



City of Satellite Beach, Florida

FINANCIAL STATEMENTS

Year Ended September 30, 2016



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Year Ended September 30, 2016

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**City of Satellite Beach, Florida
City Officials
Year Ended September 30, 2016**

Mayor
Frank Catino

Vice Mayor
Mark Brimer

Council Members
Lorraine Gott
Steve Osmer
Dominick Montanaro

City Attorney
James P. Beadle

City Manager
Courtney Barker

City Clerk
Lionor Olexa

Assistant City Manager
Suzanne Sherman

Comptroller
Jennifer Howland

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-15, the budgetary comparison information on pages 73-75, and the defined benefit pension plan information and the other postemployment benefits information on pages 76-82 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 February 23, 2017 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.

Cam, Riggs & Ingram, L.L.C.

Melbourne, Florida
February 23, 2017

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, 2016.

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 \$21,410,326 (net position). Of this amount, (\$5,481,463) represents the unrestricted net deficit due to recording of the net OPEB obligation of \$1,861,000; pension liabilities and related deferred inflows and outflows of \$4,548,776; and compensated absences of \$766,918, which are not currently funded.
- The City's total net position increased by \$228,456. 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 \$3,271,442, a decrease of \$2,286,806 in comparison with the prior year.
- The City of Satellite Beach, Florida's total long-term liabilities decreased by \$476,782 during the current fiscal year. The decrease is due to a decrease in notes payable and capital leases of \$616,719 offset by an increase in compensated absences of \$44,937 and an increase in OPEB of \$95,000.

Overview of the Financial Statements

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

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

The statement of net 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 19-21 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 three categories: governmental funds, proprietary 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 22-25 of this report.

Proprietary funds. Proprietary funds are used to account for business-like activities. There are two types of proprietary funds – enterprise funds and internal service funds. In fiscal year 2016, the City established an internal service fund to account for the City's healthcare self-insurance program. The costs of the self-insurance program are accumulated in the internal service fund and are "paid for" by the departments of the City on a cost-reimbursement basis.

The basic proprietary fund financial statements can be found on pages 26-28 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 29-30 of this report.

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

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 31-69 of this report.

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

Required supplementary information can be found on pages 71-82 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Satellite Beach, Florida, assets exceeded liabilities by \$21,410,326 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

	2016	2015
Current and other assets	\$ 4,694,853	\$ 6,636,503
Capital assets	32,504,301	30,249,354
Total assets	37,199,154	36,885,857
Deferred outflows of resources	5,676,088	1,422,424
Long-term liabilities outstanding	17,624,085	13,364,520
Other liabilities	761,810	455,838
Total liabilities	18,385,895	13,820,358
Deferred inflows of resources	3,079,021	3,306,053
Net position:		
Net investment in		
Capital assets	25,272,490	24,900,824
Restricted	1,619,299	4,072,434
Unrestricted (deficit)	(5,481,463)	(7,791,388)
Total net position	\$ 21,410,326	\$ 21,181,870

By far the largest portion of the City of Satellite Beach, Florida's net position 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

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

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 \$1,619,299 of the City's net position represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City of Satellite Beach, Florida, is only able to report a positive balance in its net investment in capital assets and restricted net position. The City reported an unrestricted net deficit of (\$5,481,463) primarily due to recording of the net OPEB obligation of \$1,861,000, compensated absences of \$766,918, and aggregate net pension liability of \$7,764,356 and related deferred inflows of resources of \$2,460,508 offset by deferred outflows of resources of \$5,676,088. These liabilities are not currently funded.

The following table shows condensed revenue and expense data:

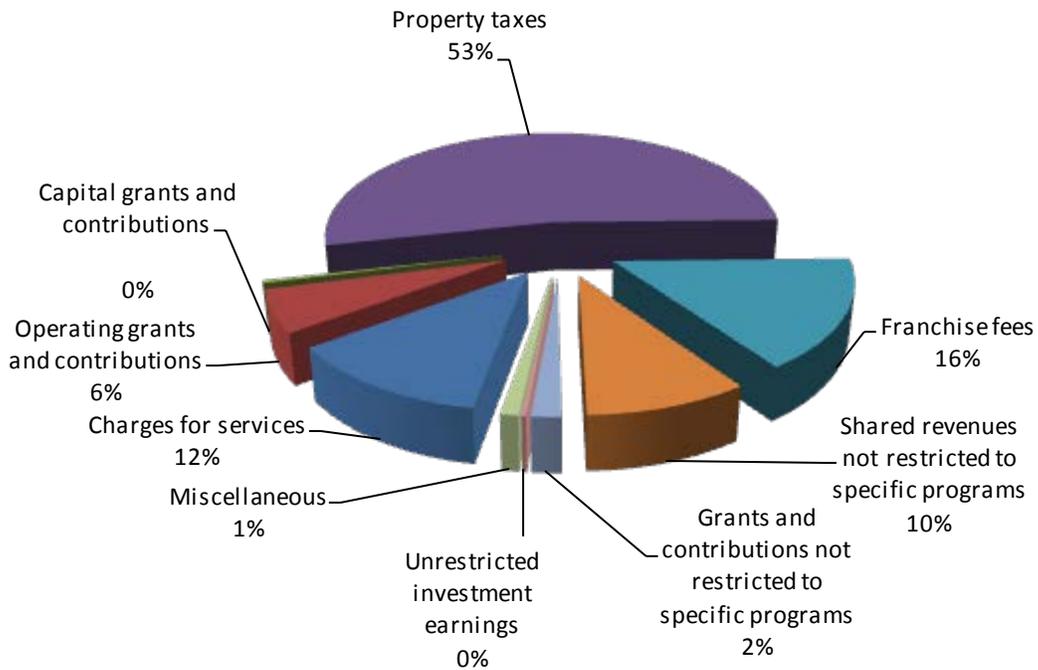
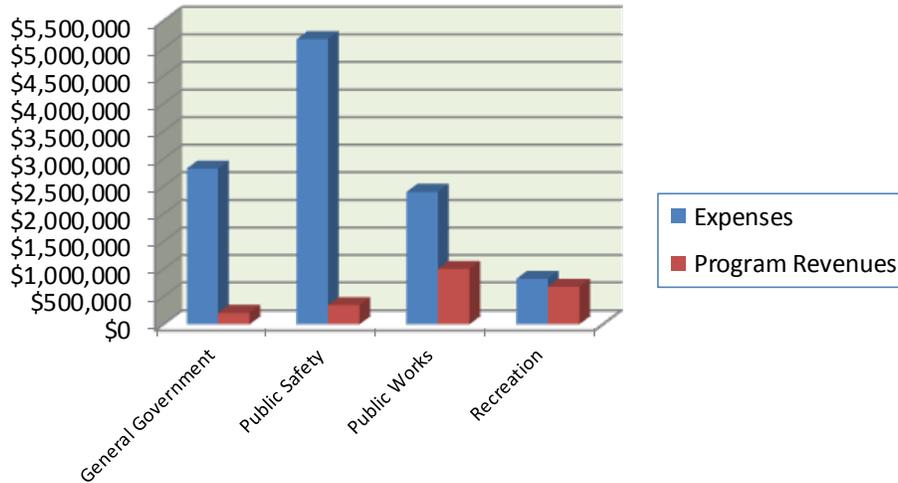
CITY OF SATELLITE BEACH, FLORIDA'S Changes in Net Position

	2016	2015
Revenues:		
Charges for services	\$ 1,468,678	\$ 1,477,088
Operating grants and contributions	720,966	475,692
Capital grants and contributions	51,185	180,819
General revenues:		
Property taxes	6,371,353	5,998,358
Franchise fees	1,874,311	1,588,606
Shared revenues not restricted to specific programs	1,134,819	1,079,262
Grants and contributions not restricted to restricted to specific programs	1,484	9,850
Unrestricted investment earnings	32,328	26,277
Miscellaneous	124,410	122,639
Total revenues	11,779,534	10,958,591
Expenses:		
General government	2,825,504	2,156,505
Public safety	5,170,779	4,454,959
Public works	2,401,705	2,251,199
Recreation	825,813	743,255
Interest on long term debt	327,277	282,025
Total expenses	11,551,078	9,887,943
Increase in net position	228,456	1,070,648
Net position – beginning	21,181,870	24,525,750
Prior period adjustment	-	(4,414,528)
Net position – beginning, as restated	21,181,870	20,111,222
Net position – ending	\$ 21,410,326	\$ 21,181,870

The City's net position increased by \$228,456 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.

