

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2018

**City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2018**

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List of Principal Officials

City Commissioners

Joe Kyles, Sr.....Mayor
Betty J. Bernard.....Vice Mayor
Esther E. Berry.....Commissioner
John E. Wilson.....Commissioner
Taranza L. McKelvin.....Commissioner

Administrative Staff

Leondrae D. Camel.....City Manager
Edgar Kerr.....Public Works Director
Massih Saadatmand, CPA.....Finance Director
Nepoleon T. Collins.....Director of Economic and Business Development
Vicky Del Bosquez.....Interim City Clerk

Professional Advisors

Burnadette Norris-Weeks.....Attorney
David J. Mendenz, P.E.
CAP Government/CAP Engineering.....Consulting Engineer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
City of South Bay, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fiduciary funds (included in the General fund), which represent .73 percent, 5.10 percent, and 1.00 percent, respectively, of the assets, liabilities, and expenses of the City's pension plan. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary funds, is based solely on the report of the other auditors. 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; and Chapter 10.550, *Rules of the Auditor General*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–11 and 48–49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

May 23, 2019

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

The purpose of Management's Discussion and Analysis is designed to provide the readers an overview of financial activities of the City of South Bay's (the "City") for the fiscal year ended September 30, 2018. This information is intended to assist the readers to identify changes in financial statements and help them to make decision or conclude about City's financial position. The readers should take time to read and evaluate all sections of the financial statements including the footnotes and the other required supplementary information that is provided in addition, to this Management's Discussion and Analysis "MD&A" section.

Financial Highlights:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at September 30, 2018 by \$4,502,629 of this amount \$1,023,960 may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$945,090 or 13.7% as a result of an increase of \$644,459 in governmental activities and an increase of \$300,631 in business-type activities.
- Governmental activities generated \$3,026,184 in revenues with \$2,381,725 in expenses.
- Business-type activities generated \$834,516 in revenues with \$533,885 in expenses.
- General fund balance increased by \$221,970, as result, the unassigned fund balance was \$1,023,960 or 89.7% total of fund balances.
- The net position in business type activities increased by \$300,631 due to increase of \$148,001 in the water and sewer fund and an increase of \$152,630 in the sanitation fund.
- At the end of the current fiscal year, the unassigned fund balance for the general fund represented 44.5% of the total general fund expenditures.

Overview of the Financial Statements

The City's financial statements comprise of three components: 1) government-wide financial statements, 2) financial statements of funds, 3) notes to the financial statements, and 4) other. This report also contains other supplementary information aside to the basic financial statements.

1 - The focus of the *government-wide financial statements* is on the overall financial position and

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

activities of the City. The difference between the City's total assets and total liabilities represents its net position. Although the purpose of the City is not to accumulate net position, over time, increases or decreases in net position 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 Position
- Statement of Activities

The Statement of Net Position presents information on all of the City's held assets and liabilities owed by the City.

The Statement of Activities presents the revenues and expenses of the City and the change in net position during 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 a micronization of specific activities within the City as opposed to the City as a whole. Specific 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 statement of revenues and 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. That 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 provide the same type of information as the *government-wide financial statements*, only in more detail. The City presents a separate column for the water, sewer

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

and sanitation funds. The Sanitation Fund charges a fee to customers for the use of services. The Water and Sewer Fund receives an annual fee based on agreement between the City and Glades Utility Authority. 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*.

4- Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The supplementary information such as a comparison includes funding between the City's adopted budget and actual financial results. The City adopts an annual appropriated budget for its governmental funds. The *budgetary comparison statement* has been provided to exhibit compliance with the budget.

Analysis of government-wide financial statements:

City of South Bay, Florida
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,207,590	\$ 3,272,532	\$ 4,323,122	\$ 4,186,180	\$ 7,530,712	\$ 7,458,712
Capital assets	2,685,188	2,450,884	255,171	257,741	2,940,359	2,708,625
Total assets	<u>5,892,778</u>	<u>5,723,416</u>	<u>4,578,293</u>	<u>4,443,921</u>	<u>10,471,071</u>	<u>10,167,337</u>
Current and other liabilities	1,266,871	1,796,332	168,610	202,240	1,435,481	1,998,572
Long-term liabilities outstanding	123,278	68,914	1,061,321	1,193,950	1,184,599	1,262,864
Total liabilities	<u>1,390,149</u>	<u>1,865,246</u>	<u>1,229,931</u>	<u>1,396,190</u>	<u>2,620,080</u>	<u>3,261,436</u>
Net position:						
Invested in capital assets						
(net of related debt)	2,542,543	2,384,098	255,171	257,741	2,797,714	2,641,839
Restricted for prepaid items	936,126	652,824	-	-	936,126	652,824
Unrestricted	<u>1,023,960</u>	<u>821,248</u>	<u>3,093,191</u>	<u>2,789,990</u>	<u>4,117,151</u>	<u>3,611,238</u>
Total net position	<u>\$ 4,502,629</u>	<u>\$ 3,858,170</u>	<u>\$ 3,348,362</u>	<u>\$ 3,047,731</u>	<u>\$ 7,850,991</u>	<u>\$ 6,905,901</u>

A significant portion of the City's net position (35.6%) reflect its investment in capital assets (e.g. lands, infrastructure, buildings and equipment) less any debt related to those assets that are 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

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

assets are 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 position (11.9%) represents resources that are subject to restriction on how they may be used.

The net position increased from \$6,905,901 to \$7,850,991 as a result of a net increase of \$300,631 in business-type and an increase of \$644,459 in the governmental activities fund groups.

Expenses and Revenues – Governmental Activities:

Net position increases or decreases over time serve as a useful indicator of the government's financial position. Net position in governmental activities increased by \$644,459 in the current year, while the net position in prior year increased by \$2,306,787. Revenues in governmental activities including transfers in, decreased by \$1,262,589 when the expenditures increased by \$360,059 in fiscal year 2018.

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City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charge for services	\$ 54,377	\$ 55,189	\$ 655,265	\$ 656,160	\$ 709,642	\$ 711,349
Operating grant and contribution	460,446	1,913,382	-	-	460,446	1,913,382
General revenues:						
Property taxes	397,806	376,318	-	-	397,806	376,318
Franchise and taxes	680,039	547,915	-	-	680,039	547,915
Other taxes	990,795	953,149	-	-	990,795	953,149
Other	381,146	382,920	179,251	153,517	560,397	536,437
Total revenues	<u>2,964,609</u>	<u>4,228,873</u>	<u>834,516</u>	<u>809,677</u>	<u>3,799,125</u>	<u>5,038,550</u>
Expenses:						
General government	1,429,172	1,074,027	-	-	1,429,172	1,074,027
Public safety	193,761	181,271	-	-	193,761	181,271
Highway and street	636,138	682,958	-	-	636,138	682,958
Culture and recreation	121,330	82,724	-	-	121,330	82,724
Water and sewer	-	-	3,570	3,570	3,570	3,570
Sanitation	-	-	462,546	440,383	462,546	440,383
Interest on long term debt	1,324	686	6,194	8,825	7,518	9,511
Total expenses	<u>2,381,725</u>	<u>2,021,666</u>	<u>472,310</u>	<u>452,778</u>	<u>2,854,035</u>	<u>2,474,444</u>
Increase (decrease) in net assets before transfer in (out)	582,884	2,207,207	362,206	356,899	945,090	2,564,106
Transfer in /(out)	61,575	59,900	(61,575)	(59,900)	-	-
Increase in net position	644,459	2,267,107	300,631	296,999	945,090	2,564,106
Net position at beginning of year	3,858,170	1,551,383	3,047,731	2,750,732	6,905,901	4,302,115
Prior period adjustment	-	39,680	-	-	-	39,680
Net position at beginning of year, restated	3,858,170	1,591,063	3,047,731	2,750,732	6,905,901	4,341,795
Net position at end of year	<u>\$ 4,502,629</u>	<u>\$ 3,858,170</u>	<u>\$ 3,348,362</u>	<u>\$ 3,047,731</u>	<u>\$ 7,850,991</u>	<u>\$ 6,905,901</u>

The net position in business-type activities increased by \$300,631 in the current year, when the prior year's net position increased by \$296,999. The revenues in business-type increased by \$24,839 when the expenditures increased by \$21,207 mainly due to contractual services within the Sanitation Fund.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

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 short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the 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 account for all unrestricted operating expenditures of the City. Revenues aggregated to \$2,523,866 including a transfer in the amount of \$61,575 and \$74,166 which were proceeds from capital lease. While expenditures totaled \$2,301,896 including a transfer out to the Capital Project Fund in amount of \$125,000, resulting in a \$221,970 increase in the fund balance at year end.

Proprietary Funds – The *Water & Sewer Fund* and Sanitation Fund are identified as major proprietary funds and report the operating income and change in net position.

Total propriety funds revenue for service charges and other sources totaled \$834,516. The total expenditures totaled \$533,885 including a transfer out of \$61,575 to the General Fund resulting in \$300,631 increase in net position.

General Fund Budgetary Highlights

General Fund operations had a positive variance of \$221,970, when the actual revenues including other financing sources were \$122,348 more than the final budget. Actual expenditures were less than the final appropriation by \$99,622. Budget amendments were done throughout the year to make funds available for unexpected expenditures as well as to realign funding changes in each department.

