes to required supplementary information are an integral part of this schedule.

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, 2014

POLICE OFFICERS' AND FIREFIGHTERS' PENSION PLAN

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
2014	\$ 729,941	\$ 312,623	\$ 226,178	74%
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%

GENERAL EMPLOYEES' PENSION PLAN

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
2014	\$ 370,855	\$ 428,556	\$ -	116%
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%

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

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Satellite Beach, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Required Supplementary Pension Information – Last Fiscal Year

	Police Officers' and Firefighters' Pension Plan	General Employees' Pension Plan
Total Pension Liability		
Service cost	\$ 466,047	\$ 57,216
Expected interest growth	1,291,782	560,156
Benefit payments & refunds	(682,024)	(484,450)
Net Change in Total Pension Liability	1,075,805	132,922
Total Pension Liability -Beginning	15,875,563	7,121,523
Total Pension Liability- Ending (a)	\$ 16,951,368	\$ 7,254,445
Plan Fiduciary Net Position		
Expected interest growth	\$ 977,638	\$ 475,890
Unexpected investment income	93,909	32,305
Contributions - Employer	773,093	428,556
Contributions - Employee	170,359	30,262
Benefit payments & refunds	(987,787)	(469,255)
Administrative Expense	(36,101)	(22,674)
Net Change in Plan Fiduciary Net Position	991,111	475,084
Plan Fiduciary Net Position- Beginning	12,153,911	5,913,266
Plan Fiduciary Net Position- Ending (b)	\$ 13,145,022	\$ 6,388,350
Net Pension Liability- Ending (a) - (b)	\$ 3,806,346	\$ 866,095
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.55%	88.06%
Covered payroll	\$ 1,980,916	\$ 366,815
Net pension liability as a percentage of covered payroll	192.15%	236.11%

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Satellite Beach, Florida
Schedule of Contributions
Required Supplementary Pension Information – Last Fiscal Year

	Police Officers' and Firefighters' Pension Plan	General Employees' Pension Plan
Actuarially Determined Contribution	\$ 773,093	\$ 428,556
Contributions Recognized by the Plan	773,093	428,556
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 1,980,916	\$ 366,815
Contributions as a Percentage of Covered Payroll	39.03%	116.83%

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Satellite Beach, Florida
Schedule of Investment Returns
Required Supplementary Pension Information – Last Fiscal Year

Determination of the long-term expected rate of return on plan assets

Police Officers' and Firefighters' Plan and General Employees' Plan

	Expected Long- Term Real Return
Weighted arithmetic average	4.48% per annum

The accompanying notes to required supplementary information are an integral part of this schedule.



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 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 the City of Satellite Beach, Florida, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Satellite Beach, Florida's basic financial statements, and have issued our report thereon dated June 6, 2015.

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.

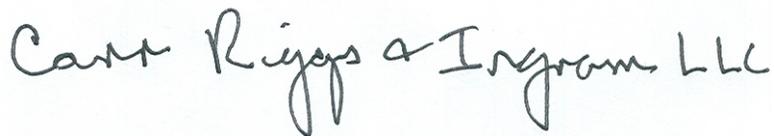
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies 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.

A handwritten signature in black ink that reads "Carr Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

Melbourne, Florida
June 6, 2015



INDEPENDENT AUDITORS’ MANAGEMENT LETTER

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

Report on the Financial Statements

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, 2014, and have issued our report thereon dated June 6, 2015.

Auditors’ Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reports

We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants’ Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Florida Auditor General. Disclosures in those reports, which are dated June 6, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have not been taken to completely address the finding and recommendation for ML 2013-02 – Expenditures in Excess of Appropriations made in the preceding annual financial audit report. This comment has been revised and repeated under “other matters”. Corrective actions have been taken to address the findings and recommendations made in the preceding annual financial audit report, as noted below:

<u>Prior Year Management Letter Comments:</u>	
ML 2012-02 Financial Condition	Corrected
ML 2013-01 Journal Entry and Schedule Review Procedures	Corrected

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the City of Satellite Beach, Florida and its component units 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

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City of Satellite Beach, Florida 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.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor 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.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City of Satellite Beach, Florida for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., 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 recommendation:

Note: ML 2013-02 has been repeated from the fiscal year 2013 audit.

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 capital assets fund by \$26,490.

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 begin including a general government expenditure line-item in the capital assets fund budget. This general government expenditure line-item will provide for accounting of expenditures that are approved by the City Council and replace a capital asset need. The City will adjust future budgets to account for general government expenditures in accordance with the revised Capital Asset Ordinance adopted by City Council in March 2014.

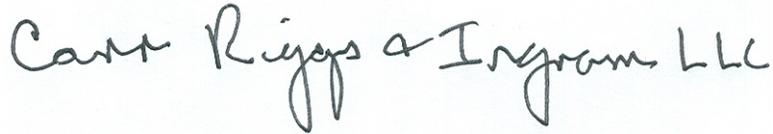
In connection with our audit of the City, we conducted a limited IT risk assessment by applying both a data security and business view of IT risk. We noted some areas where controls over the IT department could be improved.

The subject matter of some of the areas of risk identified are confidential in nature, and thus specific details of these risks are disclosed in this separate report in order to avoid the possibility of compromising City information and security. This separate report is exempt from public access provided by Florida Statutes 119.07(1) and 286.001 and other laws and rules requiring public access or disclosure. This exemption is addressed under Florida Statute 281.301, Security systems; records and meetings exempt from public access or disclosure.

Section 10.554(1)(i)3., 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.

Purpose of this Letter

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

A handwritten signature in black ink that reads "Carr Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

Melbourne, Florida
June 6, 2015

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL
GOVERNMENT INVESTMENT POLICIES**

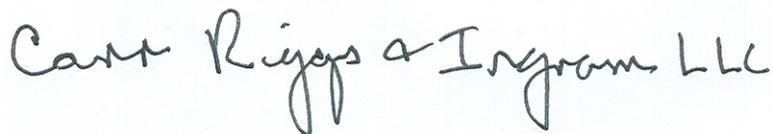
The Honorable Mayor and City Council
City of Satellite Beach, Florida

We have examined City of Satellite Beach, Florida's (the "City") compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2014. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

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



Melbourne, Florida
June 6, 2015