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

Statement of Activities – Government-wide Expenses and Program Revenues



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

Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City of Satellite Beach, Florida's governmental funds reported combined ending fund balances of \$3,271,442, a decrease of \$2,286,806 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 (\$378,329), restricted for specific purposes (\$1,619,299), or committed to pay for obligations previously authorized by the City (\$852,745). Unrestricted unassigned fund balance was \$421,069 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 \$421,069, while total fund balance was \$1,617,411. 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 4.5% of total General Fund expenditures. The fund balance of the City of Satellite Beach, Florida's General Fund decreased by \$47,322 during the current fiscal year. The decrease is due to the funding of the first year of the new Health Insurance Fund (Proprietary/ Internal Service Fund), and the second year of salary compression payments to affected employees. This was partially offset by 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 \$357,706, which is restricted for the Community Redevelopment Agency special revenue fund activities. The net decrease in fund balance during the current year in the Community Redevelopment Agency (CRA) special revenue fund of \$653,465 was due primarily to funding of the state route A1A Mast Arm Project and completion of the Shell Street Project.

The Capital Assets Fund has a total fund balance of \$1,010,257, all of which is restricted for capital asset purchases. The net decrease in fund balance during the current year in the Capital Assets Fund was \$1,914,326. This was due mainly to the Roosevelt Street Improvement and road improvements projects.

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

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget (net increase of \$28,750 in appropriated expenditures and transfers out) can be briefly summarized as follows:

- \$46,166 in decreases in General Government Services, Legislative, City Clerk's office and Support Services
- \$7,994 in decreases in Recreation
- \$21,122 in decreases in Public Works
- \$3,970 in decreases allocated to transfers out
- \$76,273 in increases allocated to Police and Fire
- \$31,729 in increases in Building and Zoning

This increase in expenditures corresponds to a \$216,524 increase in revenues and other financing sources as follows; decrease of \$25,065 in taxes; \$22,639 increase in licenses and permits; increase of \$87,536 in intergovernmental; increase of \$58,673 in charges for services; decrease in \$1,117 in fines and forfeitures; increase of \$21,478 in interest and other; and a decrease of \$380,668 in appropriated transfers into the General Fund. The above items resulted in a net change of \$245,274 whereby the original adopted budget included a positive change in fund balance of \$245,771, compared to a net increase in fund balance of \$497 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, 2016, amounts to \$32,504,301 (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 7 percent.

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

	2016	2015
Land	\$ 11,680,950	\$ 11,680,950
Buildings	2,408,801	2,503,570
Improvements other than buildings	3,078,100	2,935,290
Equipment	1,670,970	1,777,109
Infrastructure	13,044,733	10,751,805
Construction in progress	620,747	600,630
Total	\$ 32,504,301	\$ 30,249,354

Additional information on the City of Satellite Beach, Florida's capital assets can be found in Note 4.B. on page 46 of this report.

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

Notes payable. At the end of the current fiscal year, the City of Satellite Beach, Florida, had notes payable outstanding of \$6,633,525.

The City's notes payable balances decreased by \$516,965 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 \$598,286.

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

	2016	2015
Capital lease City vehicles	312,453	353,508
Capital lease Police Records Mgmt.	285,833	344,532
Total capital leases	\$ 598,286	\$ 698,040

The City's total capital lease obligations had a net decrease of \$99,754 (14%) during the current fiscal year due to scheduled principal payments on the leases.

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 \$766,918. Total compensated absences increased by a net amount of \$44,937 during the year, which includes additions of \$473,303 and reductions of \$428,366.

It is estimated that \$395,146 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 47 through 51 of this report.



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

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 2016/17 fiscal year.

The City of Satellite Beach, Florida, in 2015/16 did not allocate any additional amount of the total fund balance as a committed balance to be utilized as an emergency reserve per Ordinance 936. In addition, the City decreased the unassigned fund balance by \$47,322 from the previous fiscal year. 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. The City is ahead of schedule on building the emergency reserve, therefore, building of this reserve will be delayed over the next few years in order to fund essential capital improvements. In addition, the City anticipates an increase in property values and revenues that will assist the City in maintaining or decreasing millage rates for future budgets while maintaining service delivery.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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

September 30, 2016

ASSETS

Cash and cash equivalents	\$ 3,343,710
Accounts receivable	233,081
Due from other governments	154,226
Prepaid items	378,329
Derivative instrument - interest rate swap	585,507
Capital assets not being depreciated:	
Land	11,680,950
Construction in progress	620,747
Capital assets, net of accumulated depreciation	
Buildings	2,408,801
Improvements other than buildings	3,078,100
Equipment	1,670,970
Infrastructure	13,044,733
Total assets	37,199,154

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	5,676,088
Total deferred outflows of resources	5,676,088

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

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

LIABILITIES	
Accounts payable	408,417
Accrued expenses	199,490
Accrued interest payable	100,309
Due to other governments	53,594
Noncurrent liabilities:	
Due within one year	1,083,316
Due in more than one year	8,776,413
Aggregate net pension liability	7,764,356
Total liabilities	18,385,895
DEFERRED INFLOWS OF RESOURCES	
Accumulated increase in fair value of derivative instrument - interest rate swap	585,507
Deferred revenue - business tax receipts	33,006
Deferred inflows related to pensions	2,460,508
Total deferred inflows of resources	3,079,021
NET POSITION	
Net investment in capital assets	25,272,490
Restricted for:	
Community Redevelopment Agency	355,563
Community services	266,293
Law enforcement	27,898
Capital assets	750,116
Stormwater	219,429
Unrestricted (deficit)	(5,481,463)
Total net position	\$ 21,410,326

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

Year ended September 30, 2016

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	\$ 2,825,504	\$ 207,372	\$ -	\$ -	\$ (2,618,132)
Public safety	5,170,779	132,088	213,429	1,000	(4,824,262)
Public works	2,401,705	497,699	507,187	-	(1,396,819)
Recreation	825,813	631,519	350	50,185	(143,759)
Interest and related costs on long-term debt	327,277	-	-	-	(327,277)
Total governmental activities	\$ 11,551,078	\$ 1,468,678	\$ 720,966	\$ 51,185	(9,310,249)

General revenues	
Property taxes	6,371,353
Franchise fees	1,874,311
Shared revenues not restricted to specific programs	1,134,819
Grants and contributions not restricted to specific programs	1,484
Unrestricted investment earnings	32,328
Miscellaneous	124,410
Total general revenues	9,538,705
Change in net position	228,456
Net position, beginning of year	21,181,870
Net position, end of year	\$ 21,410,326

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

City of Satellite Beach, Florida
Balance Sheet - Governmental Funds

September 30, 2016

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds
ASSETS				
Cash and cash equivalents	\$ 1,105,803	\$ 697,006	\$ 772,130	\$ 531,134
Accounts receivable	144,682	-	86,368	2,031
Due from other funds	99,532	-	-	-
Due from other governments	154,145	-	-	81
Prepaid items	113,249	2,143	260,141	2,796
Total assets	\$ 1,617,411	\$ 699,149	\$ 1,118,639	\$ 536,042
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 86,147	\$ 188,317	\$ 108,382	\$ 19,626
Accrued expenses	111,195	-	-	-
Due to other funds	-	99,532	-	-
Due to other governments	-	53,594	-	-
Total liabilities	197,342	341,443	108,382	19,626
Deferred inflows of resources:				
Deferred revenue - business tax receipts	33,006	-	-	-
Fund balances:				
Nonspendable	113,249	2,143	260,141	2,796
Restricted	-	355,563	750,116	513,620
Committed	852,745	-	-	-
Unassigned	421,069	-	-	-
Total fund balances	1,387,063	357,706	1,010,257	516,416
Total liabilities and fund balances	\$ 1,617,411	\$ 699,149	\$ 1,118,639	\$ 536,042

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.

