

**The City of South Bay, Florida
Audited Financial Statements
For the Year ended September 30, 2009**



S. DAVIS & ASSOCIATES, P.A.

Certified Public Accountants & Consultants

**City of South Bay, Florida
Financial Statements
For the Year Ended September 30, 2009**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners
City of South Bay, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Bay, Florida, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Bay, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management did not maintain adequate records of capital assets for the governmental activities, stated at \$3,071,150, including the disposal of capital assets stated at \$953,419, in the accompanying financial statements. No depreciation expense was recorded on these assets as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of South Bay, Florida, as of September 30, 2009, or the changes in financial position thereof for the year then ended.

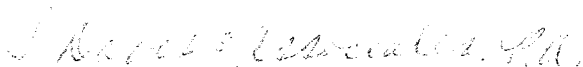
INDEPENDENT AUDITORS' REPORT

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the City of South Bay, Florida, as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the City did not make all the required transfers to the reserve and renewal and replacement accounts as required by the Bonds Resolutions. At September 30, 2009, the reserve account was \$465,767 short of the amount required.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010 on our consideration of the City of South Bay, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Bay, Florida's basic financial statements taken as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Hollywood, Florida
September 21, 2010

City of South Bay, Florida

Management's Discussion and Analysis

The purpose of financial reporting, in general, is to provide the readers of the financial statements with information that will help them make decisions or draw conclusions about the City of South Bay's (the "City") financial position and results of operations as of and for fiscal year ended September 30, 2009.

The City's financial statements comprise three components: 1) government-wide financial statements, 2) Fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

1 - The focus of the *government-wide financial statements* is on the overall financial position and activities of the City. The difference between the City's total assets and total liabilities is net assets. Although the purpose of the City is not to accumulate net assets, over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *government-wide financial statements* provide readers with a broad overview of the City's finances for both its governmental activities and business-type activities, which are shown in two statements:

- Statement of net assets
- Statement of activities

The statement of net assets presents information on all of the City's assets held and liabilities owed by the City.

The statement of activities presents the revenues and expenses of the City and net assets changed during the current fiscal year. The items presented on the statement of activities are measured in a manner similar to the approach used in the private-sector; the revenues are recognized when earned and expenses are reported when incurred.

2 – The focus of the *fund financial statements* is directed to specific activities of the City rather than to the City as a whole. Except for the general fund, separate funds are established to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City groups its funds in two categories:

- Governmental funds
- Proprietary funds

Governmental fund financial statements consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balances. These statements are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements. The focus of the financial statements is on short-term emphasis, and measures and accounts for cash and other assets that can easily be converted to cash. The major fund in the governmental fund is the general fund. The City adopts an annual budget for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual budget.

Proprietary funds include the water and sewer and sanitation funds. Both funds charge a fee to customers for the use of specific goods and/or services. The basis of accounting of the financial statements is similar to the basis used to prepare the government-wide financial statements.

3 – The notes to the financial statements provide additional information and disclosures that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as the comparison between the City's adopted budget and actual financial results. The budgetary comparison statement has been provided to demonstrate compliance with this budget.

Financial Highlights:

- The City's total net assets increased by \$234,949 before the prior period adjustment. The increase is mainly attributed to the excess of revenues over expenses in the general fund by \$339,716.
- A prior period adjustment was made to the statement of activities in the amount of \$953,419 for the police and fire departments' assets. Both departments' assets were transferred to the Palm Beach County in prior years, but their assets continued to be reported in the annual financial statements of the City.
- Effective October 1, 2009, the water and sewer services along with their assets and outstanding bond debt were transferred to Glades Utility Authority.
- The net assets in the water and sewer fund decreased by \$204,810 which is mainly attributed to deduction of \$351,402 for depreciation and amortization expense.

Analysis of government-wide financial statements:

City of South Bay
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 1,123,970	\$ 765,190	\$ 3,118,162	\$ 3,000,112	\$ 4,242,132	\$ 3,765,302
Capital assets	<u>3,071,150</u>	<u>4,077,005</u>	<u>5,952,149</u>	<u>6,301,454</u>	<u>9,023,299</u>	<u>10,378,459</u>
Total assets	<u>4,195,120</u>	<u>4,842,195</u>	<u>9,070,311</u>	<u>9,301,566</u>	<u>13,265,431</u>	<u>14,143,761</u>
Current and other liabilities	1,863,624	1,799,167	2,234,062	2,120,300	4,097,686	3,919,467
Long-term debt outstanding	<u>608,062</u>	<u>740,038</u>	<u>3,760,765</u>	<u>3,966,868</u>	<u>4,368,827</u>	<u>4,706,906</u>
Total liabilities	<u>2,471,686</u>	<u>2,539,205</u>	<u>5,994,827</u>	<u>6,087,168</u>	<u>8,466,513</u>	<u>8,626,373</u>
Net assets:						
Invested in capital assets (net of debt)	2,393,356	3,312,628	3,195,581	4,047,713	5,588,937	7,360,341
Restricted	369,784	369,784	896,777	896,777	1,266,561	1,266,561
Unrestricted	<u>(1,039,706)</u>	<u>(1,379,422)</u>	<u>(1,016,874)</u>	<u>(1,730,092)</u>	<u>(2,056,580)</u>	<u>(3,109,514)</u>
	<u>\$ 1,723,434</u>	<u>\$ 2,302,990</u>	<u>\$ 3,075,484</u>	<u>\$ 3,214,398</u>	<u>\$ 4,798,918</u>	<u>\$ 5,517,388</u>

A significant portion of the City's net assets (116%) reflects its investment in capital assets (e.g., lands, buildings and equipment) less any debt related to those assets that is still outstanding. The City uses these capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 26%, represents resources that are subject to external restriction on how they may be used.

The net assets decreased from \$5,517,388 to \$4,798,918, mainly due to a prior year adjustment in the amount of \$953,419 for the transfer of the police and fire departments to Palm Beach County in 2005 and 2006.

Expenses and Revenues – Governmental Activities:

Net assets' increase or decrease over time serves as a useful indicator of the government's financial position.

Net assets in governmental activities increased by \$373,863 in the current year, while net assets in the prior year increased by \$121,749 after transferring out \$260,375 from governmental activities to business-type activities.

	City of South Bay Change in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues						
Charge for services	\$ 103,368	\$ -	\$2,532,591	\$2,731,619	\$2,635,959	\$2,731,619
Operating grant and contribution	26,079	-	-	-	26,079	-
Capital grant and contribution	145,000	-	10,000	508,501	155,000	508,501
General revenues:						
Property taxes	380,114	390,091	-	-	380,114	390,091
Franchise	577,256	571,786	-	-	577,256	571,786
Other taxes	730,003	755,570	-	-	730,003	755,570
Other	<u>117,692</u>	<u>263,330</u>	<u>35,251</u>	<u>20,215</u>	<u>152,943</u>	<u>283,545</u>
Total revenues	<u>2,079,512</u>	<u>1,980,777</u>	<u>2,577,842</u>	<u>3,260,335</u>	<u>4,657,354</u>	<u>5,241,112</u>
Expenses:						
General government	1,004,316	966,731	-	-	1,004,316	966,731
Public safety	165,575	160,868	-	-	165,575	160,868
Highway and street	507,438	439,756	-	-	507,438	439,756
Culture and recreation	21,162	31,298	-	-	21,162	31,298
Water and sewer	-	-	2,143,325	3,005,026	2,143,325	3,005,026
Sanitation	-	-	427,658	379,063	427,658	379,063
Interest on long term debt	<u>7,158</u>	<u>-</u>	<u>145,773</u>	<u>152,623</u>	<u>152,931</u>	<u>152,623</u>
Total expenses	<u>1,705,649</u>	<u>1,598,653</u>	<u>2,716,756</u>	<u>3,536,712</u>	<u>4,422,405</u>	<u>5,135,365</u>
Increase (decrease) in net assets	373,863	382,124	(138,914)	(276,377)	234,949	105,747
Transfer in/(out)	-	(260,375)	-	260,375	-	-
Net assets at beginning of year - re	<u>1,349,571</u>	<u>2,181,241</u>	<u>3,214,398</u>	<u>3,230,400</u>	<u>4,563,969</u>	<u>5,411,641</u>
Net assets end of year	<u>\$1,723,434</u>	<u>\$2,302,990</u>	<u>\$3,075,484</u>	<u>\$3,214,398</u>	<u>\$4,798,918</u>	<u>\$5,517,388</u>

The net assets in business-type activities decreased by \$138,914 in the current year, while the decrease in prior year was \$16,002 after transferring in \$260,375 from governmental activities.