Capital Assets

The City's capital assets (net of accumulated depreciation) as of September 30, 2018, amounted to \$2,940,359 an increase of \$231,734 from the prior year. The increase was primarily due to \$279,490 of road improvements and purchases of various vehicles during 2017-2018 fiscal year. Additional information for the City assets can be found in NOTE 3, Capital assets.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

City of South Bay, Florida
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 238,823	\$ 217,188	\$ 212,927	\$ 212,927	\$ 451,750	\$ 430,115
Buildings and improvements	843,715	843,715	-	-	843,715	843,715
Utility plant and systems	-	-	128,521	128,521	128,521	128,521
Improvements other than buildings and roads	181,919	181,919	-	-	181,919	181,919
Infrastructure	10,673,775	10,394,285	-	-	10,673,775	10,394,285
Construction in Progress	168,522	27,654	-	-	168,522	27,654
Equipment and machinery	825,318	688,893	-	-	825,318	688,893
Total	12,932,072	12,353,654	341,448	341,448	13,273,520	12,695,102
Accumulated depreciation	(10,246,884)	(9,902,770)	(86,277)	(83,707)	(10,333,161)	(9,986,477)
Total capital assets, net	<u>\$ 2,685,188</u>	<u>\$ 2,450,884</u>	<u>\$ 255,171</u>	<u>\$ 257,741</u>	<u>\$ 2,940,359</u>	<u>\$ 2,708,625</u>

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$1,343,372 in notes, bonds and capital leases outstanding as compared to \$1,403,011 last year, a decrease of \$59,639. The City's obligations are secured by various revenue sources and capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues bonds	\$ -	\$ -	\$ 997,200	\$ 1,024,600	\$ 997,200	\$ 1,024,600
Accounts payable	-	-	196,747	297,864	196,747	297,864
Capital Leases	85,112	27,010	-	-	85,112	27,010
Compensated absences	64,313	53,537	-	-	64,313	53,537
Total	<u>\$ 149,425</u>	<u>\$ 80,547</u>	<u>\$ 1,193,947</u>	<u>\$ 1,322,464</u>	<u>\$ 1,343,372</u>	<u>\$ 1,403,011</u>

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2018

Economic Factors and Outlook for the Future

The City's economic environment is dependent on Palm Beach County's and the State of Florida's economic activities which are impacted by the City's sources of revenue. Other economic factors such as a weak economy, unemployment, commodities prices, growth and any new legislative bill and proposal may have a significant impact on the City's operations. City of South Bay has been fortunate to be located in an area with the opportunity to annex lands, which could be utilized for future development, additional employment opportunities and increases in property valuations and revenues.

The City primarily relies on various taxes levied by the state (sales and utilities) as well as franchise and other business tax receipts for governmental activities. The governmental fund budget has kept operational spending fairly unchanged. The City's elected officials consider many factors and establish goals, and priorities when adopting the annual budget each year. Improvements to roads will be funded by grants' monies that are expected to be received during 2018-2019 fiscal year.

Effective October 1, 2006, the fire rescue services was transferred to Palm Beach County Fire Rescue MSTU (municipal service tax unit). In accordance with this agreement, the City's property owners \$3.4581 mills of \$1,000 of taxable value are maintained by Palm Beach County and the City's millage rate remains at 6.3089. The property values have begun to stabilize and an increase of 5.12% is projected for the fiscal year 2018-2019.

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, 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 the Finance Department, 335 S.W. 2nd Avenue, South Bay, FL 33493. Additional information is also available on the City's website.

BASIC FINANCIAL STATEMENTS

City of South Bay, Florida
Statement of Net Position
September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 2,020,632	\$ 2,420,784	\$ 4,441,416
Accounts receivable (net of allowances for uncollectible accounts)	60,402	130,466	190,868
Due from government	329,607	-	329,607
Prepaid items	53,601	-	53,601
Due from other funds	3,390	749,585	752,975
Restricted assets:			
Cash and cash equivalents	114,578	25,327	139,905
Investments	-	956,756	956,756
Capital assets	2,685,188	255,171	2,940,359
Other assets	549,151	40,204	589,355
Total assets	<u>5,816,549</u>	<u>4,578,293</u>	<u>10,394,842</u>
Deferred outflows:			
Deferred outflows-pension	76,229	-	76,229
Total deferred outflows	<u>76,229</u>	<u>-</u>	<u>76,229</u>
Liabilities:			
Accounts payable	190,179	7,507	197,686
Accrued liabilities	15,965	-	15,965
Compensated absences	64,313	-	64,313
Due to other funds	749,585	3,390	752,975
Payable from restricted assets:			
Interest payable	-	25,087	25,087
Long-term debt:			
Due within in one year	26,147	132,626	158,773
Capital lease	58,965	-	58,965
Due in more than one year	-	1,061,321	1,061,321
Net pension liability	120,648	-	120,648
Total liabilities	<u>1,225,802</u>	<u>1,229,931</u>	<u>2,455,733</u>
Deferred inflows:			
Deferred inflows-revenues	151,233	-	151,233
Deferred inflows-pension	13,114	-	13,114
Net Position:			
Invested in capital assets, net of related debt	2,542,543	255,171	2,797,714
Restricted for:			
Prepaid items	53,601	-	53,601
Capital projects	882,525	-	882,525
Unrestricted	1,023,960	3,093,191	4,117,151
Total net position	<u>\$ 4,502,629</u>	<u>\$ 3,348,362</u>	<u>\$ 7,850,991</u>

City of South Bay, Florida

Statement of Activities

For the Fiscal Year Ended September 30, 2018

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 1,429,172	\$ -	\$ 126,662	\$ (1,302,510)	\$ -	\$ (1,302,510)
Public safety	193,761	-	-	(193,761)	-	(193,761)
Highways and streets	636,138	54,377	289,204	(292,557)	-	(292,557)
Culture and recreation	121,330	-	44,580	(76,750)	-	(76,750)
Interest	1,324	-	-	(1,324)	-	(1,324)
Total governmental activities	2,381,725	54,377	460,446	(1,866,902)	-	(1,866,902)
Business-type activities:						
Water and sewer	9,764	-	-	-	(9,764)	(9,764)
Sanitation	462,546	655,265	-	-	192,719	192,719
Total business-type activities	472,310	655,265	-	-	182,955	182,955
Total governmental	\$ 2,854,035	\$ 709,642	\$ 460,446	(1,866,902)	182,955	(1,683,947)
General revenue:						
Taxes:						
Ad Valorem				397,806	-	397,806
Franchise other taxes				680,039	-	680,039
Sales taxes				512,713	-	512,713
State revenue sharing				197,597	-	197,597
Payment in lieu of taxes				280,485	-	280,485
Occupational licenses and permits				264,476	-	264,476
Investment earnings				9,530	23,272	32,802
Other				107,140	155,979	263,119
Interfund transfers				61,575	(61,575)	-
Total general revenues				2,511,361	117,676	2,629,037
Change in net position				644,459	300,631	945,090
Net position, beginning of year				3,858,170	3,047,731	6,905,901
Net position, end of year				\$ 4,502,629	\$ 3,348,362	\$ 7,850,991

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2018

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor Fund</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 1,179,592	\$ 841,040	\$ 2,020,632
Accounts receivable (net of allowances for uncollectible)	60,402	-	60,402
Due from government	169,821	159,786	329,607
Prepaid items	53,601	-	53,601
Due from other funds	3,390	-	3,390
Other assets	549,151	-	549,151
Restricted assets:			
Cash and cash equivalents	114,578	-	114,578
Total assets	<u><u>\$ 2,130,535</u></u>	<u><u>\$ 1,000,826</u></u>	<u><u>\$ 3,131,361</u></u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 71,878	\$ 118,301	\$ 190,179
Accrued liabilities	15,965	-	15,965
Due to other funds	749,585	-	749,585
Total liabilities	<u>837,428</u>	<u>118,301</u>	<u>955,729</u>
Deferred inflows	<u>151,233</u>	<u>-</u>	<u>151,233</u>
Fund balances:			
Non-spendable:			
Prepaid items	53,601	-	53,601
Restricted for:			
Capital projects	-	882,525	882,525
Committed to:			
Compensated absences	64,313	-	64,313
Unassigned	<u>1,023,960</u>	<u>-</u>	<u>1,023,960</u>
Total fund Balances	<u>1,141,874</u>	<u>882,525</u>	<u>2,024,399</u>
Total liabilities and fund balances	<u><u>\$ 2,130,535</u></u>	<u><u>\$ 1,000,826</u></u>	<u><u>\$ 3,131,361</u></u>

City of South Bay, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
Governmental Funds
September 30, 2018

Fund Balance – Total Governmental Funds	\$	2,024,399
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet		2,685,188
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.

Compensated absences	\$	(64,313)	
Pension liabilities		(57,533)	
General obligation notes and lease payable		(85,112)	
			(206,958)

Total net position – Governmental Activities	\$	4,502,629
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City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2018

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Taxes	\$ 1,349,468	\$ -	\$ 1,349,468
Licenses and permits	264,476	-	264,476
Intergovernmental	604,744	574,875	1,179,619
Charges for services	54,377	-	54,377
Fines and forfeitures	3,522	-	3,522
Rents	30,000	-	30,000
Investment income	7,920	1,610	9,530
Miscellaneous revenues	73,618	-	73,618
Total revenues	<u>2,388,125</u>	<u>576,485</u>	<u>2,964,610</u>
Expenditures:			
Current:			
General government	1,235,341	6,398	1,241,739
Public safety	193,761	-	193,761
Highways and streets	461,576	-	461,576
Culture and recreation	110,770	-	110,770
Capital outlay	158,060	420,267	578,327
Debt services:			
Principal	16,064	-	16,064
Interest	1,324	-	1,324
Total expenditures	<u>2,176,896</u>	<u>426,665</u>	<u>2,603,561</u>
Other financing sources (uses):			
Operating transfer in	61,575	125,000	186,575
Operating transfer out	(125,000)	-	(125,000)
Capital lease	74,166	-	74,166
Total other financing sources (uses):	<u>10,741</u>	<u>125,000</u>	<u>135,741</u>
Net change in fund balance	221,970	274,820	496,790
Fund balances, beginning of year	919,904	607,705	1,527,609
Fund balances, end of year	<u>\$ 1,141,874</u>	<u>\$ 882,525</u>	<u>\$ 2,024,399</u>

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
Governmental Funds
For the Fiscal Year Ended September 30, 2018

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

Net change in fund balance – total governmental funds	\$ 496,790
Governmental fund report capital outlay as expenditures. However, in the statement of the activities the cost of those assets is depreciated over their estimated useful lives:	
Expenditures for capital assets	578,418
Current year depreciation	(344,114)
Capital lease	(74,166)
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.	16,064
Some expenses reported in the government wide statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund:	
Compensated absences	(10,776)
Pension expense	(17,757)
Change in net position of governmental activities	\$ <u>644,459</u>