Deferred outflow of resources related to pension earnings are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.

Deferred inflows of resources related to pension earnings are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.

Internal service funds are used by management to charge the costs of certain activities, such as health care coverage, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.

Long-term liabilities, including net OPEB obligation, net pension liability and compensated absences, 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

\$ 3,106,073
233,081
99,532
154,226
378,329
\$ 3,971,241

\$ 402,472
111,195
99,532
53,594
666,793

33,006

378,329
1,619,299
852,745
421,069
3,271,442

32,504,301

5,676,088

(2,460,508)

143,397

(17,624,085)

(100,309)

\$ 21,410,326

City of Satellite Beach, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended September 30, 2016

	General	Community Redevelopment Agency	Capital Assets	Nonmajor Funds	Total Governmental Funds
Revenues					
Taxes	\$ 7,058,425	\$ 476,070	\$ 761,499	\$ -	\$ 8,295,994
Licenses and permits	869,543	-	-	-	869,543
Intergovernmental	1,025,845	-	-	-	1,025,845
Charges for services	709,630	-	-	498,455	1,208,085
Fines and forfeitures	43,503	-	-	35	43,538
Interest and other	48,359	3,890	59,644	224,636	336,529
Total revenues	9,755,305	479,960	821,143	723,126	11,779,534
Expenditures					
Current:					
General government	2,306,770	323,370	85,899	-	2,716,039
Public safety	4,692,344	-	-	104	4,692,448
Public works	1,609,157	-	-	131,432	1,740,589
Recreation	778,573	-	-	-	778,573
Capital outlay	-	697,181	2,554,126	7,270	3,258,577
Debt service:					
Principal retired	-	300,400	99,754	216,565	616,719
Interest and other	-	167,239	64,560	31,596	263,395
Total expenditures	9,386,844	1,488,190	2,804,339	386,967	14,066,340
Excess (deficiency) of revenues over (under) expenditures	368,461	(1,008,230)	(1,983,196)	336,159	(2,286,806)
Other financing sources (uses)					
Transfers in	665,872	902,785	188,870	120,000	1,877,527
Transfers out	(1,081,655)	(548,020)	(120,000)	(127,852)	(1,877,527)
Net other financing sources (uses)	(415,783)	354,765	68,870	(7,852)	-
Net change in fund balances	(47,322)	(653,465)	(1,914,326)	328,307	(2,286,806)
Fund balances, beginning of year	1,434,385	1,011,171	2,924,583	188,109	5,558,248
Fund balances, end of year	\$ 1,387,063	\$ 357,706	\$ 1,010,257	\$ 516,416	\$ 3,271,442

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, 2016

Net change in fund balances - total governmental funds	\$ (2,286,806)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 outlay exceeds depreciation in the current period.</p>	2,269,472
<p>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.</p>	(14,525)
<p>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.</p>	616,719
<p>Some expenses, such as compensated absences, 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.</p>	(108,819)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	(295,982)
<p>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.</p>	(95,000)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance and health care expenses, to individual funds. The net revenue (expense) of the internal service funds is reported with government activities.</p>	143,397
Change in net position of governmental activities	\$ 228,456

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

City of Satellite Beach, Florida
Statement of Net Position – Proprietary Fund

<i>September 30, 2016</i>	Governmental Activities - Internal Service Fund Health Insurance
ASSETS	
Cash and cash equivalents	\$ 237,637
Total assets	237,637
 LIABILITIES	
Accounts payable	5,945
Accrued liabilities	88,295
Total liabilities	94,240
 NET POSITION	
Unrestricted	143,397
Total net position	\$ 143,397

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

City of Satellite Beach, Florida
Statement of Revenues, Expenses, and Changes in Fund Net Position –
Proprietary Fund

	Governmental Activities - Internal Service Fund Health Insurance
<i>Year Ended September 30, 2016</i>	
Operating revenues:	
Charges for services	\$ 1,230,847
Total operating revenues	1,230,847
Operating expenses:	
Insurance claims and expenses	1,087,450
Total operating expenses	1,087,450
Change in net position	143,397
Net position, beginning of year	-
Net position, end of year	\$ 143,397

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

City of Satellite Beach, Florida
Statement of Cash Flows – Proprietary Fund

	Governmental Activities - Internal Service Fund Health Insurance
<i>Year Ended September 30, 2016</i>	
Cash flows from operating activities:	
Cash received from interfund services provided	\$ 1,230,847
Cash payments to suppliers for goods and services	(993,210)
Net cash provided by operating activities	237,637
Net increase in cash and cash equivalents	237,637
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ 237,637

	Governmental Activities - Internal Service Fund Health Insurance
<i>Year Ended September 30, 2016</i>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 143,397
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in liabilities:	
Accounts payable	5,945
Accrued expenses	88,295
Total adjustments	94,240
Net cash provided by operating activities	\$ 237,637

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, 2016

ASSETS

Receivables:		
Contributions	\$	125,425
Investments, at fair value:		
Florida Municipal Investment Trust Fund		21,518,437
<hr/>		
Total assets		21,643,862

LIABILITIES

NET POSITION

Held in trust for pension benefits	\$	21,643,862
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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, 2016

ADDITIONS

Contributions:

Employees	\$ 222,386
City	903,433
State	259,777

Total contributions	1,385,596
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Investment earnings:

Net appreciation in fair value of investments	1,663,174
Total investment earnings	1,663,174

Total additions	3,048,770
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DEDUCTIONS

Benefit payments	1,191,153
Administrative expenses	60,415

Total deductions	1,251,568
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Change in net position	1,797,202
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Net position held in trust for pension benefits, beginning of year	19,846,660
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Net position held in trust for pension benefits, end of year	\$ 21,643,862
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The accompanying notes are an integral part of this financial statement.

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 also serve 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 and the General Employees’ System 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, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental or proprietary 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 City 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:

The *Internal Service Fund – Health Insurance* – Accounts for the activity of the City's self-insurance care program, services are for health care insurance costs provided to other departments of the City on a cost reimbursement basis.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The *pension trust funds* account for the activities of the City's single-employer, defined benefit pension plan that covers all police and fire employees (which includes a defined contribution plan component) and its single-employer, defined benefit pension plan that covers all general employees hired prior to September 30, 1996. The plans accumulate resources for pension benefit payments to qualified employees.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and providing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's internal service fund are charges to other funds for services. Operating expenses for the internal service fund include the cost of sales and services as well as administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION OR EQUITY

1. Cash and investments

Cash and cash equivalents include cash deposits, investments held in investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash and investments (continued)

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.

Investments for the City are reported at fair value except for the position in the Local Government Surplus Funds Trust Fund ("Florida PRIME") external investment pool. The Florida PRIME is administered by the Florida State Board of Administration ("SBA"), who provides regulatory oversight. Although it is not registered with the Securities and Exchange Commission's (SEC), the Florida PRIME operates in conformity with all the requirements of the SEC Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pool qualifies as a 2a7-like pool and is reported at amortized cost (which approximates fair value).

During the year ended September 30, 2016, the City also 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.

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash and investments (continued)

During the year ended September 30, 2016, the investments of both of the Police Officers' and Firefighters' pension plans and the General Employees' pension plans were held with the Florida Municipal Investment Trust (FMIvT). The FMIvT is a Local Government Investment Pool (LGIP) and is considered an external investment pool for reporting purposes. The plans own shares in one or more FMIvT portfolios. The plans' investments are the FMIvT portfolios, not the individual securities held within each FMIvT portfolio. The City owns a share of the portfolio and not the underlying securities.

2. Receivables and payables

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

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

The City is permitted by State law to levy taxes up to 10 mills on assessed valuation. However, Chapter 74-430, Laws of Florida, a special act applicable only to governmental units in Brevard County, limits the annual increase to 10% of the prior year's millage. During a Special Session in June 2007, the Florida Legislature adopted HB1B, which limits municipal property tax rates effective with the 2007-2008 fiscal year. This legislation establishes reductions in the millage rate based on a calculated growth in per capita taxes between the 2002 and 2007 fiscal years. The Legislature did authorize local governments to use the rolled back millage rate if approved by a super majority vote of the governing body. The Satellite Beach City Council tax levy for the fiscal year ended September 30, 2016 was 8.29 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 \$2,000 or more and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Swap agreements

The City has engaged in effective interest rate swap agreements and has recorded the swap agreements at fair value.