Discussion of Major Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The General Fund is the primary operating fund accounting for all unrestricted operating expenditures of the City. Revenues and transfers from other funds aggregated \$2,079,512 while expenditures totaled \$1,739,796, resulting in \$339,716 increase in the fund balance for the current year.

Proprietary Funds – The water and sewer fund is identified as a major proprietary fund and reports the operating income (loss) and change in net assets. Total revenue for charges of services and from other sources aggregated \$2,577,842 while the total expenditures totaled \$2,716,756 resulting in \$138,914 decrease in net assets.

General Fund Budgetary Highlights

The original approved appropriation of revenues and transfer in, and the actual result, had a negative variance in the amount of \$97,887. The variance was due to lack of adequate funding in water and sewer because \$75,000 annual appropriation for administrative charge from the general fund was not transferred. However, the actual expenditures compared to the annual budget had a positive variance in the amount of \$437,603. The positive variance was primarily due to 1) not transferring \$200,000 budgeted transfer out to other funds, 2) \$132,027 contingency and other appropriations were not used, and 3) the actual insurance expenses were \$70,886 less than the annual budget in the general fund.

Capital Assets

The City’s investment in capital assets (net of accumulated depreciation) as of September 30, 2009, amounted to \$9,023,299, a decrease of \$1,355,160 from the prior year. The decrease was due to a \$953,419 prior period adjustment in general fixed assets, current year depreciation expense of \$349,305 and net of deletion and addition of \$52,436.

City of South Bay
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 766,223	\$ 825,003	\$ 212,927	\$ 212,927	\$ 979,150	\$ 1,037,930
Buildings	523,033	523,033	-	-	523,033	523,033
Utility plant and systems	-	-	14,035,808	14,035,808	14,035,808	14,035,808
Improvements other than building	526,908	526,908	-	-	526,908	526,908
Furniture, fixtures, machinery and equipment	964,332	1,911,407	427,643	427,643	1,391,975	2,339,050
Construction in progress	<u>290,654</u>	<u>290,654</u>	<u>-</u>	<u>-</u>	<u>290,654</u>	<u>290,654</u>
Total	<u>3,071,150</u>	<u>4,077,005</u>	<u>14,676,378</u>	<u>14,676,378</u>	<u>17,747,528</u>	<u>18,753,383</u>
Accumulated depreciation	-	-	(8,724,229)	(8,374,924)	(8,724,229)	(8,374,924)
Total capital assets, net	<u>\$ 3,071,150</u>	<u>\$ 4,077,005</u>	<u>\$ 5,952,149</u>	<u>\$ 6,301,454</u>	<u>\$ 9,023,299</u>	<u>\$ 10,378,459</u>

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$4,597,611 in notes, bonds and capital leases outstanding, compared to \$4,913,022 last year, a decrease of \$315,411 or 6.4% for principal payments. The City's obligations are secured by various revenue sources and capital assets.

City of South Bay
Bonded Debt, Notes and Loan Payable, and Capital leases

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues bonds	\$ -	\$ -	\$ 3,907,300	\$ 4,100,300	\$ 3,907,300	\$ 4,100,300
Notes	533,041	607,816	-	-	533,041	607,816
State revolving loan	-	-	52,568	72,904	52,568	72,904
Capital leases	<u>104,702</u>	<u>132,002</u>	<u>-</u>	<u>-</u>	<u>104,702</u>	<u>132,002</u>
Total	<u>\$ 637,743</u>	<u>\$ 739,818</u>	<u>\$ 3,959,868</u>	<u>\$ 4,173,204</u>	<u>\$ 4,597,611</u>	<u>\$ 4,913,022</u>

Economic Factors and Outlook for the Future

Effective October 1, 2009, the water and sewer services and operations were transferred to Glades Utilities Authority as well as outstanding bond debt and customers' deposits. The City will continue to provide solid waste, trash and mosquito control services to the City's citizens. The City anticipates that there will be some loss of revenues to the City, however, it anticipates significant savings to the City by transferring the bond debt to Glades Utilities Authority. Also, the future annexation and Inland Port project will help to create additional sources of income to the City.

The City's elected officials consider many factors when adopting the annual budget each year. The millage rate remains at 6.3089 although the property tax revenues are expected to decrease due to the real estate market. However, the City is determined to provide the necessary services efficiently to its citizens in spite of the negative economic trends.

Request for Information

The financial report is designed to provide a general overview of the City's finances to its citizens, taxpayers, customers, creditors and investors, and to demonstrate the City's accountability to the aforementioned. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Department, 335 S.W. 2nd Avenue, South Bay, Florida 33493.

City of South Bay, Florida
Statement of Net Assets
September 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash	\$ 584,181	\$ 332,152	\$ 916,333
Accounts receivable, net	7,979	196,342	204,321
Due from government	45,000	-	45,000
Due from other funds	451,094	900,373	1,351,467
Restricted assets:			
Cash	-	110,082	110,082
Investments	-	1,149,424	1,149,424
Due from other funds	-	351,953	351,953
Capital assets	3,071,150	5,952,149	9,023,299
Other assets	35,716	77,836	113,552
Total assets	<u>4,195,120</u>	<u>9,070,311</u>	<u>13,265,431</u>
Liabilities:			
Accounts payable	130,187	1,674,976	1,805,163
Accrued liabilities	16,454	5,694	22,148
Compensated absences	40,051	8,741	48,792
Due to other funds	1,535,650	167,149	1,702,799
Deferred revenue	111,601	-	111,601
Deposits	-	147,613	147,613
Payable from restricted assets:			
Accounts payable	-	2,300	2,300
Due to other funds	-	621	621
Interest payable	-	27,865	27,865
Long-term debt:			
Due within in one year	29,681	199,103	228,784
State revolving loan payable	-	48,365	48,365
Capital lease	75,021	-	75,021
Due in more than one year	533,041	3,712,400	4,245,441
Total liabilities	<u>2,471,686</u>	<u>5,994,827</u>	<u>8,466,513</u>
Net Assets:			
Invested in capital assets, net of related debt	2,393,356	3,195,581	5,588,937
Restricted for:			
Community development fund	(40)	-	(40)
Development fund	369,824	-	369,824
Debt service	-	547,745	547,745
Renewal and replacement	-	159,799	159,799
Construction	-	189,233	189,233
Unrestricted	(1,039,706)	(1,016,874)	(2,056,580)
Total net assets	<u>\$ 1,723,434</u>	<u>\$ 3,075,484</u>	<u>\$ 4,798,918</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2009

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:						
General government	\$ 1,004,316	\$ 41,058	\$ -	\$ (963,258)	\$ -	\$ \$ (963,258)
Public safety	165,575	-	24,773	(140,802)	-	(140,802)
Highways and streets	507,438	62,310	146,306	(298,822)	-	(298,822)
Culture and recreation	21,162	-	-	(21,162)	-	(21,162)
Interest	7,158	-	-	(7,158)	-	(7,158)
Total governmental activities	<u>1,705,649</u>	<u>103,368</u>	<u>171,079</u>	<u>(1,431,202)</u>	<u>-</u>	<u>(1,431,202)</u>
Business-type activities:						
Water and sewer	2,289,098	2,039,037	10,000	-	(240,061)	(240,061)
Sanitation	427,658	493,554	-	-	65,896	65,896
Total business-type activities	<u>2,716,756</u>	<u>2,532,591</u>	<u>10,000</u>	<u>-</u>	<u>(174,165)</u>	<u>(174,165)</u>
Total governmental	<u>\$ 4,422,405</u>	<u>\$ 2,635,959</u>	<u>\$ 181,079</u>	<u>(1,431,202)</u>	<u>(174,165)</u>	<u>(1,605,367)</u>
General revenue:						
Taxes:						
Ad Valorem				380,114	-	380,114
Gasoline				117,291	-	117,291
Franchise				577,256	-	577,256
Sales tax				175,398	-	175,398
State revenue sharing				142,850	-	142,850
Payment in lieu of taxes				294,464	-	294,464
Occupational licenses and permits				53,139	-	53,139
Investment earnings				3,063	926	3,989
Other				61,490	34,325	95,815
Total general revenues				<u>1,805,065</u>	<u>35,251</u>	<u>1,840,316</u>
Change in net assets				<u>373,863</u>	<u>(138,914)</u>	<u>234,949</u>
Net assets – October 1, 2008, as stated previously				2,302,990	3,214,398	5,517,388
Prior period adjustment				(953,419)	-	(953,419)
Net assets – Restated at October 1, 2008				<u>1,349,571</u>	<u>3,214,398</u>	<u>4,563,969</u>
Net assets – September 30, 2009				<u>\$ 1,723,434</u>	<u>\$ 3,075,484</u>	<u>\$ \$ 4,798,918</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2009