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2018

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Assets			
Current assets:			
Cash and cash equivalents	\$ 370,565	\$ 2,050,219	\$ 2,420,784
Accounts receivable, net	21,593	108,873	130,466
Due from other funds	749,585	-	749,585
Restricted assets			
Cash and cash equivalents	25,327	-	25,327
Total current assets	1,167,070	2,159,092	3,326,162
Non-current assets:			
Restricted assets			
Investments	956,756	-	956,756
Capital assets			
Property, net	255,171	-	255,171
Other assets	40,204	-	40,204
Total non-current assets	1,252,131	-	1,252,131
Total assets	\$ 2,419,201	\$ 2,159,092	\$ 4,578,293

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2018

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ -	\$ 7,507	\$ 7,507
Due to other fund	-	3,390	3,390
Current portion of long-term debt	103,926	-	103,926
Total current liabilities	103,926	10,897	114,823
Current liabilities payable from restricted assets:			
Interest payable	25,087	-	25,087
Current portion of bond payable	28,700	-	28,700
Total current liabilities payable from current restricted assets	53,787	-	53,787
Non-current liabilities:			
Long-term portion of accounts payable	92,821	-	92,821
Long-term portion of bond payable	968,500	-	968,500
Total non-current liabilities	1,061,321	-	1,061,321
Total liabilities	1,219,034	10,897	1,229,931
Net position:			
Invested in capital assets	255,171	-	255,171
Unrestricted	944,996	2,148,195	3,093,191
Total net position	\$ 1,200,167	\$ 2,148,195	\$ 3,348,362

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2018

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 655,265	\$ 655,265
Municipal fee	155,979	-	155,979
Total operating revenues	<u>155,979</u>	<u>655,265</u>	<u>811,244</u>
Operating expenses:			
Contractual services	-	455,403	455,403
Other services and charges	3,570	7,143	10,713
Total operating expenses	<u>3,570</u>	<u>462,546</u>	<u>466,116</u>
Operating income	<u>152,409</u>	<u>192,719</u>	<u>345,128</u>
Non-operating revenues (expenses):			
Interest revenue	1,786	21,486	23,272
Interest expense	(6,194)	-	(6,194)
Total non-operating revenues (expenses)	<u>(4,408)</u>	<u>21,486</u>	<u>17,078</u>
Income before transfer out	148,001	214,205	362,206
Transfer out	<u>-</u>	<u>(61,575)</u>	<u>(61,575)</u>
Change in net position	148,001	152,630	300,631
Net position, beginning of year	<u>1,052,166</u>	<u>1,995,565</u>	<u>3,047,731</u>
Net position, end of year	<u>\$ 1,200,167</u>	<u>\$ 2,148,195</u>	<u>\$ 3,348,362</u>

City of South Bay, Florida
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2018

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Cash flows from operating activities:			
Receipts from customers and users	\$ 157,286	\$ 661,836	\$ 819,122
Payments to suppliers	(1,000)	(462,980)	(463,980)
Net cash provided by operating activities	156,286	198,856	355,142
Cash flows from capital and related financing activities:			
Interest paid	(6,194)	-	(6,194)
Principal paid	(128,517)	-	(128,517)
Net cash provided by (used in) capital and related financing activities	(134,711)	-	(134,711)
Cash flows from non-capital and related financing activities:			
Advances from/to other funds	(36,792)	36,934	142
Transfer out to General fund	-	(61,575)	(61,575)
Net cash (used in) capital and related financing activities	(36,792)	(24,641)	(61,433)
Cash flows from investing activities:			
Interest received	1,786	21,486	23,272
Decrease in investment	27,400	-	27,400
Net cash provided by investing activities	29,186	21,486	50,672
Net increase in cash	13,969	195,701	209,670
Cash and cash equivalents at beginning of year	356,596	1,854,518	2,211,114
Cash and cash equivalents at end of year	\$ 370,565	\$ 2,050,219	\$ 2,420,784
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 152,409	\$ 192,719	\$ 345,128
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,570	-	2,570
Changes in assets and liabilities:			
Decrease in accounts receivable	1,307	6,571	7,878
(Decrease) in accounts payable	-	(434)	(434)
Total adjustments	3,877	6,137	10,014
Net cash provided by operating activities	\$ 156,286	\$ 198,856	\$ 355,142

NOTES TO THE FINACIAL STATEMEMTS

City of South Bay, Florida
Notes to Financial Statements
September 30, 2018

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 City's resources maintained in the funds and 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 the Governmental Accounting Standards Board that establish standards for defining and reporting on the financial reporting entity. The financial reporting entity is defined 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 the City appoints a voting majority of the organization's governing board, and if the City 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 non-fiduciary 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 - Continued
September 30, 2018

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 the following: 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 not properly included among program revenues are reported as *general revenues instead*.

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. In fiscal year ended September 30, 2016, there are no remaining governmental funds to be 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 financial statements, 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. The City applies eligible expenses against available restricted resources before the use of unrestricted resources.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements and the proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Regardless of the timing of related cash flow revenues are recorded when earned and expenses are recorded when a liability is incurred,

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 ended. Intergovernmental revenue and utility service taxes are recorded in

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

accordance with their legal or contractual requirements, if collected in the current period or within 30 days after year end. Interest is recorded when earned. Licenses, permits, fines, 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.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both governmental-wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, producing and delivering of goods in connection with a proprietary fund's principal operations; in the case of the City, water and sewer revenues include the charges to customers for sales and services. Operating expenses for water and sanitation include the cost of providing these services the depreciation on capital assets, and the associated administrative costs. All revenue and expenses not meeting this definition are reported as *non-operating revenues and expenses*.

Major Funds and Basis Presentation

Generally Accepted 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 records funds as major funds which either have significant outstanding debt proceeds or a specific community focus.

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 intra-governmental revenue. The general operating expenditures, fixed

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

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's residents.

The *Sanitation Fund* accounts for activities related to solid waste, trash, and mosquito control services, which are provided to the City residents.

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

(1) Cash and Cash Equivalents

All of the City's deposits are held in qualified public depositories pursuant to Florida Statutes, Chapter 280. City deposits include cash on hand, time and demand deposits, cash held with fiscal agent. City maintains a cash and investment pool that is available for use of all funds. Interest earned on pooled cash and investments is allocated to each of the funds based on the fund's average equity balance. The City's cash and investment pool allows individual funds, at any time, to deposit additional cash or make withdrawals without prior notice or penalty. Cash and cash equivalents reported in the government-wide financial statements include cash on hand, all highly liquid deposits, and investments with maturities of three month or less as of the purchase.

Deposit Custodian Credit Risk

All of the City's bank deposits are held in qualified public depositories and they are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000.

The uninsured balance at September 30, 2017 was \$3,848,300 on bank statements balance less FDIC insurance at that time.

(2) Unbilled Accounts Receivable

Property funds recognize revenue on the monthly cycle billing basis to customers for services provided. As a result of this cycle billing method, there are unbilled receivables at the end of each fiscal year, with respect to services provided but not billed at fiscal year end. It is the policy of the City to accrue Water and Sewer and Sanitation Funds unbilled revenue at year end.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

(3) Accounts Receivable

The City's Accounts receivables are presented in the financial statements net of allowances for uncollectible accounts.

(4) 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 collectability appears to be doubtful.

(5) 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.

(6) 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.

(7) Grants from Government Agencies

Certain grants, under the various federal and state programs, are included in the general fund. Grant monies, if and when 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.

(8) 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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

Capital Assets (Continued)

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.

Infrastructure assets (bridges, curbs and gutters, streets, lighting and drainage systems and similar assets that are immovable and of value only to the City) are capitalized and reported in the infrastructure category.

Assets are depreciated using the straight-line method over the following estimated lives:

<u>Asset Type</u>	<u>Life</u>
Building and building improvement	25-50
Improvement other than building and road	20
Infrastructure	50
Equipment and machinery	4-10

Depreciation is charged from the month of acquisition and none in the month of disposal

(9) 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 are accrued; whereas in the government-wide presentations, both the current and long-term portions are reported.

Employees earn 10 to 20 days of vacation and 24 days of sick leave annually. If an employee resigns in good standing or retires, the City pays accrued vacation from 25% to 50% and accumulated sick leave up to a maximum of 60 days.

(10) Deferred and Unearned Revenues

Deferred revenues are recorded for governmental fund receivable that are not yet available. Inflow that does not meet the criteria for revenue recognition, such as occupational licenses collected in advance are recorded as unearned revenues, in both the governmental fund and governmental-wide financial statements.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

(11) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligation are reported as liabilities in the applicable governmental activities, in the business-type activities, or in the proprietary fund type statement of net position. Bonds payable are reported net of the reported net of the applicable premium or discount. These premium and discounts are deferred and amortized over the life of the bonds. Issuance costs are expenses in the year they are incurred.

(12) 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.

(13) Property Tax Calendar

Property taxes are levied on October 1 of every 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 then remits to the City, monies collected following a calendar prescribed by law.

(14) Deferred inflows and outflows of Resources

Governmental funds report deferred revenue in connection with receivable for revenues that are not considered to be available to liquidate liabilities of the current period. Furthermore, the governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues at the government-with level arise only when the City receives resources before it has a legal claim to them.

(15) Use of Estimates

The preparation of financials 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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

(16) Fund Balance

The City used restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal agreements that prohibit doing this, such as grant agreements requiring dollar for dollar spending.

Additionally the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for the purpose for which amounts in any unrestricted fund balance classifications could be used.

In the fund financial statements, governmental funds report fund classification that comprise a hierarchy based primary on the extent to which the City is bound to constraint on the specific purpose for which amount in those funds can be spent. Amounts restricted to specific purpose are as follows:

- Constraints placed on the use of resources by creditors, grantors, contributors, or law or regulations of the governments, and
- Constraints imposed by law through constitutional provision or enabling legislation.