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 classified as deferred inflows of resources.

8. Long-term obligations

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

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

9. Deferred outflows / inflows of resources related to pensions

The deferred outflows and inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Total deferred outflows of resources related to pensions were \$5,676,088 and deferred inflows of resources related to pensions were \$2,460,508 for the year ended September 30, 2016. Note 5.C. includes a complete discussion of retirement commitments.

10. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Fund equity (continued)

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 an assigned fund balance related to health care obligations in the internal service fund.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. Recently issued and implemented accounting pronouncements

The City has implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GABS Statement No. 79, *Certain External Investment Pools and Pool Participants*. The requirements of the GASB Statements are effective for fiscal year 2015-16. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value, provide guidance of the application of valuation techniques and approaches, and to enhance disclosures about fair value measurements. The objective of GASB Statement No. 79 is to establish criteria to be used to determine whether a qualified external investment pool may use an amortized cost exception to fair value measurement. See Note 4A for further 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.

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 net OPEB obligation, net pension liability and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(17,624,085) difference are as follows:

Note payable – CRA	\$ (3,696,400)
Notes payable – Stormwater	(437,125)
Note payable - Capital Asset Fund	(2,500,000)
Capital leases payable	(598,286)
Net OPEB obligation	(1,861,000)
Net pension liability	(7,764,356)
Compensated absences	(766,918)
<hr/>	
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net position-governmental activities</i>	\$ (17,624,085)

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

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 \$2,269,472 difference are as follows:

Capital outlay	\$ 3,258,577
Depreciation expense	(989,105)
<hr/>	
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	\$ 2,269,472

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 \$616,719 difference are as follows:

Debt issued:	
Principal repayments	\$ 616,719
<hr/>	
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	\$ 616,719

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 \$(108,819) 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	\$ (44,937)
Interest expense	(63,882)
<hr/>	
Net adjustment to decrease <i>net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	\$ (108,819)

NOTE 4: DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

At September 30, 2016, the primary government's carrying amount of deposits was \$2,120,203, including \$2,295 of petty cash, and the bank balance was \$2,498,959. As of September 30, 2016, \$250,000 of the City's bank balances is 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, 2016, the primary government's cash and equivalents also consisted of holdings invested with the SPIA and SBA of \$1,223,507. These funds are not FDIC insured and do not meet the definition of a qualified public depository pursuant to Section 280.08, Florida Statutes.

Investments

The City's investment policies are governed by state statutes and City policy, except the City's Police Officers' and Firefighters' Pension Trusts and the General Employees' Pension Trust, which are separately managed under the direction of their respective Pension Boards and are restricted to investments as defined under State statutes; specifically, Section 175.071(a) and (b), Florida Statutes, and Section 185.06(a) and (b), Florida Statutes, respectively.

At the close of the fiscal year, the City held investments in the SBA and the SPIA, both of which are external investment pools. These investments, due to their liquid nature, are reported as cash equivalents in the financial statements.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The General Employees' and the Police Officers' and Firefighters' Retirement Trusts investment policies 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 does not address interest rate risk.

Credit risk – Credit rate risk is the risk of losses due to the failure of the security issue or backer. The City's investment policy does not address credit risk; however, investments are limited to state sponsored investment pools, which are diversified in their underlying portfolios so that potential losses will be minimized. The City's Police Officers' and Firefighters' and the General Employees' Pension Trusts do not address credit rate risk.

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investments (continued)

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 policies for the City’s pension trust funds do address concentration risk; however, it is addressed under Sections 175.071(b) and 185.06(b), Florida Statutes, which state the board of trustees may not invest more than 5 percent of its assets in the common stock or capital stock of any one issuing company, nor may the aggregate investment in any one issuing company exceed 5 percent of the outstanding capital stock of that company or the aggregate of its investments under this subparagraph at cost exceed 50 percent of the assets of the fund.

Foreign currency risk – The City’s primary government and pension trust funds are not exposed to foreign currency risk. The City’s investment policy and the investment policy of the City’s pension trust funds do not address foreign currency risk.

At September 30, 2016, the City had the following investments:

Investment type	Fair Value	Weighted Average to Maturity (WAM)	Effective Duration	Rating	Agency
Primary government:					
SBA (Florida PRIME)	\$ 103,221	50 days	-	AAAm	S&P
SPIA	1,120,286	-	2.65 years	A+f	S&P
Primary government total	\$ 1,223,507				
Pension trust funds:					
Florida Municipal					
Investment Trust (FMIVT)	\$ 21,518,437	*	-	Unrated	-
Pension trust funds total	\$ 21,518,437				

* *Portions of the FMIVT are invested in debt instruments and mutual funds with a weighted average to maturity (WAM) of 5.90 years and 6.84 years, respectively.*

Fair Value

GASB Codification Section 3100: *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Fair Value (continued)

GASB Codification Section 3100: *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under the codification are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2: Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the City's assets at fair value as of September 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs other than Quoted Prices (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
SPIA	\$ 1,120,286	\$ -	\$ 1,120,286	\$ -
FMIVT	21,518,437		21,518,437	-
Total investments measured at fair value	\$ 22,638,723	-	22,638,723	-
Investment derivative instruments:				
Interest rate swap	\$ 585,507			
Total investment derivative instruments	\$ 585,507			

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Fair Value (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016:

FMIT and SPIA: The pool is valued using the quoted value of the underlying assets or similar assets and multiplied by the City's percentage of ownership in the pool.

Interest rate swap: The derivative investment is valued using a market approach that considers benchmark interest rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The City's investment of \$103,221 in the SBA (Florida PRIME) is measured at amortized cost. As of September 30, 2016, there were no redemption fees or maximum transactions amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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, 2016 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	600,630	2,673,692	(2,653,575)	620,747
Total capital assets, not being depreciated	12,281,580	2,673,692	(2,653,575)	12,301,697
Capital assets, being depreciated:				
Buildings	4,465,707	-	-	4,465,707
Improvements other than buildings	4,982,440	348,131	-	5,330,571
Equipment	4,595,320	236,754	(93,807)	4,738,267
Infrastructure	19,343,471	2,653,575	-	21,997,046
Total capital assets being depreciated	33,386,938	3,238,460	(93,807)	36,531,591
Less accumulated depreciation for:				
Buildings	(1,962,137)	(94,769)	-	(2,056,906)
Improvements other than buildings	(2,047,150)	(205,321)	-	(2,252,471)
Equipment	(2,818,211)	(328,368)	79,282	(3,067,297)
Infrastructure	(8,591,666)	(360,647)	-	(8,952,313)
Total accumulated depreciation	(15,419,164)	(989,105)	79,282	(16,328,987)
Total capital assets being depreciated, net	17,967,774	2,249,355	(14,525)	20,202,604
Governmental activities capital assets, net	\$ 30,249,354	\$ 4,923,047	\$ (2,668,100)	\$ 32,504,301

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

Governmental activities:	
General government	\$ 156,735
Public safety	162,680
Physical environment	628,748
Recreation	40,942
Total depreciation expense - governmental activities	\$ 989,105

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended September 30, 2016:

	Transfer in:				Total
	General Fund	Community Redevelopment Agency (CRA) Fund	Capital Asset Fund	Non Major Funds	
<u>Transfer out:</u>					
General Fund	\$ -	\$ 902,785	\$ 178,870	\$ -	\$ 1,081,655
CRA Fund	548,020	-	-	-	548,020
Capital Asset Fund	-	-	-	120,000	120,000
Nonmajor Funds	117,852	-	10,000	-	127,852
Total	\$ 665,872	\$ 902,785	\$ 188,870	\$ 120,000	\$ 1,877,527

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. 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.

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.