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Non-Major Fund</u> <u>Other Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash	\$ 584,181	\$ -	\$ 584,181
Accounts receivable, net	7,979	-	7,979
Due from government	45,000	-	45,000
Due from other funds	36,180	414,914	451,094
Other assets	35,716	-	35,716
Total assets	<u>\$ 709,056</u>	<u>\$ 414,914</u>	<u>\$ 1,123,970</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 130,187	\$ -	\$ 130,187
Accrued liabilities	16,400	54	16,454
Due to other funds	1,490,574	45,076	1,535,650
Deferred revenue	111,601	-	111,601
Total liabilities	<u>1,748,762</u>	<u>45,130</u>	<u>1,793,892</u>
Fund balances (deficit):			
General fund	(1,039,706)	-	(1,039,706)
Community development fund	-	(40)	(40)
Development fund	-	369,824	369,824
Total fund balances (deficit)	<u>(1,039,706)</u>	<u>369,784</u>	<u>(669,922)</u>
Total liabilities and fund balances (deficit)	<u>\$ 709,056</u>	<u>\$ 414,914</u>	<u>\$ 1,123,970</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
For the Fiscal Year Ended September 30, 2009

Fund balances (deficit) – Total Governmental Funds \$ (669,922)

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

Capital assets used in governmental activities are not financial recourses and, therefore, are not reported in the funds. 3,071,150

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

Compensated absences	\$ 40,051	
General obligation notes and lease payable	<u>637,743</u>	
		<u>(677,794)</u>

Total net assets – Governmental Activities \$ 1,723,434

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
For the Fiscal Year Ended September 30, 2009

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Other Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Revenues:			
Taxes	\$ 380,114	\$ 577,256	\$ 957,370
Licenses and permits	53,139	-	53,139
Intergovernmental	901,082	-	901,082
Charges for services	62,310	-	62,310
Fines and forfeitures	19,029	-	19,029
Investment income	3,063	-	3,063
Miscellaneous revenues	83,519	-	83,519
Total revenues	<u>1,502,256</u>	<u>577,256</u>	<u>2,079,512</u>
Expenditures:			
Current:			
General government	1,012,410	-	1,012,410
Public safety	165,575	-	165,575
Highways and streets	507,438	-	507,438
Culture and recreation	21,162	-	21,162
Capital outlay	6,344	-	6,344
Debt services:			
Principal	19,709	-	19,709
Interest	7,158	-	7,158
Total expenditures	<u>1,739,796</u>	<u>-</u>	<u>1,739,796</u>
Excess (deficiency) of revenues over expenditures	<u>(237,540)</u>	<u>577,256</u>	<u>339,716</u>
Other financing sources (uses):			
Operating transfers in (out)	577,256	(577,256)	-
Total other financing sources (uses)	<u>577,256</u>	<u>(577,256)</u>	<u>-</u>
Net change in fund balances (deficit)	339,716	-	339,716
Fund balances (deficit) at October 1, 2008	<u>(1,379,422)</u>	<u>369,784</u>	<u>(1,009,638)</u>
Fund balances (deficit) at September 30, 2009	<u>\$ (1,039,706)</u>	<u>\$ 369,784</u>	<u>\$ (669,922)</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended September 30, 2009

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

Net Change in fund balance (deficit) – total governmental funds	\$ 339,716
 Sale of property and some expenses reported in the statement of activities do not require the use of current financial resources and are not reported in the governmental funds.	 (60,326)
 The repayment of principal reduces long-term liabilities and is not reported in the statement of the activities, but the repayment is reported as expenditures in the governmental funds.	 <u>94,473</u>
Change in net assets of governmental activities	<u><u>\$ 373,863</u></u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>Water and</u>	<u>Sanitation</u>	<u>Business-Type</u>
	<u>Sewer</u>	<u>Sanitation</u>	<u>Activities</u>
	<u>Enterprise</u>		<u>Funds</u>
Assets			
Current assets:			
Cash	\$ 233,182	\$ 98,970	\$ 332,152
Accounts receivable, net	148,350	47,992	196,342
Due from other funds	576,796	323,577	900,373
Restricted assets			
Cash	110,082	-	110,082
Total current assets	<u>1,068,410</u>	<u>470,539</u>	<u>1,538,949</u>
Non-current assets:			
Restricted assets			
Investments	1,149,424	-	1,149,424
Due from other funds	351,953	-	351,953
Capital assets			
Property, net	5,952,149	-	5,952,149
Other assets	77,836	-	77,836
Total non-current assets	<u>7,531,362</u>	<u>-</u>	<u>7,531,362</u>
Total assets	<u>\$ 8,599,772</u>	<u>\$ 470,539</u>	<u>\$ 9,070,311</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

	<u>Major Fund</u> <u>Water and</u> <u>Sewer</u>	<u>Non-Major Fund</u> <u>Sanitation</u>	<u>Total</u> <u>Business-Type</u> <u>Activities</u> <u>Enterprise</u> <u>Funds</u>
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ 1,674,976	\$ -	\$ 1,674,976
Accrued liabilities	5,694	-	5,694
Compensated absences	8,741	-	8,741
Due to other funds	167,149	-	167,149
Deposits	147,613	-	147,613
Current portion of State revolving loan	4,203	-	4,203
Total current liabilities	<u>2,008,376</u>	<u>-</u>	<u>2,008,376</u>
Current liabilities payable from restricted assets:			
Accounts payable	2,300	-	2,300
Due to other funds	621	-	621
Interest payable	27,865	-	27,865
Current portion of bonds payable	194,900	-	194,900
Total current liabilities payable from current restricted assets	<u>225,686</u>	<u>-</u>	<u>225,686</u>
Non-current liabilities:			
Long-term portion of bonds payable	3,712,400	-	3,712,400
State revolving loan payable	48,365	-	48,365
Total non-current liabilities	<u>3,760,765</u>	<u>-</u>	<u>3,760,765</u>
Total liabilities	<u>5,994,827</u>	<u>-</u>	<u>5,994,827</u>
Net assets:			
Invested in capital assets, net of related debt	3,195,581	-	3,195,581
Restricted for:			
Debt service	547,745	-	547,745
Renewal and replacement	159,799	-	159,799
Construction	189,233	-	189,233
Unrestricted	(1,487,413)	470,539	(1,016,874)
Total net assets	<u>\$ 2,604,945</u>	<u>\$ 470,539</u>	<u>\$ 3,075,484</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended September 30, 2009

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>Water</u>		<u>Business-Type</u>
	<u>and Sewer</u>	<u>Sanitation</u>	<u>Activities</u>
			<u>Enterprise</u>
			<u>Funds</u>
Operating revenues:			
Charges for services	\$ 2,039,037	\$ 493,554	\$ 2,532,591
Late fees and service charges	34,325	-	34,325
Total operating revenues	<u>2,073,362</u>	<u>493,554</u>	<u>2,566,916</u>
Operating expenses:			
Personnel services	235,061	-	235,061
Contractual services	604,783	389,668	994,451
Supplies, materials and maintenance	879,831	-	879,831
Other services and charges	72,248	37,990	110,238
Depreciation and amortization	351,402	-	351,402
Total operating expenses	<u>2,143,325</u>	<u>427,658</u>	<u>2,570,983</u>
Operating income (loss)	<u>(69,963)</u>	<u>65,896</u>	<u>(4,067)</u>
Non-operating revenues (expenses):			
Interest revenue	926	-	926
Interest expense	(145,773)	-	(145,773)
Total non-operating revenues (expenses)	<u>(144,847)</u>	<u>-</u>	<u>(144,847)</u>
Income (loss) before contribution	<u>(214,810)</u>	<u>65,896</u>	<u>(148,914)</u>
Capital contribution – capital improvement	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Change in net assets	<u>(204,810)</u>	<u>65,896</u>	<u>(138,914)</u>
Net assets – October 1, 2008	<u>2,809,755</u>	<u>404,643</u>	<u>3,214,398</u>
Net assets – September 30, 2009	<u>\$ 2,604,945</u>	<u>\$ 470,539</u>	<u>\$ 3,075,484</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2009