Amounts that can only be used for specific purpose pursuant to constraint imposed by the City Commissioners through a resolution or an ordinance are classified as *committed fund balances*. Amounts that are constrained by the City's intent to be used for specific purpose, but are neither restricted nor committed, are classified as *assigned fund balances*. Constraints imposed by law through constitutional provision or enabling legislation are classified as *restricted fund balances*. Assignments are made by City's management based on the City Commissioners' direction.

Non-spendable fund balance includes amounts that cannot be spent since they are either (a) not in spendable from or (b) legally or contractually required to be maintained intact. *Unassigned fund balance* represents a fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to a specific purpose within the general fund.

(17) Net Position

Net assets of the government-wide and proprietary funds are categorized as *invested in capital assets*, net of related debt, restricted or unrestricted. *Invested*

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

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

(17) Net Position (Continued)

in capital assets, net of related debt is that portion of net assets that relates to the City's capital assets reduced 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.

(18) 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's 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, 2018:

	<u>Fair Value of Investments Maturities</u>				<u>Total</u>
	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Six To Ten Years</u>	<u>More Than Ten Years</u>	
U.S Government securities	<u>\$ 25,893</u>	<u>\$ 151,873</u>	<u>\$ 196,872</u>	<u>\$ 582,118</u>	<u>\$ 956,756</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 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 - Continued
September 30, 2018

NOTE 2 – INVESTMENTS (Continued):

Credit Risk – The Second Subordinate Water Revenue Bond Series 1998 limits the investments to United States Government or United States Treasury Bonds, certificates, notes, bills, or interest-bearing time deposits with the depositories of the City. The interest derived from such investments or deposits shall accrue as revenue to the general fund of the City, except in the case of special funds for which the City is required by agreement or by law to credit such special funds with interest on the invested balances.

The City has elected to proceed under the alternative investment guideline as set forth in section 218.415 (17) Florida Statutes. The City may invest any surplus public funds in the following:

- (a) The Local Government Surplus Trust Funds, or any intergovernmental investment pools pursuant to the Florida Interlocal Cooperation Act;
- (b) Security and Exchange Commission registered money market funds the highest credit quality rating from a nationally recognized rating agency;
- (c) Interest bearing time deposits or saving accounts in qualified depositories;
- (d) Direct obligation of the U.S. Treasury.

Securities listed in paragraph (c) and (d) shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus funds may be deposited into certificates of deposit which are insured. The City reports all interest related revenue to investments activities in the respective funds and reports investments at fair value.

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 3 – CAPITAL ASSETS:

Changes in capital assets of the City as of September 30, 2018, are shown below:

	Balance 09/30/2017	Increases	Decreases	Balance 09/30/2018
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 217,188	\$ 21,635	\$ -	\$ 238,823
Total capital assets not being depreciated	<u>217,188</u>	<u>21,635</u>	<u>-</u>	<u>238,823</u>
Capital assets, being depreciated				
Buildings and improvements	843,715	-	-	843,715
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	10,394,285	279,490	-	10,673,775
Equipment and machinery	688,893	136,425	-	825,318
Construction in progress	27,654	162,882	22,014	168,522
Total capital assets being depreciated	<u>12,136,466</u>	<u>578,797</u>	<u>22,014</u>	<u>12,693,249</u>
Less accumulated depreciation for:				
Buildings and improvements	627,382	20,924		648,306
Improvement other than buildings and roads	181,918	-		181,918
Infrastructure	8,434,334	298,228		8,732,562
Equipment and machinery	659,136	24,962		684,098
Total accumulated depreciation	<u>9,902,770</u>	<u>344,114</u>	<u>-</u>	<u>10,246,884</u>
Total capital assets being depreciated, net	<u>2,233,696</u>	<u>234,683</u>	<u>22,014</u>	<u>2,446,365</u>
Governmental activities capital assets, net	<u>\$ 2,450,884</u>	<u>\$ 256,318</u>	<u>22,014</u>	<u>\$ 2,685,188</u>
	Balance 09/30/2017	Increases	Decreases	Balance 09/30/2018
<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	128,521	-	-	128,521
Total capital assets being depreciated	<u>128,521</u>	<u>-</u>	<u>-</u>	<u>128,521</u>
Total accumulated depreciation	83,707	2,570	-	86,277
Total capital assets being depreciated	<u>44,814</u>	<u>(2,570)</u>	<u>-</u>	<u>42,244</u>
Business-type activities capital assets, net	<u>\$ 257,741</u>	<u>\$ (2,570)</u>	<u>\$ -</u>	<u>\$ 255,171</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 3 – CAPITAL ASSETS (Continued):

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

Governmental activities

General government	\$ 28,874
Highway and streets	304,680
Culture and recreation	<u>10,560</u>

Total depreciation expense – governmental activities \$ 344,114

NOTE 4 – LONG TERM DEBT:

Long-term debt activities for the year ended September 30, 2018, are shown below:

	<u>Balance</u> <u>09/30/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>09/30/2018</u>
<u>Governmental activities:</u>				
Capital lease obligation	\$ 27,010	\$ 74,166	\$ 16,064	\$ 85,112
Compensated absences	<u>53,537</u>	<u>10,776</u>	<u>-</u>	<u>64,313</u>
Total governmental activities	<u>\$ 80,547</u>	<u>\$ 84,942</u>	<u>\$ 16,064</u>	<u>\$ 149,425</u>
<u>Business-type activities:</u>				
Bond payable	\$ 1,024,600	\$ -	\$ 27,400	\$ 997,200
Account payable	<u>297,864</u>	<u>-</u>	<u>101,117</u>	<u>196,747</u>
Total business-type activities	<u>1,322,464</u>	<u>-</u>	<u>128,517</u>	<u>1,193,947</u>
Total long-term debt	<u>\$ 1,403,011</u>	<u>\$ 84,942</u>	<u>\$ 144,581</u>	<u>\$ 1,343,372</u>

Long-Term Debt of Business type Activities:

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 from the water and sewer system, certain excise taxes are the City's guaranteed entitlement to revenue sharing trust funds, and all other money derived from sources other than ad valorem taxation are pledged as security for the bonds. The maturities of outstanding debt are summarized as follows:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 4 – LONG TERM DEBT (Continued):

Bond Series 1998 Second Subordinate Water Revenue

<u>Fiscal year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 28,700	\$ 47,367	\$ 76,067
2020	30,000	46,004	76,004
2021	31,500	44,579	76,079
2022	33,000	43,083	76,083
2023	34,500	41,515	76,015
2024 - 2028	198,900	181,355	380,255
2029 - 2033	250,800	129,419	380,219
2034 - 2038	316,300	63,925	380,225
2039	73,500	3,491	76,991
Total	\$ 997,200	\$ 600,738	\$ 1,597,938

Change during fiscal year:	
Outstanding October 1, 2017	\$ 1,024,600
Retired	(27,400)
Outstanding September 30, 2018	<u>\$ 997,200</u>

Due within one year	\$ 28,700
Due in more than one year	968,500
	<u>\$ 997,200</u>

The interest rate is 4.75% on the Second Subordinate Bonds Series 1998.

Long-Term Debt of Governmental Activities:

Settlement Agreement:

1 - On February 28, 2012, the City entered into a settlement agreement with a vendor for \$350,000 relating to an outstanding payable in amount of \$348,438 in water and sewer fund. Under the term of this settlement, the City agreed to pay an initial payment of \$50,000 on March 15, 2012, and monthly installment payments of \$3,942 including interest, for 99 consecutive payments. The future payment for this liability is as follows:

<u>September 30,</u>	
2019	\$ 47,309
2020	<u>27,598</u>
Total payment	74,907
Less amount represent interest payment	<u>(3,160)</u>
Net payment	<u>\$ 71,747</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 4 – LONG TERM DEBT (Continued):

2 – On January 12, 2015, the City entered into a settlement agreement with a vendor for \$500,000 relating to outstanding balance of a payable for the sewer services from September 2005 through September 30, 2009. Under the term of this settlement, the City agreed to pay an initial payment of \$200,000 on January 20, 2015, and \$5,000 monthly installment payments effective October 1, 2015 for sixty months. The monthly payment is secured by host fees which it payable to the City by Palm Beach County Water Department. The future payment for this liability is as follows:

	<u>September 30,</u>	
	2019	\$ 60,000
	2020	60,000
	2021	<u>5,000</u>
Total payment		<u>\$ 125,000</u>

NOTE 5 – COMPENSATED ABSENCES

From 10 to 20 days of vacation and 24 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 leaves up to a maximum of 60 days.

The change in compensated absences during the year is as follows:

	<u>Governmental Activities</u>
Balances at October 1, 2017	\$ 53,537
Increase	<u>10,776</u>
Balance at September 30, 2018	<u>\$ 64,313</u>

NOTE 6 – CAPITAL LEASE:

- 1- The City purchased various autos under capital leases from third parties and recorded the transactions in *Governmental Activities*. The future minimum lease payments under this capital leases and the present value of net minimum lease payments at September 30, 2018 are as follows:

	<u>Year Ending</u>	
	2019	\$ 24,234
	2020	21,218
	2021	21,218
	2022	<u>14,953</u>
Total minimum lease payments		81,623

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 6 – CAPITAL LEASE (Continued):

Less: amount representing interest	(8,927)
Present value of future payments	<u>\$ 72,696</u>

- 2- The City purchased three lawn mowers under a capital lease from a third party and recorded the transaction in *Governmental Activities* at \$23,838. The future minimum lease payment under this capital lease and the present value of net minimum lease payment at September 30, 2018 are as follows:

<u>Year Ending</u>	
2019	\$ 5,960
2020	5,960
2021	<u>496</u>
Total minimum lease payment	<u>\$ 12,416</u>

NOTE 7 - FLORIDA RETIREMENT SYSTEM

General Information - In accordance with Ordinance 15-2010 dated October 19, 2010, the City established Florida Retirement System (FRS) Investment Plan for the City Commissioners and the appointed officers (defined contribution plan). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services. First is Division of Retirement, including the FRS Pension Plan ("Pension Plan"), and the second is Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA"). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, City government, district school board, state university, community college, participating city or special district in Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information from FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the following Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

Plan Description – The Pension Plan is a cost-sharing, multiple-employer defined contribution plan with a Deferred Retirement Option Program ("DROP") for eligible employees.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, regular class members who retire at or after age 62, with at least six years of credited service or 30 years of service regardless of age, are entitled to a retirement benefit payable monthly for life. This payment is equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before the age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service, or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life. The payment is equal to 2.0% of their final average compensation based on the five highest years of salary each year of credited service. Elected Officers' class members who retire at or after age 62, with at least six years of credited service or 30 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service and normal retirement to age increased to 65 or 33 years of service regardless of age members, Senior Management Service members, and Elected Officers' class members. The normal age increased to 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Finally, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011 and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent, determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011 will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for 60

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively, were as follows: Regular 7.92% and 8.26%; Special Risk Administrative Support— 34.63% and 34.98%; Special Risk 23.27% and 24.50%; Senior Management Service 22.71% and 24.06%; Elected Officers' 45.50% and 48.70%; and DROP participants 13.26% and 14.03%. These employer contribution rates include 1.66% HIS Plan

subsidy for the periods October 1, 2017 through June 30, 2018 and from July 1, 2017 through September 30, 2018 respectively.