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

Capital leases (continued)

The assets acquired through capital leases are as follows:

Asset:	
Equipment	\$ 442,850
Vehicles	442,105
Less: Accumulated depreciation	(382,793)
Total	\$ 502,162

Obligations of governmental activities under capital lease at September 30, 2016, are as follows:

<i>Fiscal Year Ending September 30,</i>	Principal	Interest	Total
2017	\$ 102,705	\$ 16,234	\$ 118,939
2018	97,481	13,194	110,675
2019	100,273	10,402	110,675
2020	103,146	7,529	110,675
2021	71,970	4,698	76,668
2022-2025	122,711	6,639	129,350
Total	\$ 598,286	\$ 58,696	\$ 656,982

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. During 2016, the note was paid in full.

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. As of September 30, 2016, principal and interest to maturity in 2019 totaled \$478,308.

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.

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

Notes payable (continued)

The note is secured by revenues of the Community Redevelopment Agency fund. Principal and interest paid for the current fiscal year was \$439,377 and pledged gross revenues were approximately \$476,070. As of September 30, 2016, principal and interest to maturity in 2026 to be paid from pledged future revenues totaled \$3,873,452.

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 \$3,696,400 as of September 30, 2016. The associated variable-rate note has a \$3,696,400 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 0.62% as of September 30, 2016. Therefore, the interest rate related to the \$6,250,000 swap is 3.61% as of the same date, calculated as the difference between the synthetic fixed rate of 4.23% and the 0.62% variable rate.

The interest rate swap agreement has a negative fair value of \$585,507 as of September 30, 2016. 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, 2016 is a negative of approximately \$46,681.

As of September 30, 2016, 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, 2016, 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.

NOTE 4: DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

Notes payable (continued)

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, 2016, the City has no intention of terminating its swap agreements.

Utility Tax Revenue Note Series 2015: On August 21, 2015, the City entered into a loan agreement with a bank in an amount of \$2,500,000 with a fixed interest rate of 2.97% to fund various capital improvement projects within the City. The note requires semi-annual interest payments ranging from \$8,250 to \$37,125 and annual principal payments ranging from \$135,000 to \$203,000 through the maturity date of October 1, 2030.

The note is secured by pledged revenues consisting of all utility tax revenues. The first interest payment is due October 1, 2015 and the first principal payment is due October 1, 2016. Interest accrued in the current year was \$74,250, and pledged gross revenues were approximately \$761,499. As of September 30, 2016, principal and interest to maturity in 2030 to be paid from pledged future revenues totaled \$3,134,302.

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

<i>September 30,</i>	Principal	Interest	Interest (swap)	Total
2017	\$ 585,465	\$ 125,504	\$ 120,452	\$ 831,421
2018	611,338	110,435	109,616	831,389
2019	638,222	94,624	98,311	831,157
2020	502,600	82,447	86,522	671,569
2021	521,700	75,040	74,222	670,962
2022 - 2026	2,816,200	254,597	167,342	3,238,139
Thereafter	958,000	72,765	-	1,030,765
Totals	\$ 6,633,525	\$ 815,412	\$ 656,465	\$ 8,105,402

City of Satellite Beach, Florida
Notes to Financial Statements

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, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Note payable – CRA	\$ 3,996,800	\$ -	\$ (300,400)	3,696,400	\$ 313,300
Notes payable – Stormwater	653,690	-	(216,565)	437,125	137,165
Note payable – Capital Asset fund	2,500,000	-	-	2,500,000	135,000
Capital leases payable	698,040	-	(99,754)	598,286	102,705
Other postemployment benefits obligation (OPEB)	1,766,000	284,000	(189,000)	1,861,000	-
Compensated absences	721,981	473,303	(428,366)	766,918	395,146
Long-term liabilities	\$ 10,336,511	\$ 757,303	\$ (1,234,085)	\$ 9,859,729	\$ 1,083,316

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. The note payable – Capital Asset fund is liquidated by utility tax revenues.

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	\$ 113,249	\$ 2,143	\$ 260,141	\$ 2,796
Restricted for:				
Community services	-	-	-	485,722
Community redevelopment				
Economic development	-	355,563	-	-
Capital assets	-	-	750,116	-
Law enforcement	-	-	-	27,898
Committed:				
Stabilization	852,745	-	-	-
Unassigned	421,069	-	-	-
Total fund balances	\$ 1,387,063	\$ 357,706	\$ 1,010,257	\$ 516,416

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 Preferred Government Insurance Trust (PGIT). Coverage provided by PGIT includes general liability, auto liability, property and workers' compensation. The City has eliminated the limited risk management program for workers' compensation coverage used in prior years and now is fully insured by PGIT.

The City adopted a self-insurance program for employee health insurance coverage effective October 1, 2015, instituting a high deductible, self-funded HRA health insurance program, which pays 100% of a fixed level of claims for each employee, and provides discounted rates and co-insurance capped by a catastrophic claims limit. The uninsured risk of loss is \$30,000 deductible per covered person. Commercial insurance for claims in excess of the coverage provided by the City is supplied by a private insurance company. The City has contracted with outside agencies to perform certain administrative functions, such as monitoring, reviewing and paying claims. Settled claims have not exceeded commercial excess coverage in any of the past year since the program was established.

NOTE 5: OTHER INFORMATION

B. RISK MANAGEMENT (Continued)

All departments of the City participate in the program and make payments based on estimates of amounts needed to pay prior and current year claims, claims reserves, and administrative costs. A liability for claims is reported if it is probable that a liability has occurred and the amount is estimable. As of September 30, 2016, the City reported a liability of \$5,945 in the internal service fund which is included in accounts payable. Changes in the estimated accrued claims payable in fiscal years 2016 was as follows:

	2016
Balance at beginning of year	\$ -
Current year claims and changes in estimate	1,093,395
Claims payments	1,087,450
Balance at end of year	\$ 5,945

C. OTHER POSTEMPLOYMENT BENEFITS

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

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

Employees and their dependents may elect to remain in the Plan upon retirement up to age 65. After age 65 the City’s insurance coverage becomes secondary to the retiree’s Medicare insurance. At the last valuation, 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.

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2016, the City made contributions of \$185,000, 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 \$11,418 for the year ended September 30, 2016.

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, 2016, the amount actually contributed to the Plan and changes in the City's net OPEB obligation to the Plan:

Annual required contribution	\$ 311,000
Interest on net OPEB obligation	71,000
Adjustment to annual required contribution	(98,000)
Annual OPEB cost (expense)	284,000
Contributions made	(185,000)
Interest on employer contributions	(4,000)
Increase in net OPEB obligation	95,000
Net OPEB obligation, beginning of year	1,766,000
Net OPEB obligation, end of year	\$ 1,861,000

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:

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2016	\$ 284,000	67%	\$ 1,861,000
9/30/2015	282,000	65%	1,766,000
9/30/2014	281,000	65%	1,668,000

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.

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.

NOTE 5: OTHER INFORMATION (Continued)

B. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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 (the "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").

Money Purchase Plan

Plan description and funding requirements. The City of Satellite Beach Money Purchase Plan (the "Money Plan") is a defined contribution pension plan established on October 1, 1996 under City Ordinance No. 655 and is administered by a third party. The Money Plan provides benefits at retirement to all full-time employees, except police officers and firefighters, hired after October 1, 1996. At September 30, 2016, there were 41 active plan members.

The Money Plan members are required to contribute 5% of their annual salary to the Money Plan, and the City is required to contribute a matching amount of 5%. Money Plan provisions and contribution requirements are established and may be amended by the City Council. The City and the employees each contributed \$89,275 to the Plan for fiscal year 2016.

Defined Benefit Plans

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. The fair value of investments in external investment pools is determined through measurement of the fair value of the underlying securities using market or market-corroborated data.

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (Continued)

The City recognized as revenues and expenditures on-behalf payments relating to pension contributions for its public safety employees that the State of Florida paid to the retirement plan in the amount of \$259,777 to partially fund the Police Officers' and Firefighters' Plan. These contributions are funded by an excise tax, collected by the State, on property and casualty insurance gross receipts of premiums from policy holders.

Funding policy. 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. Administrative costs are financed through investment earnings.