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>Water and</u>	<u>Sanitation</u>	<u>Business-Type</u>
	<u>Sewer</u>	<u>Sanitation</u>	<u>Activities</u>
			<u>Enterprise</u>
			<u>Funds</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,187,379	\$ 530,425	\$ 2,717,804
Payments to suppliers	(1,405,084)	(439,242)	(1,844,326)
Payments to employees	(235,061)	-	(235,061)
Net cash provided by operating activities	<u>547,234</u>	<u>91,183</u>	<u>638,417</u>
Cash flows from capital and related financing activities:			
Principal paid on capital debt and loan	(213,336)	-	(213,336)
Interest paid on long term debt	(145,773)	-	(145,773)
Repayments and advances from (to) other funds	(29,067)	7,787	(21,280)
Net cash provided by (used in) capital and related financing activities	<u>(388,176)</u>	<u>7,787</u>	<u>(380,389)</u>
Cash flows from investing activities:			
Decrease in restricted cash	63,198	-	63,198
Capital contribution	10,000	-	10,000
Interest received	926	-	926
Net cash provided by investing activities	<u>74,124</u>	<u>-</u>	<u>74,124</u>
Net increase in cash	233,182	98,970	332,152
Cash and cash equivalents at beginning of year	-	-	-
Cash and cash equivalents at end of year	<u>\$ 233,182</u>	<u>\$ 98,970</u>	<u>\$ 332,152</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (204,810)	\$ 65,896	\$ (138,914)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	351,402	-	351,402
Bad debt expense	-	37,990	37,990
Changes in assets and liabilities:			
Decrease in accounts receivable	114,017	36,871	150,888
Decrease in restricted assets	83,480	-	83,480
(Increase) in other assets	(2,281)	-	(2,281)
Increase (decrease) in accounts payable	180,119	(49,574)	130,545
Increase in due to other fund	37,850	-	37,850
(Decrease) in interest payable	(14,250)	-	(14,250)
Increase in deposits	1,707	-	1,707
Total adjustments	<u>752,044</u>	<u>25,287</u>	<u>777,331</u>
Net cash provided by operating activities	<u>\$ 547,234</u>	<u>\$ 91,183</u>	<u>\$ 638,417</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of South Bay, Florida (the "City") is a municipality within the legal and geographic boundaries of Palm Beach County, Florida, incorporated in October 1963 pursuant to Chapter 166, Florida Statutes. It is an instrumentality of the State of Florida established to carry on a centralized municipal government. The City Commission ("Commission") is responsible for the legislative and fiscal control of the City. A City Manager and Treasurer are appointed by the Commission and are responsible for the administrative and fiscal control of the resources of the City maintained in the funds and the account groups described below.

The basic financial statements of the City have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below:

(a) Reporting Entity

The financial statements were prepared in accordance with governmental accounting standards that establish standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the City, organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Based upon the application of these criteria, management has determined that there are no other organizations that met the criteria described above.

(b) The Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly not included among program revenues are reported, instead, as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to reconcile the fund-based financial statements to the governmental activities column of the government-wide presentation.

(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 proprietary 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.

Grants and similar items are recognized as revenues as soon as all eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Ad valorem taxes and charges for services are susceptible to accrual when collected in the current year or within 60 days subsequent to year end, provided that amounts received pertain to billings through the fiscal year end. Intergovernmental revenue and utility service taxes are recorded in accordance with their legal or contractual requirements if collected in the current period or within 30 days after year end, except for grant revenue, which is recorded

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

when the related expenditure/expenses are incurred. Interest is recorded when earned. Licenses and permits, fines and forfeitures, and miscellaneous revenue are recorded as revenue when received in cash, because they are generally not measurable until actually received. Occupational license revenue collected in advance of periods to which they relate is recorded as deferred revenue.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except that principal and interest on long-term obligations are reported only when due in conformity with GAAP.

Major Funds and Basis Presentation

Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either have significant outstanding debt proceeds or a specific community focus. The non-major funds are presented in one column in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue is derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue. The general operating expenditures, fixed charges and capital outlay costs that are not paid through other funds are paid from the General Fund.

The *Water and Sewer Fund* accounts for the activities related to providing water and sewer services to the City residents.

(d) **Assets, Liabilities and Net Assets or Equity:**

(1) **Cash**

The City pools substantially all cash, except for separate cash accounts which are maintained in accordance with legal restrictions. Cash and cash equivalents include amounts on deposit in demand accounts at a commercial banking institution.

Accounts at the commercial banking institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 for interest bearing accounts that earn interest in excess of .5% and full insurance coverage for non interest bearing as well as

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

NOW accounts earning .5% or less. At September 30, 2009, the City's cash balances were fully insured.

(2) Investments

The City's investments for all funds are carried at fair value based on quoted market prices. Investments consist of U.S. Government time deposit securities. Purchases and sales of investments are recorded on the trade dates. Net realized gains and losses on sales of investments are reflected in current operating results as earnings.

(3) Restricted Assets and Reserves

Pursuant to various revenue bond indenture agreements, specific Enterprise Fund assets are required to be segregated as to use and are, therefore, identified as restricted assets. For certain restricted assets, offsetting reserves have been established by charges to retained earnings.

(4) Grants from Government Agencies

Certain grants under various federal and state programs are included in the Special Revenue funds. Grant monies received are disbursed by these funds for goods and services as prescribed under the respective grant programs or are transferred to other City funds for ultimate distribution under the terms of the grants. These programs are dependent on financial assistance by the state and federal governments.

(5) Compensated Absences

The City accrues for compensated absences in accordance with GASB No. 16, accounting for compensated absences. In the governmental funds, only the portion which would normally be liquidated with expendable available financial resources is accrued whereas in the government-wide presentations, both the current and long-term portions are reported for both governmental and business-type activities.

(6) Capital Assets

Capital asset acquisitions are recorded as expenditures in the governmental fund financial statements. Such assets are capitalized at historical cost in the government-wide financial statements for both governmental activities and business-type activities. In the case of gifts or contributions, such assets are recorded at fair market value at the date of receipt. Capital costs which materially extend the useful life of existing properties are capitalized. Net capital assets are defined as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Interest is capitalized on projects during the construction period based upon average accumulated project expenditures.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Infrastructure assets (such as roads, bridges, curbs and gutters, streets and sidewalks, lighting and drainage systems and similar assets that are immovable and of value only to the City) are not reported in the government-wide financial statements which is at variance with generally accepted accounting principles.

Depreciation expense is provided on property in business-type activities using the straight-line method over the estimated useful lives of the assets. Ranges of depreciable lives are as follows:

Utility plant and systems	10 – 50 years
Furniture, fixtures, machinery and equipment	3 – 20 years

(7) Deferred Revenue

The City records the amount of accrued, but unbilled revenue for the Water and Sewer and Sanitation Funds by prorating actual subsequent billings.

(8) Property Tax Calendar

Property taxes are levied on October 1 of each year, tax bills are mailed November 1 and are delinquent if not paid by the following March, and tax certificates are sold for all taxes unpaid in July. The City's tax revenue is collected by the County's tax collector who remits to the City monies collected following a calendar prescribed by law.

(9) Compensated Absences

From 10 to 20 days of vacation and 12 days of sick leave can be earned by employees annually. If an employee resigns in good standing or retires, the City pays accrued vacation and from 25% to 50% of accumulated sick leave up to a maximum of 60 days.

The change in compensated absences during fiscal year ended 2009 is as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Balances at October 1, 2008	\$ 24,339	\$ 8,741
Increase	15,712	-
Balance at September 30, 2009	<u>\$ 40,051</u>	<u>\$ 8,741</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(10) Concentration of Credit Risk

Financial instruments which subject the City to credit risk consist primarily of accounts receivable. Concentration of credit risk with respect to accounts receivable is generally diversified due to the large number of utility customers comprising the City's utility customer base. The City requires deposits from its customers and maintains an allowance for potential credit losses.

(11) Accounts Receivable

Accounts receivable of the City are presented in the financial statements net of allowances for uncollectible accounts of approximately \$191,383 applicable to the business-type activities.

(12) Allowances for Doubtful Accounts

Accounts receivable are written off on an individual basis in the year the City deems them uncollectible. Allowances for doubtful accounts have been provided for those accounts where collectibility appears to be doubtful.

(13) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(14) Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance to indicate the portion of fund balance that is not appropriable for expenditure or is legally segregated by outside parties for a specific purpose. Designations indicate tentative managerial plans or intent to use financial resources in a future period. Undesignated fund balance indicates the portion of fund balance which is available for future use.

(15) Net Assets

Net assets of the government-wide and proprietary funds are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt is that portion of net assets that relates to the City's capital assets reduced

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

by the portion of the assets that has been acquired through the use of long-term debt. This amount is offset by any unspent proceeds that are outstanding at fiscal year-end. Restricted net assets is that portion of net assets that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation.

(e) Budget and Budgetary Accounting

The City prepares an annual operating budget for both the general fund and the special revenues fund which are reflected in these financial statements. The City’s budgeting process is based on estimates of revenues and expenditures and requires that all budgets be approved by the City of South Bay City Commissioners (the “Commissioners”) after a public hearing is held. Subsequent amendments to the budget, if any, are approved by the Commissioners.