The City's contributions, including employee contributions, to the Pension Plan totaled \$11,923 for the fiscal year ended September 30, 2018.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2018, the City reported a liability of \$109,994 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2016-2017 fiscal year contributions relative to the 2015-2016 fiscal year contributions of all participating members. At June 30, 2018, the City's proportionate share was .000365181 percent, which was an increase of .000088279 percent from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$27,421. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 9,318	\$ 338
Change in assumptions	35,941	-
Net difference between projected and actual earnings on pension plan investments	-	8,498
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	26,463	2,560
City pension plan contributions Subsequent to the measurement date	2,055	-
Total	<u>\$ 73,777</u>	<u>\$ 11,396</u>

The deferred outflows of resources related to the Pension Plan, totaling \$2,055 and resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the Pension Plan, will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2019	\$ 8,557
2020	8,557
2021	6,807
2022	3,035
2023	2,105
Thereafter	31,265
Total	<u>\$ 60,326</u>

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions. The assumptions were applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

Investment rate of return 7.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but it instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class, are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	2.9%	2.9%	1.8%
Fixed Income	18.0%	4.4%	4.3%	4.0%
Global Equity	54.0%	7.6%	6.3%	17.0%
Real Estate	11.0%	6.6%	6.0%	11.3%
Private Equity	10.0%	10.7%	7.8%	26.5%
Strategic Investments	6.0%	6.0%	5.7%	8.6%
Total	100.00%			
Assumed Inflation - Mean			2.60%	1.90%

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
City's proportionate share of the net pension liability	\$ 200,744	\$ 109,994	\$ 34,621

Pension Plan Fiduciary Net Position - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2018, the City reported a payable in the amount of \$109,994 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2018.

HIS Plan

Plan Description – The HIS Plan is a cost-sharing, multiple-employer, defined benefit pension plan established under Section 112.363, Florida Statutes, and it may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided – For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered, retirement system must provide proof of health insurance coverage, which may include medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2018, the

HIS contribution for the period October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018 was 1.66% respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$546 for the fiscal year ended September 30, 2018.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Related to Pensions – At September 30, 2018, City reported a liability of \$10,654 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2016-17 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2018, the City's proportionate share was .000100660 percent, which was an increase of .000025358 percent from its proportionate share measured as of June 30, 2017.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$1,261. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 163	\$ 18
Change in assumptions	1,185	1,126
Net difference between projected and actual earnings on pension plan investments	6	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	3,152	573
City pension plan contributions Subsequent to the measurement date	110	-
Total	<u>\$ 4,616</u>	<u>\$ 1,717</u>

The deferred outflows of resources related to the HIS Plan, totaling \$110 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the HIS Plan will be recognized in pension expense as follows:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

Fiscal Year Ending September 30,	Amount
2019	\$ 468
2020	468
2021	468
2022	534
2023	330
Thereafter	521
Total	<u>\$ 2,789</u>

Actuarial Assumptions – The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.87%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 3.87%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension

liability was calculated using the discount rate of 3.87% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

	1% Decrease (2.87%)	Current Discount Rate 3.87%	1% Increase 4.87%
City's proportionate share of the net pension liability	\$ 12,134	\$ 10,654	\$ 9,420

Pension Plan Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the, separately issued, FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2018, the City reported a payable in the amount of \$10,654 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2018.

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

Investment Plan

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts. The individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and City Elected Officers class 11.34%.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):

an accumulated benefit obligation for service credit originally earned under the pension plan is transferred to the Investment Plan. The member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a *suspense account* for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The City's Investment Plan pension expense totaled \$10,980 for the fiscal year ended September 30, 2018.

NOTE 8 - EMPLOYEE MONEY PURCHASE PENSION PLAN:

The City provides retirement benefits for all of its eligible employees through a money purchase pension plan and Florida Retirement System Investment Plan for the City Commissioners and appointed officers. The contributions to the employee retirement are as follows:

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 year.

The City's matching contributions to the Plan are invested in annuity contracts and/or life insurance policies issued by an insurance company. Furthermore, 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 vested service.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 8 – EMPLOYEE MONEY PURCHASE PENSION PLAN (Continued):

The pension expense under this plan for the year ended September 30, 2018, was as follows:

	<u>Governmental Activities</u>
General Fund	\$ 29,959

NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2018 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund – major	\$ 3,390	\$ 749,585	\$ -	\$ -
Sanitation fund – major enterprise	-	3,390	36,792	-
Water & sewer fund – major enterprise	749,585	-	-	36,792
	<u>\$ 752,975</u>	<u>\$ 752,975</u>	<u>\$ 36,792</u>	<u>\$ 36,792</u>

During the course of operations, numerous transactions occurred between individual funds for good 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 10 – CONTINGENCIES AND COMMITMENTS:

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenues sharing programs. The disbursement of funds received under these programs generally require 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, 2018.

NOTE 11 – RISK MANAGEMENT:

The City purchases insurance for exposures related to various liabilities legal matters, and all other risks of loss. During the past three fiscal years, no settlements exceeded the coverage by this insurance.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2018

NOTE 12 – UTILITY CONTRACT:

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.

During 2012, because of extreme high debt payment obligations, substandard infrastructure and loss of customers, there was going concern in regard to the Authority continuing to operate

without substantial utility rate increase. As result, the Authority dissolved and effective March 31, 2013, all the utilities functions of the three-cities were transferred to Palm Beach County Water Utilities Department (PBCWUD). As result of this transition, all the outstanding debts of the City in amount of \$2,157,000 as of March 31, 2013 and on May 20, 2014 was paid off.

The City of South Bay will continue to provide the solid waste, trash and mosquito control services. Under the agreement, the Authority agreed to bill the City’s customers for the sanitation services for a fee of one percent to the total of the monthly collection revenue. For the fiscal year ended September 30, 2018, the City paid \$7,143 for the collection fees.

The agreement with PBCWUD shall be for an initial term of fifty (50) fiscal years commenced on the day that the agreement was executed and the agreement shall, thereafter, automatically renew for successive ten (10) year periods until terminated.

Under the agreement, both Authority and PBCWUD are required to pay the City an annual entity transfer fee equal to seven percent based on annual gross revenues. For the year ended September 30, 2018, the City received \$155,979 for entity transfer fee.

NOTE 13 – OTHER POST EMPLOYMENT BENEFITS:

The City provides no post healthcare or life insurance benefits to former City’s employee after retirement. Therefore, GASB 45 – *“Accounting and financial Reporting by Employers for Post Employment Benefits Other Than Pensions”* would have no material effect on the City.

NOTE 14 – MANAGEMENT’S REVIEW:

Management has evaluated subsequent event through May 23, 2019, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 1,314,271	\$ 1,324,536	\$ 1,349,468	\$ 24,932
Licenses and permits	165,400	254,250	264,476	10,226
Intergovernmental	511,545	596,545	604,744	8,199
Charges for services	53,932	53,932	54,377	445
Fines and forfeitures	4,500	4,500	3,522	(978)
Rents	28,400	28,400	30,000	1,600
Investment income	975	6,475	7,920	1,445
Miscellaneous	17,040	71,305	73,618	2,313
Total revenues	<u>2,096,063</u>	<u>2,339,943</u>	<u>2,388,125</u>	<u>48,182</u>
Expenditures:				
Current:				
General government	1,196,205	1,358,850	1,235,341	123,509
Public safety	185,761	194,261	193,761	500
Highways and streets	501,327	501,327	461,576	39,751
Culture and recreation	105,141	118,841	110,770	8,071
Capital outlay	32,200	85,835	158,060	(72,225)
Debt services:				
Principal	11,639	16,074	16,064	10
Interest	365	1,330	1,324	6
Total expenditures	<u>2,032,638</u>	<u>2,276,518</u>	<u>2,176,896</u>	<u>99,622</u>
Excess of revenues over expenditures	<u>63,425</u>	<u>63,425</u>	<u>211,229</u>	<u>147,804</u>
Other financing sources (uses):				
Operating transfer in	61,575	61,575	61,575	-
Operating transfer out	(125,000)	(125,000)	(125,000)	-
Capital lease	-	-	74,166	74,166
Total other financing sources (uses):	<u>(63,425)</u>	<u>(63,425)</u>	<u>10,741</u>	<u>74,166</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>221,970</u>	<u>\$ 221,970</u>
Fund balance, beginning of year			<u>919,904</u>	
Fund balance, end of year			<u>\$ 1,141,874</u>	

City of South Bay, Florida
Note to Budgetary Comparison Schedule
Budget and Actual – General Fund
For the Fiscal Year Ended September 30, 2018

NOTE 1 – BUDGETARY ACCOUNTING

Budgets - Budgets are legally adopted for the General Fund. All governmental fund budgets are prepared on the modified accrual basis of accounting.