The City uses the Entry Age Normal Cost Method for the Police Officers' and Firefighters' Pension Plan to determine required contributions under its retirement system 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. The liability is being funded over a 30 year period for the Police Officers' and Firefighters' Pension Plan.

The General Employees' Pension Plan uses the Aggregate Cost Method to determine required contributions under its retirement system. This is an acceptable method to the State of Florida. Under this method, the actuarial accrued liability is equal to the accumulated assets, therefore, no unfunded accrued liability is developed.

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, 2016:</i>		
Inactive plan members or beneficiaries currently receiving benefits	22	25
Inactive plan members entitled to but not yet receiving benefits	6	3
Inactive plan members due a refund of contributions	3	-
Active plan members	38	4
	69	32

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

<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 monthly earnings multiplied by years of Credited Service.	3% of average earnings multiplied by Credited Service prior to October 1, 2010 or after September 30, 2013 plus 2% of average earnings multiplied by Credited Service earned during the period October 1, 2010 through September 30, 2013.

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

<i>Plan benefits</i>	Police Officers' and Firefighters' Plan	General Employees' Plan
Early retirement adjustment	Retirement benefit is reduced by 3% for each year early retirement age precedes normal 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 for each year prior to normal 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.	
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 return of accumulated employee contributions payable to the beneficiary of a non-vested participant.	
Normal retirement age	52 with 5 years of service.	62 with five years of service.
Early retirement age	50 with 10 years of service.	55 with 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%, 66.67%, 75%, or 100% joint and contingent annuity; or 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.	

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

<u>Plan benefits</u>	<u>Police Officers' and Firefighters' Plan</u>	<u>General Employees' Plan</u>
Deferred Retirement Option Plan (DROP)	A DROP is available for those participants who have attained their normal retirement age. Individuals may participate in DROP for up to 60 months. DROP accounts are credited with interest based on the actual investment.	A DROP option is available for those participants who are at least age 57 and have attained early or normal retirement age. Individuals may participate in DROP for up to 60 months. DROP accounts are credited with interest based on the actual investment less a 0.1875% quarterly administrative charge.
DROP balance as of October 1, 2016	\$ 91,652	None
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	Since the prior measurement date, the discount was decreased from 9.08% per annum to 7.00% per annum.	The benefit terms did not change from the prior measurement date.

The components of the net pension liability of the sponsor on September 30, 2016 were as follows:

	<u>Police Officers' and Firefighters' Plan</u>	<u>General Employees' Plan</u>
Total pension liability	\$ 20,782,668	\$ 8,247,936
Less: Fiduciary net position	(14,703,108)	(6,563,140)
Net pension liability	<u>\$ 6,079,560</u>	<u>\$ 1,684,796</u>

Plan Fiduciary Net Position as a percentage of the total pension liability	71%	80%
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NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

The total pension liability was determined by an actuarial valuation as of October 1, 2015 updated to September 30, 2016 using the following actuarial assumptions:

	Police Officers' and Firefighters' Plan	General Employees' Plan
Discount rate	7.00% per annum (2.92% 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.	
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).

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

	Police Officers' and Firefighters' Plan	General Employees' Plan
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.	
	Since the prior measurement date, the discount was decreased from 9.08% per annum to 7.00% per annum.	

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 asset 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 as of September 30, 2016 are summarized in the following table:

Investment Category	Target Allocation	Expected Long- Term Real Return
Core bonds	16%	0.58% per annum
Multi-Sector	24%	1.08% per annum
U.S. large cap equity	39%	6.08% per annum
U.S. small cap equity	11%	6.83% per annum
Non U.S. equity	10%	6.83% per annum
Total or weighted arithmetic average	100%	4.08% per annum

The projection of cash flows used to determine the discount rate assumes 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.

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

Comparison of net pension liability using alternative discount rates:

	1% Decrease	Present Discount Rate	1% Increase
<i>Police Officers' and Firefighters' Plan</i>	6.00%	7.00%	9.00%
Total pension liability	\$ 23,249,265	\$ 20,782,668	\$ 18,712,061
Less: fiduciary net position	(14,703,108)	(14,703,108)	(14,703,108)
Net pension liability - POFP	8,546,157	6,079,560	4,008,953
<i>General Employees' Plan</i>			
Total pension liability	9,009,422	8,247,936	7,588,984
Less: fiduciary net position	(6,563,140)	(6,563,140)	(6,563,140)
Net pension liability - GEP	2,446,282	1,684,796	1,025,844
Aggregate net pension liability	\$ 10,992,439	\$ 7,764,356	\$ 5,034,797

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2016, the City will recognize pension expense of \$966,076 and \$403,994 for the Police Officers' and Firefighters' Pension Plan and the General Employees' Pension Plan, respectively. At September 30, 2016, the City reported deferred outflows and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>Police Officers' and Firefighters' Plan</i>		
Investment gain/loss	\$ 726,781	\$ 191,488
Demographic gain/loss	4,995	550,870
Assumption changes	3,502,972	1,277,936
Total - Police Officers' and Firefighters' Plan	4,234,748	2,020,294
<i>General Employees' Plan</i>		
Investment gain/loss	333,221	87,238
Demographic gain/loss	121,335	-
Assumption changes	986,784	352,976
Total - General Employees' Plan	1,441,340	440,214
Total deferred outflows and deferred inflows of resources related to pensions	\$ 5,676,088	\$ 2,460,508

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<i>Fiscal Year Ending September 30,</i>	Police Officers' and Firefighters' Plan	General Employees' Plan
2017	\$ 348,105	\$ 299,200
2018	348,106	299,200
2019	121,224	305,663
2020	121,225	97,063
2021	161,407	-
Thereafter	1,114,387	-
Total	\$ 2,214,454	\$ 1,001,126

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.

Required Supplementary Information (RSI) following the notes to the financial statements provides multi-year trend data to help determine whether the actuarial value of the Plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Defined Contribution Plan Component – Share Plan. During the year ended September 30, 2016, the City established a defined contribution plan component (the "Share Plan") as part of the City's Police Officers' and Firefighters' Pension Plan, in accordance with sections 175.351(6) and 185.35(6), Florida Statutes. The Share Plan provides special benefits to firefighters, police officers and public safety officers who are members of the defined benefit plan. The Share Plan is funded solely and entirely by insurance premium tax monies (as set forth in Chapters 175 and 185, Florida Statutes) that have been allocated to the Share Plan either by (1) mutual consent of the City and the Plan members' collective bargaining representative or (2) operation of sections 175.351(1)(a)-(f) and 185.35(1)(a)-(f), Florida Statutes.

To establish the Share Plan, the City allocated \$288,492 from the defined benefit plan to the Share Plan. This amount represents prior years' accumulated excess Chapter 175/185 contributions using a formula mutually agreed upon by the City and the Plan members' collective bargaining representatives. An additional \$89,122 was allocated to the Share Plan for excess Chapter 175/185 monies received during the year ended September 30, 2016.

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

Fiduciary Fund Financial Statements. The City does not issue separate financial statements for the Police Officers' and Firefighters' Pension Plan or the General Employees' Pension Plan. The basic financial statements of the City include a statement of net position and a statement of changes in fiduciary net position that presents a single column for each fund type for both pension trust funds.

Both Plans hold their investments in the Florida Municipal Pension Trust Fund, an external investment pool established for the purpose of funding individually designed employee pension plans and certain other post-employment benefit plans of participating municipalities, public agencies and political subdivisions of the State of Florida. The Florida Municipal Pension Trust Fund issues a stand-alone financial report each year, which contains a Schedule of Member Balances by Plan Type that lists the Plans' balances. This report is available to the public at the Florida Municipal Pension Trust Fund's administrative office: Retirement Department, Florida League of Cities, Inc., P.O. Box 1757, Tallahassee, FL 32302.