Budgets are prepared on the same basis of accounting as required for Governmental Fund Types. Expenditures may exceed the approved budget amounts for individual categories as long as the total does not exceed the approved budget. Any remaining fund balances remain with the City each year.

NOTE 2 – INVESTMENTS:

Investments consist of U.S. Government time deposit securities. The table below summarizes the scheduled maturities of the investments at September 30, 2009:

	Fair Value of Investments Maturities				Total
	Less Than One Year	One to Five Years	Six To Ten Years	More Than Ten Years	
U.S. Government securities	<u>\$ 20,327</u>	<u>\$ 102,259</u>	<u>\$ 123,197</u>	<u>\$ 903,641</u>	<u>\$ 1,149,424</u>

On December 12, 1998, the City issued Second Subordinate Water Revenue Bonds Series 1998 for \$1,339,000 with interest of 4.75% to the U.S. Department of Agriculture, Rural Utilities Service in connection with providing water and sewer services at the correctional facility located in the City, known as the Off-Site Improvements. Prior to the issuance of the bonds, \$1,338,760 was placed with the U.S. Treasury in time deposit securities to service the bond debt under an agreement for the water and sewer services. The interest rates on the securities range from 3.782% to 5.400%. The annual payments on the bonds are payable from the maturities of these investments.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 3 – CAPITAL ASSETS:

Changes in capital assets of the City as of September 30, 2009 are shown below:

	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009
<u>Governmental Activities:</u>				
Land	\$ 825,003	\$ -	\$ 58,780	\$ 766,223
Buildings	523,033	-	-	523,033
Improvements other than buildings	526,908	-	-	526,908
Furniture, fixtures, machinery and equipment	1,911,407	6,344	953,419	964,332
Construction in progress	290,654	-	-	290,654
Governmental activities capital assets	<u>\$ 4,077,005</u>	<u>\$ 6,344</u>	<u>\$ 1,012,199</u>	<u>\$ 3,071,150</u>

	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 212,927	\$ -	\$ -	\$ 212,927
Total capital assets not being depreciated	<u>212,927</u>	<u>-</u>	<u>-</u>	<u>212,927</u>
Capital assets being depreciated:				
Utility plant and systems	14,035,808	-	-	14,035,808
Furniture, fixtures, machinery and equipment	427,643	-	-	427,643
Total capital assets being depreciated	<u>14,463,451</u>	<u>-</u>	<u>-</u>	<u>14,463,451</u>
Total accumulated depreciation	<u>(8,374,924)</u>	<u>(349,305)</u>	<u>-</u>	<u>(8,724,229)</u>
Business-type activities capital assets, net	<u>\$ 6,301,454</u>	<u>\$ (349,305)</u>	<u>\$ -</u>	<u>\$ 5,952,149</u>

Depreciation expense for the fiscal year ended September 30, 2009 for business-type activities was \$349,305.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 4 – LONG TERM DEBT:

Revenue and refunding bonds and subordinate bonds were issued by the City to finance the cost of construction and erection of extensions and improvements to the City's water and sewer system. The revenues of the water and sewer system, certain excise taxes, the City's guaranteed entitlement to revenue sharing trust funds and all other money of the City derived from sources other than ad valorem taxation are pledged as security for the bonds.

The bond resolutions of the revenue and refunding bonds and subordinate bonds require the establishment of the following accounts:

<u>Account</u>	<u>Purpose</u>
Revenue	To receive all cash income derived from the ownership and operation of the system.
Sinking account	To accumulate sufficient funds to meet maturing debt service requirements through transfers from the Revenue Account.
Reserve	To accumulate funds for payment of principal and interest only if funds in the Sinking Account are insufficient and for paying the cost of repairing damage to the system which shall be caused by an unforeseen catastrophe.
Operation and maintenance	To collect transfers from the Revenue Account and pay the current expenses of the system.
Renewal and replacement	To accumulate funds for the purpose of paying for the cost of extensions, additions to, or replacement of capital assets of the system and emergency repairs thereto. Also, this account shall be used to supplement the Reserve Account, if necessary, to prevent a default in the payment of the principal and interest on the bonds.
Subordinate debt service	To accumulate funds by monthly installments from surplus funds in the revenue fund until the fund equals the reserve fund requirement.
Excise taxes	To receive all Excise Taxes which are to be used to cure deficits, if any, in the Revenue Account in its monthly distribution to the other accounts and funds required by the Revenue and Refunding Bonds. On the 15 th day of each month, the balance in this fund may be withdrawn and used for any lawful municipal purpose.
Revenue sharing trust funds	To receive all the state revenue sharing trust funds which are to be used to cure deficits, if any, in the Revenue Account and Excise Taxes Fund in the monthly distribution to other accounts and funds required by the Revenue and Refunding Bonds. On the 15 th day of each month, the balance in this account may be withdrawn and used for any lawful municipal purpose.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 4 – LONG TERM DEBT (Continued):

Long-Term Debt of Business Type Activities

Maturities of outstanding debt are summarized as follows:

<u>Fiscal Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
Revenue and Refunding Bonds Series 1980			
2010	\$ 145,000	\$ 103,400	\$ 248,400
2011	153,000	96,150	249,150
2012	161,000	88,500	249,500
2013	168,000	80,450	248,450
2014	177,000	72,050	249,050
2015 - 2020	1,264,000	230,150	1,494,150
	<u>2,068,000</u>	<u>670,700</u>	<u>2,738,700</u>
Revenue Bonds Series 1981			
2010	23,000	18,250	41,250
2011	24,000	17,100	41,100
2012	25,000	15,900	40,900
2013	27,000	14,650	41,650
2014	27,000	13,300	40,300
2015 - 2021	239,000	50,000	289,000
	<u>365,000</u>	<u>129,200</u>	<u>494,200</u>
Revenue Bonds Series 1990			
2010	8,000	13,550	21,550
2011	8,000	13,150	21,150
2012	8,000	12,750	20,750
2013	9,000	12,350	21,350
2014	9,000	11,900	20,900
2015 - 2030	229,000	108,800	337,800
	<u>271,000</u>	<u>172,500</u>	<u>443,500</u>
Second Subordinate Water Revenue Bonds Series 1998			
2009*	18,900	57,157	76,057
2010	19,800	56,259	76,059
2011	20,700	55,319	76,019
2012	21,700	54,335	76,035
2013	22,700	53,305	76,005
2011 - 2038	1,099,500	965,594	2,065,094
	<u>1,203,300</u>	<u>1,241,969</u>	<u>2,445,269</u>
Total	<u>\$ 3,907,300</u>	<u>\$ 2,214,369</u>	<u>\$ 6,121,669</u>
Change during fiscal year:			
Outstanding October 1, 2008		\$ 4,100,300	
Retired		193,000	
Outstanding September 30, 2009		<u>\$ 3,907,300</u>	
Due within one year		\$ 194,900	
Due in more than one year		3,712,400	
		<u>\$ 3,907,300</u>	

The interest rate is 5% on the Revenue and Refunding Bonds Series 1980, Revenue Bonds Series 1981 and 1990, and 4.75% on the Second Subordinate Bonds Series 1998.

*Bond Payments due and paid October 1, 2009.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 4 – LONG TERM DEBT (Continued):

The City has covenanted that it will fix, establish, revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals and other charges from use of the product, services and facilities of the system which, together with the excise taxes and such portion of the state revenue sharing trust funds, will always produce cash revenues sufficient to pay the principal and interest on bonds, the necessary expenses of operating and maintaining the system and all reserve, sinking fund or other payments required by the Resolution.

State Revolving Loan:

In February 2005, the State of Florida Department of Environmental Protection approved a grant and a revolving loan in the amount of \$347,610 for sewer rehab and wastewater treatment facility. The approved loan amount to the City was \$72,515 with interest rate set at .71% and semi-annual installment payment of \$3,208, including principal and interest. The balance of the loan at September 30, 2009 was \$52,568 and maturity and outstanding amounts of this loan is as follow:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 4,203	\$ 368
2011	5,750	333
2012	5,832	292
2013	5,915	251
2014	6,000	209
2015-2019	<u>24,868</u>	<u>401</u>
	<u>\$ 52,568</u>	<u>\$ 1,854</u>

Long-Term Debt of Governmental Activities:

On July 2, 1997, the City purchased land in the amount of \$836,001. On May 17, 2005, the terms of the note were modified to reduce the principal to \$697,040, reduce the interest rate from 6% to zero percent per annum, and extend the maturity to July 1, 2020. The note is secured by the land. The payment on the note is required to be made each time a portion of the land is sold based on calculations outlined in the note agreement. The balance of this note at September 30, 2009 was \$533,041.