Under the law of the State of the Florida and the City of South Bay Code, the City Manager submits to the Mayor and City Commissioners, a proposed Budget and Financial Plan for the fiscal year commencing the following October 1st. The Annual Budget and Financial Plan are prepared by fund, function and activities and include all proposed expenditures and means of financing them. Public hearings are conducted to obtain taxpayers comments. Prior to October 1st, the budget is legally enacted by the City Commissioners through passage of a resolution.

Changes or amendments to increase or decrease the total amount of budgeted revenue or expenditures for a given fund must be approved by a majority vote of the City Commissioners; however, the change, amendments or transfers within the total revenue or expenditures for functions, activities or departments of a given fund may be approved by the City Manager. During the year the original budget increased by \$243,880, the revenue increased primarily due to additional revenues from permits and a FEMA grant in amount of \$90,000, and expenditures increased due to expenses incurred for hurricane Irma .

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget based on legally authorized revisions to the original budgets during the year.

Actual general fund revenues were over appropriations by \$48,182, when the actual general fund expenditures were under the appropriation by \$99,622.

Encumbrances – Encumbrance accounting, under which purchase orders, contract, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as extension of formal budgetary control. Encumbrance lapse at year end and become obligations of the subsequent year's budget. At September 30, 2018, the City did not have any commitments related to unperformed contracts.

NOTE 2 – BUDGET AND ACTUAL COMPARISON

The Budgetary Comparison Schedule for the General Fund is required to be prepared under the basis of accounting used in preparing the budget. As indicated in Note 1, the modified accrual basis of accounting is used for budgetary purposes.

City of South Bay, Florida
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
City's proportion of the net pension liability (asset)	0.000365%	0.000277%	0.000281%	0.000309%	0.000483%
City's proportion share of the net pension liability (asset)	\$ 109,994	\$ 81,906	\$ 71,077	\$ 39,933	\$ 8,224
City's covered-employee payroll	33,584	24,000	23,000	23,000	14,917
City's proportion share of the net pension liability (asset) as a percentage of its covered-employee payroll	327.52%	341.28%	309.03%	173.62%	55.13%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.90%	84.88%	92.00%	96.09%

* Amount represented for each fiscal year were determined as of 6/30.

** Information prior to 2014 is not available.

**City of South Bay, Florida
Required Supplementary Information
Schedule of Contribution
Florida Retirement System
Last 10 Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
Contractually required contribution	\$ 11,923	\$ 10,215	\$ 9,148	\$ 8,035	\$ 6,196
Contribution in relation to the contractually required contribution	11,923	10,215	9,148	8,035	6,196
City's covered-employee payroll	31,454	27,000	23,000	23,000	16,833
Contribution as a percentage of covered-employee payroll	37.9%	37.8%	39.8%	34.9%	36.8%

* Amount represented for each fiscal year were determined as of 9/30.

** Information prior to 2014 is not available.

City of South Bay, Florida
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability
Health Insurance Subsidy Plan
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
City's proportion of the net pension liability (asset)	0.000100%	0.000075%	0.000075%	0.000082%	0.000104%
City's proportion share of the net pension liability (asset)	\$ 10,654	\$ 8,052	\$ 8,684	\$ 8,325	\$ 5,569
City's covered-employee payroll	33,584	24,000	23,000	23,000	14,917
City's proportion share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.72%	33.55%	37.76%	36.20%	37.33%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

* Amount represented for each fiscal year were determined as of 6/30.

** Information prior to 2014 is not available.

City of South Bay, Florida
Required Supplementary Information
Schedule of Contribution
Health Insurance Subsidy Plan
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the contractually required contribution	-	-	-	-	-
City's covered-employee payroll	31,454	27,000	23,000	23,000	16,833
Contribution as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	0.0%	0.0%

* Amount represented for each fiscal year were determined as of 9/30.

** Information prior to 2014 is not available.

Nonmajor Governmental Fund

Capital Projects Funds

Capital Projects Fund maintained to account for the proceeds of specific source that are legally restricted for capital expenditures.

City of South Bay, Florida
Balance Sheet
Nonmajor Governmental Fund
September 30, 2018

	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Assets:		
Cash and cash equivalents	\$ 841,040	\$ 841,040
Due from government	159,786	159,786
Total assets	<u>\$ 1,000,826</u>	<u>\$ 1,000,826</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 118,301	\$ 118,301
Total liabilities	<u>118,301</u>	<u>118,301</u>
Fund balances:		
Restricted for:		
Capital projects	882,525	882,525
Total fund Balance	<u>882,525</u>	<u>882,525</u>
Total liabilities and fund balance	<u>\$ 1,000,826</u>	<u>\$ 1,000,826</u>

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Capital Projects Fund
For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 767,996	\$ 792,523	\$ 574,875	\$ (217,648)
Interest income	-	-	1,610	1,610
Total revenues	<u>767,996</u>	<u>792,523</u>	<u>576,485</u>	<u>(216,038)</u>
Expenditures:				
Current:				
General government	86,451	86,451	6,398	80,053
Highways and streets	883,334	907,861	-	907,861
Culture and recreation	395,100	395,100	-	395,100
Capital outlay	-	-	420,267	(420,267)
Total expenditures	<u>1,364,885</u>	<u>1,389,412</u>	<u>426,665</u>	<u>962,747</u>
Excess (deficiency) of revenues over expenditures	<u>(596,889)</u>	<u>(596,889)</u>	<u>149,820</u>	<u>746,709</u>
Other financing sources:				
Operating transfer in	125,000	125,000	125,000	-
Total other financing sources:	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (471,889)</u>	<u>\$ (471,889)</u>	<u>274,820</u>	<u>\$ 746,709</u>
Fund balance, beginning of year			<u>607,705</u>	
Fund balance, end of year			<u>\$ 882,525</u>	

STATISTICAL SECTION

Statistical Section

This part of the City of South Bay's Comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trend

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. These schedules include:

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Fund Balances of Governmental Funds.....	60
Changes in Fund Balances of Governmental Fund.....	61-62

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the Property tax

Assessed Value and Estimated Actual Value of Taxable Property.....	63
Principal Property Taxpayers.....	64
Property Tax Rates Direct and Overlapping Government.....	65
Property Tax Levies and Collection.....	66

Debt Capacity

This schedule present information to help the reader assess the affordable of the City's current level of outstanding debt and the City's ability to issue additional debt in future.

Direct and Overlapping Governmental Activities	67
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Demographic and Economic Information

These schedules offer demographic and economic indicators to help understand the environment within which the City's financial activities take place.

Demographic and Economic Information.....	68
Principal Employers.....	69

City of South Bay, Florida
Net Position By Component
Last Ten Fiscal years
(accrual basis of Accounting)

Fiscal Year Ended 9/30	Fiscal Year				
	2009	2010	2011	2012	2013
Governmental Activities:					
Net investment in capital assets	\$ 2,393,356	\$ 2,489,756	\$ 513,264	\$ 508,227	\$ 1,273,702
Restricted	369,784	47,371	46,972	72,057	110,603
Unrestricted	<u>(1,039,706)</u>	<u>(596,417)</u>	<u>(644,187)</u>	<u>(742,111)</u>	<u>(166,201)</u>
Total governmental activities net position	<u>1,723,434</u>	<u>1,940,710</u>	<u>(83,951)</u>	<u>(161,827)</u>	<u>1,218,104</u>
Business -Type Activities:					
Net investment in capital assets	3,195,581	273,163	273,163	270,593	268,022
Restricted	896,777	-	-	-	-
Unrestricted	<u>(1,016,874)</u>	<u>1,264,229</u>	<u>1,374,157</u>	<u>1,494,858</u>	<u>1,765,852</u>
Total business-type activities net position	<u>3,075,484</u>	<u>1,537,392</u>	<u>1,647,320</u>	<u>1,765,451</u>	<u>2,033,874</u>
Primary Government:					
Net investment in capital assets	5,588,937	2,762,919	786,427	778,820	1,541,724
Restricted	1,266,561	47,371	46,972	72,057	110,603
Unrestricted	<u>(2,056,580)</u>	<u>667,812</u>	<u>729,970</u>	<u>752,747</u>	<u>1,599,651</u>
Total primary governmental net position	<u>\$ 4,798,918</u>	<u>\$ 3,478,102</u>	<u>\$ 1,563,369</u>	<u>\$ 1,603,624</u>	<u>\$ 3,251,978</u>

	Fiscal Year				
	2014	2015	2016	2017	2018
Governmental Activities:					
Net investment in capital assets	\$ 1,063,735	\$ 805,606	\$ 844,609	\$ 2,384,098	\$ 2,542,543
Restricted	59,467	42,588	127,893	652,824	936,126
Unrestricted	<u>106,754</u>	<u>311,174</u>	<u>578,881</u>	<u>821,248</u>	<u>1,023,960</u>
Total governmental activities net position	<u>1,229,956</u>	<u>1,159,368</u>	<u>1,551,383</u>	<u>3,858,170</u>	<u>4,502,629</u>
Business -Type Activities:					
Net investment in capital assets	265,452	262,881	260,311	257,741	255,171
Restricted	-	-	-	-	-
Unrestricted	<u>1,683,269</u>	<u>2,099,203</u>	<u>2,490,421</u>	<u>2,789,990</u>	<u>3,093,191</u>
Total business-type activities net position	<u>1,948,721</u>	<u>2,362,084</u>	<u>2,750,732</u>	<u>3,047,731</u>	<u>3,348,362</u>
Primary Government:					
Net investment in capital assets	1,329,187	1,068,487	1,104,920	2,641,839	2,797,714
Restricted	59,467	42,588	127,893	652,824	936,126
Unrestricted	<u>1,790,023</u>	<u>2,410,377</u>	<u>3,069,302</u>	<u>3,611,238</u>	<u>4,117,151</u>
Total primary governmental net position	<u>\$ 3,178,677</u>	<u>\$ 3,521,452</u>	<u>\$ 4,302,115</u>	<u>\$ 6,905,901</u>	<u>\$ 7,850,991</u>