Combining Fund Information. The pension trust funds fiduciary net position activity as of September 30, 2016 and the change in fiduciary net position for the year ended:

	Police Officers' and Firefighters'		General Employees'	Total
	Defined Benefit Plan	Share Plan		
ASSETS				
Receivables:				
Contributions	\$ 125,425	\$ -	\$ -	\$ 125,425
Investments, at fair value:				
Florida Municipal Investment Trust Fund	14,577,683	377,614	6,563,140	21,518,437
Total assets	14,703,108	377,614	6,563,140	21,643,862
LIABILITIES				
	-	-	-	-
NET POSITION				
Held in trust for pension benefits	\$ 14,703,108	\$ 377,614	\$ 6,563,140	\$ 21,643,862

City of Satellite Beach, Florida
Notes to Financial Statements

NOTE 5: OTHER INFORMATION (Continued)

C. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Defined Benefit Plans (continued)

The pension trust funds change in fiduciary net position activity as of September 30, 2016 was as follows:

	Police Officers' and Firefighters'		General Employees'	Total
	Defined Benefit Plan	Share Plan		
ADDITIONS				
Contributions:				
Employees	\$ 189,218	\$ -	\$ 33,168	\$ 222,386
City	562,297	-	341,136	903,433
State	170,655	89,122	-	259,777
Transfer of excess Chapter 175/185 funds	(288,492)	288,492	-	-
Total contributions	633,678	377,614	374,304	1,385,596
Total investment earnings:				
Net appreciation in fair value of investments	1,141,504	-	521,670	1,663,174
Total additions	1,775,182	377,614	895,974	3,048,770
DEDUCTIONS				
Benefit payments	675,360	-	515,793	1,191,153
Administrative expenses	36,881	-	23,534	60,415
Total deductions	712,241	-	539,327	1,251,568
Change in net position	1,062,941	377,614	356,647	1,797,202
Net position, beginning of year	13,640,167	-	6,206,493	19,846,660
Net position, end of year	\$ 14,703,108	\$ 377,614	\$ 6,563,140	\$ 21,643,862

NOTE 5: OTHER INFORMATION (Continued)

D. COMMITMENTS AND CONTINGENCIES

Operating Leases

The City leases certain equipment under noncancelable operating leases. The total costs of such leases were \$32,239 for the year ended September 30, 2016. The future minimum lease payments for the leases are as follows:

<i>Year Ending September 30:</i>	
2017	\$ 29,668
2018	8,590
2019	7,155
2020	627
Total	\$ 46,040

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 Section 163, Florida Statutes.

NOTE 5: OTHER INFORMATION (Continued)

D. COMMITMENTS AND CONTINGENCIES (Continued)

Community Redevelopment Agency Fund (continued)

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.

The allocated amounts of TIF funds to be provided to the County for the year ending September 30, 2016 were \$144,341 and have been included with general government expenditures in the Community Redevelopment Agency Fund. Future estimated payments are as follows:

<u>Year Ending September 30:</u>	
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, 2016 were \$245,771 and have been included with transfers out in the Community Redevelopment Agency Fund. Future payments are as follows:

<u>Year Ending September 30:</u>	
2017	\$ 243,355
2018	142,564

NOTE 5: OTHER INFORMATION (Continued)

E. LITIGATION

Various suits in the ordinary course of operations are pending against the City. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for the City, the liabilities that may arise from such action would not result in losses that would exceed the liability insurance limits in effect at the time the claim arose or otherwise materially affect the financial position of the City or results of operations.

NOTE 6: FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued statements that will become effective in fiscal year 2017. The Statements address:

- Certain pension issues;
- Other postemployment benefit (OPEB) plans
- Tax abatement disclosures; and
- Blending certain component units.

The City is currently evaluating the effects that these statements will have on its 2017 financial statements.

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

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

<i>For the Year Ended September 30, 2016</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 7,083,490	\$ 7,058,425	\$ 7,058,425	\$ -
Licenses and permits	852,100	874,739	869,543	(5,196)
Intergovernmental	935,494	1,023,030	1,025,845	2,815
Charges for services	650,982	709,655	709,630	(25)
Fines and forfeitures	44,620	43,503	43,503	-
Interest and other	29,172	50,650	48,359	(2,291)
Total revenues	9,595,858	9,760,002	9,755,305	(4,697)
Expenditures				
Departments:				
Legislative	13,179	15,876	15,374	502
Support services	725,860	738,030	737,529	501
City Clerk	202,744	145,078	144,803	275
General governmental services	1,412,766	1,409,399	1,409,064	335
Police	2,808,116	2,748,067	2,747,567	500
Fire	1,809,220	1,945,542	1,944,777	765
Building and zoning	246,595	278,324	277,794	530
Public works	1,352,488	1,331,366	1,331,363	3
Recreation	787,070	779,076	778,573	503
Total expenditures	9,358,038	9,390,758	9,386,844	3,914
Excess of revenues over expenditures	237,820	369,244	368,461	(783)
Other financing sources (uses)				
Transfers in	1,093,576	712,908	665,872	(47,036)
Transfers out	(1,085,625)	(1,081,655)	(1,081,655)	-
Net other financing sources (uses)	7,951	(368,747)	(415,783)	(47,036)
Net change in fund balances	245,771	497	(47,322)	(47,819)
Fund balances, beginning of year	1,434,385	1,434,385	1,434,385	-
Fund balances, end of year	\$ 1,680,156	\$ 1,434,882	\$ 1,387,063	\$ (47,819)

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, 2016</i>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 490,283	\$ 476,070	\$ 476,070	\$ -
Interest and other	4,666	4,666	3,890	(776)
Total revenues	494,949	480,736	479,960	(776)
Expenditures				
Department:				
General government	459,355	441,705	323,370	118,335
Capital outlay	10,000	746,748	697,181	49,567
Debt service:				
Principal retired	307,864	307,864	300,400	7,464
Interest	200,736	200,736	167,239	33,497
Total expenditures	977,955	1,697,053	1,488,190	208,863
Deficiency of revenues under expenditures	(483,006)	(1,216,317)	(1,008,230)	208,087
Other financing sources				
Transfers in	906,755	902,785	902,785	-
Transfers out	(721,865)	(697,640)	(548,020)	149,620
Net other financing sources	184,890	205,145	354,765	149,620
Net change in fund balances	(298,116)	(1,011,172)	(653,465)	357,707
Fund balances, beginning of year	1,011,171	1,011,171	1,011,171	-
Fund balances, end of year	\$ 713,055	\$ (1)	\$ 357,706	\$ 357,707

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.

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
Required Supplementary Pension Information
Schedules of Contributions from the Employer and Other Contributing Entities –
Last Ten Fiscal Years

POLICE OFFICERS' AND FIREFIGHTERS' PENSION PLAN

<i>Year Ended September 30,</i>	Annual Required Contribution	City Contribution	State Contribution ⁽¹⁾	Percentage Contributed
2016	\$ 732,952	\$ 562,297	\$ 170,655	100%
2015	745,554	511,600	170,774	92%
2014	773,093	312,623	170,774	63%
2013	721,253	560,152	170,774	101%
2012	707,447	707,925	170,774	124%
2011	652,228	654,482	163,393	125%
2010	584,160	424,435	166,029	101%
2009	452,865	282,091	170,774	100%
2008	473,396	302,622	170,774	100%
2007	428,148	257,374	170,774	100%

GENERAL EMPLOYEES' PENSION PLAN

<i>Year Ended September 30,</i>	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
2016	\$ 341,136	\$ 341,136	\$ -	100%
2015	370,855	370,855	-	100%
2014	428,556	428,556	-	100%
2013	274,264	274,264	-	100%
2012	455,194	455,194	-	100%
2011	316,270	316,270	-	100%
2010	247,064	247,064	-	100%
2009	289,431	289,431	-	100%
2008	324,935	324,935	-	100%
2007	243,190	243,190	-	100%

⁽¹⁾ "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
Required Supplementary Pension Information
Schedules of Changes in Net Pension Liability and Related Ratios
– Last Three Fiscal Years

Police Officers' and Firefighters' Pension Plan

Total Pension Liability	9/30/2016	9/30/2015	9/30/2014
Service cost	\$ 590,076	\$ 372,463	\$ 466,047
Expected interest growth	1,120,821	1,542,236	1,291,782
Demographic experience	5,636	(724,920)	-
Benefit payments and refunds	(675,359)	(670,595)	(682,024)
Assumption changes	3,952,648	(1,681,706)	-
Net change in total pension liability	4,993,822	(1,162,522)	1,075,805
Total pension liability - beginning	15,788,846	16,951,368	15,875,563
Total pension liability - ending (a)	\$ 20,782,668	\$ 15,788,846	\$ 16,951,368