The change in note during the fiscal year is as follows:

Outstanding balance at October 1, 2008	\$ 607,816
Retired	<u>74,775</u>
Outstanding balance at September 30, 2009	<u>\$ 533,041</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 5 – MONEY PURCHASE PENSION PLAN:

A Money Purchase Pension Plan (the "Plan") covers all City employees who have completed a fourth year of eligible service and agree in writing to make the required employee contributions to the Plan. The required employee contribution is five percent of compensation received. The City's matching contribution is equal to the five percent mandatory employee contribution for the Plan year.

The City's matching contributions to the Plan are invested in annuity contracts and/or life insurance policies issued by an insurance company and the contracts and policies are issued in the employee's name. Employee benefits are vested at a rate of ten percent per year and are fully vested after ten years. An employee is eligible for early retirement within ten years of normal retirement date and has ten years of vesting service.

Pension expense of the respective City funds for the year ended September 30, 2009 are as follows:

	Business- Type Activities	Governmental Activities
General Fund	\$ 13,790	\$ 4,494

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2009 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ 36,180	\$ 1,490,574	\$ 87,628	\$ 66,349
Development fund – non-major	414,914	45,076	-	-
Sanitation fund – non-major enterprise	323,577	-	44,579	36,792
Water & sewer fund – major enterprise	576,796	167,149	58,562	87,628
Water & sewer fund – major enterprise (restricted)	351,953	621	-	-
	\$ 1,703,420	\$ 1,703,420	\$ 190,769	\$ 190,769

The transfer out from the non-major special revenue was for prorated utility taxes due to major general fund and major enterprise fund.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES:

During the course of operations, numerous transactions occurred between individual funds for goods and services. The receivables and payables are classified in the Statement of Net Assets as "due from other funds" or "due to other funds."

NOTE 7 – CAPITAL LEASES:

Machinery and equipment of the City are used under capital leases with third parties and recorded in the Governmental Activities at \$144,516. The future minimum lease payment under these capital leases and the present value of net minimum lease payments at September 30, 2009 are as follows:

<u>Years Ending</u>	
2010	\$ 35,363
2011	35,363
2012	30,696
2013	<u>20,653</u>
Total minimum lease payments	122,075
Less: amount representing interest	<u>(17,373)</u>
Present value of future payments	<u>\$ 104,702</u>

NOTE 8 – FUND DEFICIT:

The general fund had an accumulated deficit fund balance of \$1,039,706 at September 30, 2009 as a result of actual expenditures exceeding actual revenues from prior years' operations. For the fiscal year ended September 30, 2009, the City's general fund deficit decreased by \$339,716. The City is attempting to remedy this problem by implementing reductions in expenditures, increasing resources and obtaining new grants.

NOTE 9 – CONTINGENCIES AND COMMITMENTS:

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenue sharing programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims would not have a material effect on the overall financial position of the City as of September 30, 2009.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 10 – NONCOMPLIANCE:

The City's bond resolutions require the City to make certain monthly transfers to the reserve and renewal and replacement accounts, however, the City did not make all the required transfers to the reserve and renewal and replacement accounts, and at September 30, 2009, the reserve account was \$465,767 short of the amount required.

The City did not maintain adequate records of the capital assets of governmental activities stated at \$3,071,150, and did not record depreciation expenses.

NOTE 11 – SUBSEQUENT EVENTS:

On June 15, 2009, the City of South Bay, the City of Pahokee, the City of Belle Glade and Palm Beach County entered into an interlocal agreement establishing The Glades Utility Authority (the "Authority").

Under this agreement, the City's utilities operations were transferred to the Authority effective October 1, 2009 and the Authority assumed the responsibility of the water and sewer as well as the outstanding bond debt for the three cities. The City of South Bay will continue to provide the solid waste, trash and mosquito control services. The City anticipates that there will be some loss of revenue to the water and sewer department; however, it anticipates significant savings because the debt will be assumed by the Authority.

The agreement shall be for an initial term of forty (40) fiscal years and will commence on the day that the agreement is executed and the agreement shall, thereafter, automatically renew for successive forty (40) year periods until terminated.

Subsequent events have been evaluated through September 21, 2010, which is the date the financial statements were available to be issued.

NOTE 12 – PRIOR PERIOD ADJUSTMENT:

A prior period adjustment was made to the statement of activities in the amount of \$953,419 for the assets of the police and fire departments. These departments were transferred to Palm Beach County in prior years, but their assets of \$634,025 and \$319,394, respectively, continued to be reported in the annual financial statements of the City. Thus, the capital assets in governmental activities were overstated. The prior period adjustment did not affect the City's operations, and the adjustment decreased the opening net assets' balance by \$953,419.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2009

NOTE 13 – INSURANCE:

The City has purchased insurance coverage for liability, fidelity property and workers compensation coverage.

SUPPLEMENTARY INFORMATION

City of South Bay, Florida
Schedule of Revenues, Expenditures
and Changes in Fund Balance (Deficit)
Budget and Actual – General Fund
For the Fiscal Year Ended September 30, 2009

	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 400,531	\$ 380,114	\$ (20,417)
Licenses and permits	47,100	53,139	6,039
Intergovernmental	963,749	901,082	(62,667)
Charges for services	46,687	62,310	15,623
Fines and forfeitures	32,892	19,029	(13,863)
Investment income	400	3,063	2,663
Miscellaneous	186,040	83,519	(102,521)
Total revenues	<u>1,677,399</u>	<u>1,502,256</u>	<u>(175,143)</u>
Expenditures:			
Current:			
General government	1,460,995	1,012,410	448,585
Public safety	153,000	165,575	(12,575)
Highways and streets	535,802	507,438	28,364
Culture and recreation	-	21,162	(21,162)
Capital outlay	6,344	6,344	-
Debt services:			
Principal	14,980	19,709	(4,729)
Interest	6,278	7,158	(880)
Total expenditures	<u>2,177,399</u>	<u>1,739,796</u>	<u>437,603</u>
Deficiency of revenues over expenditures	(500,000)	(237,540)	262,460
Other financing sources:			
Operating transfers in	<u>500,000</u>	<u>577,256</u>	<u>77,256</u>
Total other financing sources	<u>500,000</u>	<u>577,256</u>	<u>77,256</u>
Net change in fund deficit	<u>\$ -</u>	339,716	<u>\$ 339,716</u>
Deficit at October 1, 2008		<u>(1,379,422)</u>	
Deficit at September 30, 2009		<u>\$ (1,039,706)</u>	

**City of South Bay, Florida
Combining Balance Sheet
Non-Major Governmental Funds
Special Revenue Funds
September 30, 2009**

	<u>Community Development Fund</u>	<u>Utility Tax Fund</u>	<u>Development Fund</u>	<u>Total Non-Major Governmental Funds</u>
Assets				
Due from other fund	\$ -	\$ -	\$ 414,914	\$ 414,914
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 414,914</u>	<u>\$ 414,914</u>
Liabilities and fund balances				
Liabilities:				
Accrued liabilities	\$ -	\$ -	\$ 54	\$ 54
Due to other fund	40	-	45,036	45,076
Total liabilities	<u>40</u>	<u>-</u>	<u>45,090</u>	<u>45,130</u>
Fund balance (deficit):				
Designated - other	<u>(40)</u>	<u>-</u>	<u>369,824</u>	<u>369,784</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 414,914</u>	<u>\$ 414,914</u>

City of South Bay, Florida
Combining Statements of Revenues, Expenditures,
and Changes in Fund Balances
Non-Major Governmental Funds
Special Revenue Funds
For the Fiscal Year Ended September 30, 2009

	Community Development Fund	Utility Tax Fund	Development Fund	Total Non-Major Governmental Funds
Revenues				
Taxes	\$ -	\$ 577,256	\$ -	\$ 577,256
Total revenues	<u>-</u>	<u>577,256</u>	<u>-</u>	<u>577,256</u>
Expenditures:				
Culture and recreation	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>577,256</u>	<u>-</u>	<u>577,256</u>
Other financing (uses):				
Operating transfers (out)	-	(577,256)	-	(577,256)
Total other financing (uses)	<u>-</u>	<u>(577,256)</u>	<u>-</u>	<u>(577,256)</u>
Net change in fund balance (deficit)	-	-	-	-
Fund balance (deficit) at October 1, 2008	(40)	-	369,824	369,784
Fund balance (deficit) at September 30, 2009	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$ 369,824</u>	<u>\$ 369,784</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and City Commissioners
City of South Bay, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Bay, Florida (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2010 which was qualified because the City did not maintain adequate records of capital assets in the governmental activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

**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* – Continued**

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. We consider the deficiencies described in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A, to be material weaknesses: items 2009-02 and 2009-04, and prior year items 17 and 18.