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City of South Bay, Florida
Changes in Net Position
Last Ten Fiscal years
(accrual basis of Accounting)

Fiscal Year Ended 9/30				
Expenses:	2009	2010	2011	2012
Governmental Activities:				
General government	\$ 1,004,316	\$ 1,153,663	\$ 1,255,058	\$ 1,297,615
Public safety	165,575	193,406	181,875	176,008
Highways and streets	507,438	705,582	472,057	498,107
Culture and recreation	21,162	43,617	90,355	65,433
Interest	7,158	5,983	3,054	3,400
Other	-	-	753,460	-
Total governmental activities	1,705,649	2,102,251	2,755,859	2,040,563
Business -Type Activities:				
Water and sewer	2,289,098	41,086	2,711	107,561
Sanitation	427,658	326,383	309,498	323,673
Total business-type activities	2,716,756	367,469	312,209	431,234
Total primary governmental expenses	\$ 4,422,405	\$ 2,469,720	\$ 3,068,068	\$ 2,471,797
Program Revenues:				
Governmental Activities:				
Charges for services	103,368	66,118	40,376	\$ 47,016
Operating grants and contributions	171,079	278,800	-	-
Ad Valorem taxes	380,114	356,617	289,897	297,848
Other taxes and fees	630,395	682,969	638,851	647,814
Intergovernmental	730,003	805,021	615,060	633,693
Other	64,553	74,002	94,485	43,981
Total governmental activities	2,079,512	2,263,527	1,678,669	1,670,352
Business -Type Activities:				
Charges for services:				
Water and sewer	2,039,037	152,734	165,376	143,251
Sanitation	493,554	570,995	571,363	656,320
Operating grants and contributions	10,000	452,661	-	41,800
Other	35,251	406	398	329
Total business-type activities	2,577,842	1,176,796	737,137	841,700
Total primary governmental expenses	\$ 4,657,354	\$ 3,440,323	\$ 2,415,806	\$ 2,512,052
Excess (deficiency) before Transfers				
Transfers				
Governmental activities	-	56,000	315,000	292,335
Business -type activities	-	(56,000)	(315,000)	(292,335)
	-	-	-	-
Increase (decrease) in net position	234,949	970,603	(652,262)	40,255
Special items	(953,419)	(2,291,419)	(1,262,471)	-
Net position - Beginning	5,517,388	4,798,918	3,478,102	1,563,369
Net position - Ending	\$ 4,798,918	\$ 3,478,102	\$ 1,563,369	\$ 1,603,624

Fiscal Year

2013	2014	2015	2016	2017	2018
\$ 1,011,470	\$ 928,100	\$ 1,002,797	\$ 1,050,282	\$ 1,074,027	\$ 1,429,172
179,171	175,810	174,329	176,806	181,271	193,761
674,840	653,451	676,636	672,872	682,958	636,138
51,025	63,603	64,696	79,835	82,724	121,330
233	615	1,284	994	686	1,324
-	-	-	-	-	-
1,916,739	1,821,579	1,919,742	1,980,789	2,021,666	2,381,725
24,259	480,614	31,164	14,857	12,395	9,764
325,564	331,330	342,735	338,184	440,383	462,546
349,823	811,944	373,899	353,041	452,778	472,310
\$ 2,266,562	\$ 2,633,523	\$ 2,293,641	\$ 2,333,830	\$ 2,474,444	\$ 2,854,035
\$ 46,473	\$ 43,270	\$ 46,302	\$ 49,151	\$ 55,189	\$ 54,477
-	18,082	53,450	359,815	1,913,382	460,446
285,603	292,490	319,866	363,656	376,318	397,806
646,362	675,938	707,256	779,330	766,548	951,662
652,477	656,810	681,706	690,034	734,516	983,548
120,033	106,841	88,832	71,053	382,920	116,670
1,750,948	1,793,431	1,897,412	2,313,039	4,228,873	2,964,609
166,845	126,472	152,928	149,725	144,417	155,979
579,678	603,990	629,203	645,253	656,160	655,265
-	34,117	-	-	-	-
223	2,212	5,131	6,476	9,100	23,272
746,746	766,791	787,262	801,454	809,677	834,516
\$ 2,497,694	\$ 2,560,222	\$ 2,684,674	\$ 3,114,493	\$ 5,038,550	\$ 3,799,125
128,500	40,000	-	59,765	59,900	61,575
(128,500)	(40,000)	-	(59,765)	(59,900)	(61,575)
-	-	-	-	-	-
231,132	(73,301)	391,033	780,663	2,564,106	945,090
1,417,222	-	(48,258)	-	39,680	-
1,603,624	3,251,978	3,178,677	3,521,452	4,302,115	6,905,901
\$ 3,251,978	\$ 3,178,677	\$ 3,521,452	\$ 4,302,115	\$ 6,905,901	\$ 7,850,991

City of South Bay, Florida
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(accrual basis of Accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fiscal Year Ended 9/30										
General Fund:										
Unreserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undesignated	(1,039,706)	(596,417)	(580,850)	(742,111)	(213,729)	106,734	311,174	578,881	821,248	1,023,960
Nonspendable	-	-	-	-	-	-	-	-	-	-
Inventory and prepaid	-	47,371	46,972	72,057	47,527	59,467	42,588	47,422	45,119	53,601
Restricted	-	-	-	-	-	-	-	-	-	-
Concerned citizen	-	-	-	-	110,603	-	-	-	-	-
Committed	-	-	-	26,179	36,308	37,480	45,525	48,612	53,537	64,313
Compensated absences	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Total general fund	\$ (1,039,706)	\$ (549,046)	\$ (533,878)	\$ (643,875)	\$ (19,291)	\$ 203,701	\$ 399,287	\$ 674,915	\$ 919,904	\$ 1,141,874
All other governmental funds:										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Community development	369,784	-	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	80,471	607,705	882,525
Undesignated	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 369,784	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,471	\$ 607,705	\$ 882,525

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City of South Bay, Florida
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal years
(accrual basis of Accounting)

Fiscal Year Ended 9/30	Fiscal Year			
	2009	2010	2011	2012
Revenues:				
Taxes	\$ 957,370	\$ 967,239	\$ 885,136	\$ 886,845
Licenses and permits	53,139	72,347	43,612	58,817
Intergovernmental	901,082	1,083,821	615,060	633,693
Charges for services	62,310	46,235	40,376	47,016
Fines and forfeitures	19,029	31,816	19,576	10,277
Miscellaneous	86,582	62,069	74,909	33,704
Total revenues	<u>2,079,512</u>	<u>2,263,527</u>	<u>1,678,669</u>	<u>1,670,352</u>
Expenditures:				
Current				
General government	1,012,410	1,145,481	1,216,159	1,311,768
Public safety	165,575	193,406	181,875	176,008
Highways and streets	507,438	705,582	443,145	469,202
Culture and recreational	21,162	43,617	78,695	65,433
Capital outlay	6,344	11,234	24,177	18,609
Debt service				
Principal	19,709	93,348	31,396	28,264
Interest	7,158	5,983	3,054	3,400
Total expenditures	<u>1,739,796</u>	<u>2,198,651</u>	<u>1,978,501</u>	<u>2,072,684</u>
Excess (deficiency) of revenues over (under) expenditures	<u>339,716</u>	<u>64,876</u>	<u>(299,832)</u>	<u>(402,332)</u>
Other financing sources (used)				
Transfers in	577,256	666,622	315,000	292,335
Transfer out	(577,256)	(610,622)	-	-
Capital lease proceeds	-	-	-	-
Total other financing sources (used)	<u>-</u>	<u>56,000</u>	<u>315,000</u>	<u>292,335</u>
Net change in fund balances	339,716	120,876	15,168	(109,997)
Fund (deficit) - Beginning	(1,009,638)	(669,922)	(549,046)	(533,878)
Prior period adjustment	-	-	-	-
Fund (deficit) - Beginning	<u>\$ (669,922)</u>	<u>\$ (549,046)</u>	<u>\$ (533,878)</u>	<u>\$ (643,875)</u>

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 881,082	\$ 922,204	\$ 963,478	\$ 995,857	\$ 1,053,136	\$ 1,074,994
50,883	45,654	71,824	134,685	95,540	267,227
652,477	675,462	726,977	1,062,292	2,642,087	1,451,242
46,472	43,270	46,302	49,151	55,189	54,477
12,901	6,516	5,544	4,135	4,844	3,522
107,132	100,326	83,287	66,919	378,078	113,148
<u>1,750,947</u>	<u>1,793,432</u>	<u>1,897,412</u>	<u>2,313,039</u>	<u>4,228,874</u>	<u>2,964,610</u>
980,505	901,030	974,508	995,158	1,013,094	1,241,739
179,171	175,810	174,329	176,806	181,271	193,761
474,802	455,349	481,822	764,209	472,900	461,576
46,607	59,185	59,353	74,492	76,752	110,770
108,440	42,211	5,784	-	1,313,979	578,327
		-	-	-	-
14,141	2,400	4,746	5,046	481,707	16,064
233	615	1,284	994	686	1,324
<u>1,803,899</u>	<u>1,636,600</u>	<u>1,701,826</u>	<u>2,016,705</u>	<u>3,540,389</u>	<u>2,603,561</u>
<u>(52,952)</u>	<u>156,832</u>	<u>195,586</u>	<u>296,334</u>	<u>688,485</u>	<u>361,049</u>
128,500	40,000	-	141,686	469,868	186,575
-	-	-	(81,921)	(409,968)	(125,000)
<u>-</u>	<u>26,160</u>	<u>-</u>	<u>-</u>	<u>23,838</u>	<u>74,166</u>
<u>128,500</u>	<u>66,160</u>	<u>-</u>	<u>59,765</u>	<u>83,738</u>	<u>135,741</u>
75,548	222,992	195,586	356,099	772,223	496,790
(643,875)	(19,291)	203,701	\$ 399,287	\$ 755,386	\$ 1,527,609
<u>549,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (19,291)</u>	<u>\$ 203,701</u>	<u>\$ 399,287</u>	<u>\$ 755,386</u>	<u>\$ 1,527,609</u>	<u>\$ 2,024,399</u>