Plan Fiduciary Net Position

Expected interest growth	\$ 940,589	\$ 1,205,916	\$ 977,638
Unexpected investment income	200,914	(1,211,301)	93,909
Contributions - Employer	732,952	682,374	773,093
Contributions - Employee	189,218	174,323	170,359
Benefit payments & refunds	(675,359)	(670,595)	(987,787)
Administrative expense	(36,881)	(37,244)	(36,101)
Net change in plan fiduciary net position	1,351,433	143,473	991,111
Plan fiduciary net position - beginning	13,351,675	13,208,202	12,217,091
Plan fiduciary net position - ending (b)	\$ 14,703,108	\$ 13,351,675	\$ 13,208,202

Net pension liability - ending (a) - (b)	\$ 6,079,560	\$ 2,437,171	\$ 3,743,166
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Plan fiduciary net position as a percentage of the total pension liability

70.75% 84.56% 77.92%

Covered payroll	\$ 2,102,177	\$ 2,023,912	\$ 1,980,916
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Net pension liability as a percentage of covered payroll

289.20% 120.42% 188.96%

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

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

General Employees' Pension Plan

Total Pension Liability	9/30/2016	9/30/2015	9/30/2014
Service cost	\$ 78,648	\$ 47,281	\$ 57,216
Expected interest growth	464,555	636,922	560,156
Demographic experience	147,878	11,264	-
Benefit payments and refunds	(515,793)	(577,609)	(484,450)
Assumption changes	1,275,317	(574,972)	-
Net change in total pension liability	1,450,605	(457,114)	132,922
Total pension liability - beginning	6,797,331	7,254,445	7,121,523
Total pension liability - ending (a)	\$ 8,247,936	\$ 6,797,331	\$ 7,254,445

Plan Fiduciary Net Position

Expected interest growth	\$ 428,775	\$ 571,279	\$ 475,890
Unexpected investment income	92,895	(555,367)	32,305
Contributions - Employer	341,136	370,855	428,556
Contributions - Employee	33,168	31,458	30,262
Benefit payments & refunds	(515,793)	(577,609)	(469,255)
Administrative expense	(23,534)	(22,473)	(22,674)
Net change in plan fiduciary net position	356,647	(181,857)	475,084
Plan fiduciary net position - beginning	6,206,493	6,388,350	5,913,266
Plan fiduciary net position - ending (b)	\$ 6,563,140	\$ 6,206,493	\$ 6,388,350

Net pension liability - ending (a) - (b)	\$ 1,684,796	\$ 590,838	\$ 866,095
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Plan fiduciary net position as a percentage of the total pension liability

79.57% 91.31% 88.06%

Covered payroll

\$ 400,181 \$ 386,980 \$ 366,815

Net pension liability as a percentage of covered payroll

421.01% 152.68% 236.11%

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

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

Police Officers' and Firefighters' Pension Plan	9/30/2016	9/30/2015	9/30/2014
Actuarially determined contribution	\$ 732,952	\$ 745,554	\$ 773,093
Contributions recognized by the plan	732,952	682,374	483,397
Contribution deficiency (excess)	\$ -	\$ 63,180	\$ 289,696

Covered payroll \$ 2,102,177 \$ 2,023,912 \$ 1,980,916

Contributions as a percentage of covered payroll 34.87% 33.72% 24.40%

General Employees' Pension Plan	9/30/2016	9/30/2015	9/30/2014
Actuarially determined contribution	\$ 341,136	\$ 370,855	\$ 428,556
Contributions recognized by the plan	341,136	370,855	428,556
Contribution deficiency (excess)	\$ -	\$ -	\$ -

Covered payroll \$ 400,181 \$ 386,980 \$ 366,815

Contributions as a percentage of covered payroll 85.25% 95.83% 116.83%

Additional Note:

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in 2015. Ten-year trend data is presented when available; otherwise, comparative information is presented from September 30, 2014.

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

City of Satellite Beach, Florida
Required Supplementary Pension Information
Notes to Schedules

	Police Officers' and Firefighters' Plan	General Employees' Plan
Valuation date	October 1, 2015	October 1, 2015
	<i>Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which the contributions are reported.</i>	
Funding method	Entry Age Normal Cost Method	Aggregate Cost Method
Amortization method	Level dollar	Not applicable
Amortization period	29 years as of 10/01/2015	Not applicable
Asset valuation method	Equal to the prior year's actuarial value of assets adjusted for contributions, benefit payments and expenses. This is further adjusted by the average return on the market value of assets for the preceding 4 years. The actuarial value of assets is restricted to 80% - 120% of the market value.	
Inflation	2.92% per annum	2.92% per annum
Salary increases	4.75% per annum unless actual amounts are known.	
Interest rate	7.5% per annum	7.5% per annum
Retirement age	52 with 5 years of service	62 with 5 years of service
Early retirement rate	50 with 10 years of service	55 with 10 years of service or any age with 35 years of service
Termination rates	Sex-distinct rates set forth in the Scale 155 Table.	
Disability rates	Sex-distinct rates set forth in the Wyatt 1985 Disability Study (Class 4).	Sex-distinct rates set forth in the Wyatt 1985 Disability Study (Class 1).
Mortality	Sex-distinct rates set forth in the RP-2000 Mortality Table, projected to 2007 by Scale AA.	
Expenses	Administrative expenses are assumed to be 1.25% of future payroll. The interest rate assumed is net of investment expenses and commissions.	Administrative expenses are assumed to be 1.75% of future payroll. The interest rate assumed is net of investment expenses and commissions.
Changes	Since the prior measurement date, the discount rate was decreased from 9.08% per annum to 7.00% per annum.	

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

Police Officers' and Firefighters' Pension Plan	9/30/2016	9/30/2015	9/30/2014
Annual expected long-term real return on investments			
Weighted arithmetic average	4.08%	5.48%	4.48%
General Employees' Pension Plan	9/30/2016	9/30/2015	9/30/2014
Annual expected long-term real return on investments			
Weighted arithmetic average	4.08%	5.48%	4.48%

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, 2016, 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 February 23, 2017.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. 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.

Carly Riggs & Ingram, L.L.C.

Melbourne, Florida

February 23, 2017

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, 2016, and have issued our report thereon dated February 23, 2017.

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; and Chapter 10.550, Rules of the Auditor General.

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 Auditor General. Disclosures in those reports, which are dated February 23, 2017, 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 action has been taken to address the finding and recommendation made in the preceding annual financial audit report, as noted below:

Prior Year Management Letter Comments:

ML 2015-001 Cash Receipts

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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and 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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and 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, 2016, 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, 2016. 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:

ML 2016-001 BANK RECONCILIATIONS

Criteria: A fundamental element of internal control is the separation of duties so that no one individual has physical custody of assets as well as the related record keeping. A component of the segregation of duties concept is the element of independent internal verification.

Condition: During the audit, we noted there was no documentation of an independent review being performed on the bank reconciliations.

Cause: Bank reconciliations are currently prepared each month by the Comptroller. The monthly reconciliations are then provided to the Accountant, who prepares any entries to the general ledger that may be necessary based on the bank activity. Documentation of formal review of the reconciliations was not being noted due to unintentional oversight.

Effect: There is the potential that errors could occur and not be noted in a timely basis.

Recommendation: We recommend the City implement procedures to document review of the monthly bank reconciliations (by signing or initialing) has been completed by someone other than the preparer, such as the Assistant City Manager.

Management Response: The City has implemented procedures to document review of the monthly bank reconciliations. The Accountant or Assistant City Manager will electronically sign off on the bank reconciliation document and physically sign off on a printed version of the bank reconciliation document.

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.

Carri Riggs & Ingram, L.L.C.

Melbourne, Florida

February 23, 2017

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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, 2016. 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, 2016.

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.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
February 23, 2017