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. We consider the deficiencies described in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A, to be significant deficiencies: item 2009-06 and prior year items 04 and 07.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A, as prior year items 1, 08, 12, 17 and 18.

We noted certain other matters that we reported to management of the City, in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A dated September 21, 2010.

The City's responses to the findings identified in our audit is described in the accompanying State of Florida Reporting Requirements Management Letter, Appendix A. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Hollywood Florida
September 21, 2010



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STATE OF FLORIDA REPORTING REQUIREMENTS MANAGEMENT LETTER

September 21, 2010

To the Honorable Mayor and City Commissioners
City of South Bay, Florida

We have audited the financial statements of the City of South Bay, Florida (the "City") as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated September 21, 2010 which was qualified because the City did not maintain adequate records of capital assets in the governmental activities.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated September 21, 2010, should be considered in conjunction with this management letter.

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

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 (except as noted under the heading Prior Year Findings and Recommendations) reported in Appendix A.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

**STATE OF FLORIDA REPORTING REQUIREMENTS
MANAGEMENT LETTER - Continued**

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit we have recommendations which are reported in Appendix A.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we have comments which are reported in Appendix A.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we noted control deficiencies reported in Appendix A.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City's official title is disclosed in Note 1 to the financial statements. The City has no component units.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City was in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes. The City reported a total unrestricted fund deficit of \$1,039,706 in the general fund as of September 30, 2009. The City also reported unrestricted net deficit of \$1,016,874 on the statement of net assets for the proprietary funds as of September 30, 2009. The financial emergency condition was as a result of deteriorating financial conditions.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America

**STATE OF FLORIDA REPORTING REQUIREMENTS
MANAGEMENT LETTER - Continued**

require us to indicate that this letter is intended solely for the information and use of management, the City Commissioners and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

J. Garcia & Associates, P.A.

Hollywood, Florida
September 21, 2010

**CITY OF SOUTH BAY, FLORIDA
APPENDIX A – TO THE
STATE OF FLORIDA REPORTING REQUIREMENTS
MANAGEMENT LETTER**

In planning and performing our audit of the financial statements of the City of South Bay, Florida (the “City”) for the year ended September 30, 2009, we considered the City’s internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls. Accordingly, we do not express an opinion on the effectiveness of the City’s internal controls.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. (We reported on the City’s internal controls in our report dated September 21, 2010). This letter does not affect our report dated September 21, 2010 on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Current Year Comments

2009-01 Cash Disbursements *(Control Deficiency)*

Observation

During our test of cash disbursements, from a sample of 50 invoices and supporting documents, we noted the following:

- a) Five were not stamped “paid” to cancel the invoices.
- b) Three payments had no evidence of review or approval.

Recommendation

We recommend the following:

- a) All invoices and supporting documents be stamped to avoid the possibility of duplicate payment.
- b) All invoices for payments be approved by a management personnel before payment is processed.

**CITY OF SOUTH BAY, FLORIDA
APPENDIX A – TO THE
STATE OF FLORIDA REPORTING REQUIREMENTS
MANAGEMENT LETTER – Continued**

Management's Response

The finance department agrees with the finding and staff members have been informed of the proper procedures.

2009-02 **Correction of Errors in the General Ledger** *(Material Weakness)*

Observation

During our test of cash disbursements, we noted that an incorrect amount for an invoice was entered into the accounts payable module and posted to the general ledger. The error was discovered when the invoice was being processed for payment and the accounting clerk manually processed the check to show the correct invoice amount. As a result, the general ledger still reflected the difference between the incorrect invoice amount and the amount paid.

Recommendation

We recommend that all errors be corrected by way of a journal entry which should be reviewed and approved by a senior accounting staff. Manual override of the check payment process should not be allowed and checks should be processed as prescribed, through the accounts payable module.

Management's Response

The finance department agrees with the finding and is currently seeking new financial modules with more security features to prevent such instances and also to improve the internal control procedures.

2009-3 **Journal Entries** *(Control Deficiency)*

Observation

During our test of cash disbursements, from a sample of 50 transactions, we noted four journal entries with no evidence of review and/or approval. We also noted that year end adjusting journal entries were not subjected to a review, and prepared and posted by the same person.

CITY OF SOUTH BAY, FLORIDA
APPENDIX A – TO THE
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Recommendation

We recommend that all journal entries be approved by senior management to ensure the accuracy and propriety of the adjustment.

Management's Response

The finance department agrees with the finding and staff members have been informed of the proper procedures.

2009-04 **Capital Assets – Water and Sewer Fund** *(Material Weakness)*

Observations

During our test of capital assets for the water and sewer proprietary fund, we noted the following:

- a) A journal entry for disposal of certain equipment amounting to \$953,419 for which there was no record of what the equipment items were. After research by management, we were informed that the equipment was transferred to the fire and police departments in previous years.
- b) The journal entry for the disposal of the equipment noted in “a)” above, was prepared and posted by the same person. There was no evidence of a review and approval process.
- c) The general ledger shows an amount of \$212,927 for land. However, the detailed capital assets listing does not show the amount or information to indicate where these lands are located. The general ledger also shows capital assets amounting to \$132,196. However, the detail capital asset listing does not show any information for what makes up this amount.

Recommendations

- a) We recommend that the transfer to the fire and police department be investigated to identify the nature of the equipment.
- b) We recommend that all journal entries be approved by senior management to ensure the accuracy and propriety of the adjustment.
- c) We strongly recommend that every effort be made to reconcile the general ledger to the detail capital assets listing. We suggest that a physical inventory

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of capital assets be performed to identify all of the City's capital assets and to delete those booked assets which no longer belong to the City or are no longer in service.

Management's Response

The City agrees that it does not maintain the details of the capital assets in the governmental activities, but adequate records existed to adjust the City's financial statements, and our comments are as follows:

- a) When the finance department was reviewing the internal financial reports, the finance department noticed that certain assets were overstated. These assets related mainly to the police and fire departments, and both departments, based on a separate contract, along with their assets, were transferred to Palm Beach County in 2005 and 2006. These assets were purchased, used and maintained by these departments prior to transfer to the Palm Beach County. These assets were traced to the City's 2004 financial records, the balances verified, and the current year financial report adjusted accordingly.
- b) The City will comply.
- c) The \$212,927 is the value of the land purchased for the water and sewer plants and related utilities' operations. Although the utilities operations of the City were transferred to the Glades Utility Authority, these lands remained as the City's property.

The value of \$132,196 related to meter boxes which were purchased prior to 1980 when the threshold for capitalization was lower than the City's current capitalization policy. These items were fully depreciated over ten years and they were properly recorded and reported in the City's books.

2009-05 Credit Card Limits

(Other Matters)

Observation

During our documentation of internal controls, we were informed that certain City staff was provided with credit cards. However, there is no established maximum limit for use of these credit cards.

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Recommendation

We recommend that a policy be established to provide for a maximum limit and for expenses to be incurred only for City purposes. The policy should also establish procedures for recording expenses incurred.

Management's Response

The City agrees that a limit should be established and this matter will be reviewed by the City Commission in the future. We note, however, that the total aggregated usages of credit card and charges for the first 11 months of 2009-10, for all departments and City-wide purchases, amounted to \$24,513, or a monthly average of \$2,230.

2009-06

Bank Reconciliations

(Significant Deficiency)

Observation

We noted that bank reconciliations were prepared manually; however, the general ledger bank accounts were not updated until the end of the year. We also noted that the person who prepared the bank reconciliations is also an authorized bank signatory and received bank statements directly. The bank reconciliations were not subjected to an independent review process.

Recommendation

It is not always possible to have full segregation of duties for small organizations. We, therefore, recommend that at a minimum, the general ledger be updated on a monthly basis after the reconciliations are reviewed and approved by an independent senior accounting personnel.

Management's Response

The City agrees with the comment. The finance department currently reviews the bank statements on a monthly basis to ensure timely posting to the general ledger for all the bank accounts. During the year, all of the major bank accounts were properly and timely reconciled. Some of the charges for certain bank accounts were not updated. Currently, the finance department is reviewing the bank activities to ensure postings to the general ledger to agree to bank reconciliations on a monthly basis.

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Prior Years' Findings and Recommendations

Prior year comments and recommendation were made by the predecessor auditor. We have included the current year status for each comment.

1. The City's bond resolutions require that certain funds be transferred to a reserve and renewal and replacement account. However, the City did not make all the payments required. Also, the City does not have a process in place to monitor compliance with these covenants on a systematic basis. Consequently, during the audit it was determined that the City was not in compliance with the bond covenants. (Repeat) *(Other Matters)*

We recommend that the City comply with the bond resolution requirements and establish a formalized process for monitoring compliance with covenants of existing bonds as well as new bonds when they are issued. Such a process should include the monthly or quarterly utilization of compliance checklists developed from the associated offering statements and authorizing resolutions.

Management Response

On October 1, 2009, the bond indebtedness was assumed by the Glades Utility Authority under an interlocal agreement which was executed on June 16, 2009.

Current year status

Resolved in fiscal year ending September 30, 2010.

2. In connection with our audit, we determined that the City met the condition described in Section 218.503(1)(e), Florida Statutes. The City reported a total fund balance deficit of \$1,379,422 in the general fund as of September 30, 2008. They also reported an unrestricted net asset deficit of \$1,730,092 on the statement of net assets for the propriety funds as of September 30, 2008. The financial emergency condition has been met as a result of deteriorating financial conditions. *(Other Matters)*

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Management Response (updated)

All funds had a surplus in the fiscal year 2007/2008 with the exception of water and sewer which had a deficit of \$179,246 net of depreciation and amortization of \$356,541. By transferring the water and sewer operations to the Glades Utility Authority effective October 1, 2009, the deficit in water and sewer would be resolved. The City is expecting to operate with excess of income in the current year.

Current year status

Unresolved.

3. Bank reconciliations are not prepared on a timely basis. *(Other Matters)*
(Repeat)

We recommend that bank reconciliations be prepared by a staff person and a detail review done by the Director of Finance of all bank accounts on a monthly and timely basis.

Management Response

All bank accounts were reconciled on a timely basis during the fiscal 2007/2008 with the exception of the 1998 bond escrow bank account which was set up in 2007/2008 and the payroll bank account. The City will ensure that the Director of Finance and/or a person independent of the preparation will review and sign off on all bank reconciliations.

Current year status

Resolved.

4. During our audit, we noted that the billing clerk/cashier is responsible for receipt and reconciliation of daily cash, making deposits, and preparation of journal entries and also responsible for the initiation of deposit pick up and drop off to the bank. As such we believe there is a lack of segregations of duties over cash whereby a person making an error or irregularity has the opportunity to conceal it via the accounting records. (Repeat) *(Significant Deficiency)*

We recommend that the City segregate incompatible

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duties. Making of deposits and cash reconciliations be assigned to different personnel and that those functions be reviewed by a supervisor on a timely basis.

Management Response

On October 1, 2009, the cashier and billing functions were assumed by the Glades Utility Authority under an interlocal agreement which was executed on June 16, 2009.

Current year status

Resolved in fiscal year ending September 30, 2010.

5. We noted that during the fiscal year 2007/2008 that some departments had expenses in excess of the budget amounts. The excess contributed to the general fund deficit at September, 2008. *(Control Deficiency)*

We strongly recommend that the City adhere to budget controls and take steps to reduce the fund balance deficit.

Management Response

All funds had a surplus in the fiscal year 2007/2008 with the exception of water and sewer which had a deficit of \$170,246, net of depreciation and amortization of \$356,541.

Current year status

Resolved.

6. While reviewing the customer deposit listing we noted that several customers do not have a deposit and some of the customer files tested showed that their deposits were less than the amount required for the smallest meter. The City's code required that each customer, at the time service is requested, pay a deposit for the meter. (Repeat) *(Control Deficiency)*

We recommend that the City develop a process to ensure that a deposit is received from its customers prior to making a service connection.

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Management Response

The City is now ensuring that the proper deposit is received. Only the older accounts from prior years have smaller deposits.

Current year status

Resolved.

7. During our audit, we noted that the City has not implemented formal security policies and procedures for electronic data processing. The City does not have formal procedures for managing changes to the customer service/utility billing systems. Changes are initiated informally by oral request from the users. Change specifications are not documented. (Repeat) *(Significant Deficiency)*

We recommend that appropriate security policies and procedures should be developed and documented through a collaborative effort by information technology staff and contractors with staff users. Also, management should implement a formal change process. Change requests should be initiated by users on request form and approved by management.

Management Response (updated)

On October 1, 2009, the cashier and billing functions were assumed by the Glades Utility Authority under an interlocal agreement which was executed on June 16, 2009.

Current year status

Unresolved.

8. The City did not comply with the requirements for a timely audit of its financial statements within 12 months after the end of the fiscal year as required by Section 218.39, Florida Statutes. (Repeat) *(Other Matters)*

We recommend that management try to adhere to this requirement as there are no provisions in the Statutes for any extensions, and nonfilers are subject to having

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state revenue sharing funds withheld, or may be subjected to other penalties for failure to comply.

Management Response

The audit for fiscal year 2007/2008 is three months late, however, the City anticipates that fiscal 2009 will be timely.

Current year status

Resolved.

9. Our review of cash disbursements revealed that some payments were made using copies of invoices as supporting documentation. This practice could result in duplicate payments being made. (Repeat). *(Control Deficiency)*

We recommend that the City require that all cash disbursements be based on original of invoices with specific approval of an appropriate official.

Management Response

The City has implemented a program to ensure that duplicate invoices are not used.

Current year status

Resolved.

10. During the course of our audit we noted that there were payments in excess of \$1,000 made to vendors without an approved purchase order attached. It is the City's policy that all payments for purchases over \$1,000 should have an approved purchase order signed by the City Manager or Commission prior to issuance of payment to the vendor. (Repeat) *(Control Deficiency)*

We recommend that the City adheres to its policy by ensuring that all vendor payments in excess of \$1,000 are accompanied by an approved purchase order. This will avoid the payment of any unauthorized purchased and budget overruns.

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Management Response

The City Commission has increased the limit to \$2,000 in 2009.

Current year status

Resolved.

11. There were 21 proposed adjusting entries for the fiscal year ended September 30, 2008. While some of these individual entries were immaterial to the financial statements, the City requested that all the adjusting entries be recorded for the year under review. *(Other Matters)*

Management Response

The City works towards ascertaining that its post closing trial balance agrees with the audited financial statements.

Current year status

Resolved.

12. In testing grant compliance the City had difficulties in locating pertinent documents relating to some of the grants. The City currently has procedures in place that one person is to oversee all grants; however, this is not currently being done. (Repeat) *(Control Deficiency)*

We recommend that someone be designated to oversee grants. We also recommend that written procedures be put in place for the evaluation of all grant proposals before submission and a standard set of written policies and procedures should be developed for monitoring grant compliance requirements. These procedures should include developing checklists of grant compliance requirements, deadlines, and the person/department responsible for the grant.

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Management Response (updated)

The City will comply. The new Director of Community Development, along with the finance department, is monitoring the grants to ensure proper and timely response for all the grants, and also the grants' compliance with their requirements as outlined in the grant contracts.

Current year status

Unresolved.

13. On February 21, 2007, the Florida Department of Environment Protection conducted a Compliance Evaluation Inspection on the City of South Bay Wastewater System and found that the City was not in compliance with wastewater requirements. This resulted in a judgment against the City, and was ordered to pay a fine of \$11,000 to the State of Florida Department of Environmental Protection. *(Other Matters)*

We recommend that the City establish a formalized process for monitoring compliance with wastewater requirements as stipulated by the Florida Department of Environment Protection.

Management Response

The plants are not in service. The water and sewer service is now being administered by the Glades Utility Authority

Current year status

Resolved in fiscal year ending September 30, 2010.

14. There are no formal accounting policies and procedures manual. *(Other Matters)*

We recommend that the City create and implement a formal accounting manual.

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Management Response (updated)

The City will comply. The Finance department is in the process of compiling a formal manual for accounting policies and procedures

Current year status

Unresolved.

15. In testing the posting of revenue in the General Fund and Sanitation Fund there were inconsistencies. In some months, the revenue was posted to the General Fund and other months, to the Sanitation Fund. For a period of four months no revenue was posted at all. *(Other Matters)*

We recommend that the City set up standard journal entries and review the general ledger on a monthly basis.

Management Response

Prior to September 30, 2008, the Sanitation Fund was budgeted as part of the General Fund. However, after the budget was set up, postings were made to the Sanitation Fund and other postings transferred from the General Fund.

Current year status

Resolved.

16. There are balances in the balance sheet that have not changed for a period of years. *(Control Deficiency)*

We recommend that management research these accounts and determine whether or not they are fairly presented and make the appropriate adjustments.

Management Response (updated)

The City will comply in future years. The finance department has thoroughly reviewed all of the inactive accounts and has now properly adjusted these balances.

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Current year status

Unresolved

17. Detailed fixed assets records are needed that will reconcile to the general ledger. *(Material Weakness)*

Management Response

The City will comply.

Current year status

Unresolved.

18. The City did not complete an inventory of property as required by Florida Statutes. *(Material Weakness)*

Management Response

The City will comply.

Current year status

Unresolved.