City of South Bay, Florida
Assessed Value of Taxable Value of Property
Last Ten Fiscal years

Fiscal Year Ended 9/30	Residential		Commercial		Industrial		Other		Personal		Taxable Assessed Value	
		Property		Property		Property		Property		Property		
2009	\$	32,686,877	\$	11,499,324	\$	7,240,091	\$	3,271,786	\$	7,837,086	\$	62,535,164
2010		30,515,167		10,483,069		5,596,644		3,410,291		6,452,821		56,457,992
2011		26,552,032		9,156,943		4,488,853		2,401,358		5,476,879		48,076,065
2012		26,616,234		9,096,375		4,415,747		2,651,716		4,798,901		47,578,973
2013		25,780,103		9,173,807		4,217,841		2,812,084		5,011,719		46,995,554
2014		26,873,788		9,570,243		4,355,429		2,972,875		5,975,227		49,747,562
2015		27,770,099		10,874,482		4,598,812		3,165,199		6,429,718		52,838,310
2016		30,645,201		11,375,769		4,954,500		3,322,009		7,747,296		58,044,775
2017		31,062,780		12,465,875		5,462,887		3,565,362		8,755,194		61,312,098
2018		29,914,618		15,282,524		6,415,751		3,706,163		8,763,594		64,082,650

Source: Palm Beach County Property Appraiser's Office

City of South Bay, Florida
Principal Property Taxpayers
Current and Prior Year

2018				2017		
Rank	Taxpayer	Taxable Assessed Value	Percent of Total City Net Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Net Taxable Assessed Value
1	HUGH BRANCH LLC	\$ 3,389,643	6.71%	\$ 3,389,643	1	6.71%
2	PFJ SOUTHEAST, LLC	2,522,121	4.99%	-	-	-
3	ORTEGA MANAGEMENT CORP	1,537,984	3.04%	1,537,984	2	3.04%
4	ARCP DG SOUTH BAY FL LLC	1,089,835	2.16%	1,089,835	5	2.16%
5	SOUTH BAY ONE LLC	850,000	1.68%	850,000	6	1.68%
6	SOUTH BAY 1050 LLC	840,591	1.66%	840,591	7	1.66%
7	ROYALS INC.	701,456	1.39%	701,456	8	1.39%
8	RSW FAMILY LIMITED PARTNERSHIP	598,814	1.18%	598,814	9	1.18%
9	KQC INVESTOR LLC	500,814	0.99%	-	-	-
10	GLADES INVESTMENTS INC	491,621	0.97%	491,621	10	0.97%
	GLADES PRECOOLER INC			1,416,792	3	2.80%
	BERNER OIL CO INC.			1,168,161	4	2.31%
Total		<u>\$ 12,522,879</u>	<u>23.51%</u>	<u>\$ 12,084,897</u>		<u>23.91%</u>

Source: Palm Beach County Property Appraiser's Office

City of South Bay, Florida
Property Tax Rates - Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year Ended 9/30	City of South Bay General Operations	Overlapping Rate										Total Direct and Overlapping Rate				
		Palm Beach County School District		Palm Beach County Fire Rescue		Palm Beach County Health Care District		Palm Beach County Debt		Palm Beach County Library System			South Florida Water Management District		Florida Inland Navigation District	
		County		County		District		County		County			District		Council	
		County	District	County	District	County	District	County	District	County	District		County	District	Council	District
2009	6.3089	7.2510	3.7811	2.9500	0.9975	0.1845	0.5427	0.5346	0.6009	0.0345	23.1857					
2010	6.3089	7.9830	4.5614	3.4581	1.1451	0.2174	0.5518	0.5346	0.6898	0.0345	25.4846					
2011	6.3089	8.1540	4.7500	3.4581	1.1451	0.2460	0.6069	0.5346	0.7513	0.0345	25.9894					
2012	6.3089	8.1800	4.7815	3.4581	1.1250	0.2110	0.6081	0.5346	0.7475	0.0345	25.9892					
2013	6.3089	7.7780	4.7815	3.4581	1.1220	0.2037	0.6065	0.3739	0.7300	0.0345	25.3971					
2014	6.3089	7.5940	4.7815	3.4581	1.0800	0.1914	0.6024	0.3523	0.7025	0.0345	25.1056					
2015	6.3089	7.5120	4.7815	3.4581	1.0800	0.1462	0.5985	0.3842	0.6745	0.0345	24.9026					
2016	6.3089	7.0700	4.7815	3.4581	1.0426	0.1327	0.5933	0.3551	0.6677	0.0320	24.4419					
2017	6.3089	6.7690	4.7815	3.4581	0.8993	0.1208	0.5851	0.3307	0.6833	0.0320	23.9727					
2018	6.3089	6.5720	4.7815	3.4581	0.7261	0.1165	0.5901	0.2936	0.6403	0.0320	23.5191					

Source: Palm Beach County Property Appraiser's Office

City of South Bay, Florida
Property Tax Levies and Collections
Last Ten Fiscal years

Fiscal Year Ended 9/30	Total Tax Levied for Fiscal Year	Collected within the Fiscal Year of the Levy		Collection in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2009	\$ 398,031	\$ 371,491	93.33%	8,624	\$ 380,115	95.50%
2010	363,984	337,595	92.75%	19,023	356,618	97.98%
2011	306,002	288,012	94.12%	1,885	289,897	94.74%
2012	300,565	288,223	95.89%	9,625	297,848	99.10%
2013	297,658	281,009	94.41%	4,594	285,603	95.95%
2014	314,666	289,230	91.92%	3,260	292,490	92.95%
2015	334,102	317,550	95.05%	2,315	319,865	95.74%
2016	366,354	348,404	95.10%	15,252	363,656	99.26%
2017	387,709	367,962	94.91%	8,356	376,318	97.06%
2018	407,854	391,472	95.98%	6,334	397,806	97.54%

Source: Palm Beach County Property Appraiser's Office

City of South Bay, Florida
Direct and Overlapping Governmental Activities Debt
September 30, 2018

<u>Government Unit</u>	<u>Outstanding Obligation Bond Debt</u>	<u>Percentage Applicable to City of South Bay</u>	<u>Estimated share of Overlapping Debt</u>
Palm Beach County	\$ 82,850,000	0.07%	\$ 57,995
Palm Beach County School District	9,853,000	0.07%	6,897

Source: Palm Beach County Finance Department
Palm Beach County School District Finance Department

City of South Bay, Florida
Demographic and Economic Information
Last Ten Fiscal years

<u>Fiscal Year Ended 9/30</u>	<u>Population (1)</u>	<u>Rosenwald Enrollment (2)</u>	<u>Palm Beach County Schools Enrollment (2)</u>	<u>Median Family Income (1)</u>	<u>Unemployment Rate (1)</u>
2009	4,534	268	169,328	\$ 19,825	12.10%
2010	4,876	234	171,282	26,913	19.60%
2011	4,827	223	172,664	25,663	19.10%
2012	4,711	222	174,886	26,667	22.10%
2013	4,719	200	177,815	28,750	16.00%
2014	4,898	238	181,205	34,718	19.10%
2015	5,151	250	184,517	31,429	17.10%
2016	5,293	260	187,746	33,663	16.80%
2017	5,221	292	190,749	35,476	13.80%
2018	5,215	261	191,207	*	*

Source: (1) Bureau of Economic and Business Research, University of Florida

(2) Palm Beach County School Board K-12 Enrollments

* Data not available

City of South Bay, Florida
Principal Employers - Palm Beach County
Current year and Nine years ago

2018				2009			
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment	
Palm Beach County School Board	21,466	1	3.04%	21,718	1	3.47%	
Palm Beach County	5,952	2	0.84%	11,381	2	1.82%	
Tenet Healthcare Corp.	5,939	3	0.84%	5,127	5	0.82%	
Nextra Energy (FPL)	4,404	4	0.62%	3,658	7	0.58%	
Hospital Corporation of America (HCA)	3,550	5	0.50%	4,150	6	0.66%	
Boca Raton Regional Hospital	2,800	6	0.40%	-		-	
Florida Atlantic University	2,644	7	0.37%	2,776	9	0.44%	
Veterans Health Administration	2,535	8	0.36%	-		-	
Bethesda Health, Inc	2,282	9	0.32%	2,300	10	0.37%	
Office Depot	2,034	10	0.29%	-		-	
State Government				9,300	3	1.49%	
Federal Government				6,300	4	1.01%	
Wackenhut Corporation				3,000	8	0.48%	
	<u>53,606</u>		<u>8.24%</u>	<u>69,710</u>		<u>10.72%</u>	

Source: Business Development Board of Palm Beach County

Note: The City is not a significant area for employment, therefore, Palm Beach County statistics were used.

COMPLIANCE SECTION

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

The Honorable Mayor and Members of the City Council
City of South Boy, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the 'City'), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 23, 2019. Our report includes a reference to other auditors who audited the financial statements of the Fiduciary Funds, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

May 23, 2019

**City of South Bay, Florida
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2018**

I. Summary of Independent Auditor's Results

Financial Statements

Type of report the auditor issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? ___yes X no
- Significant Deficiency(s) ___yes X none reported

Noncompliance material to financial
statements noted?

___yes X no

II. Prior Year Financial Statement Findings

Finding 2017 – 01

CONTROL DEFICIENCY

Payroll Testing

Criteria: All hourly employees are required to clock in and out using the “Pay Punch Lite” timekeeping system using finger print recognition software.

Condition: During the test of internal controls related to payroll, it was discovered that one (1) of the three (3) employee's timesheets show indication that they had been manually edited in the “Pay Punch Lite” program. The City was asked its policy on employees manually inputting their time and there is no formal policy.

Effect: Employees could potentially be paid for hours they did not work without using vacation or sick leave.

Cause: The system is not restricted to disallow certain employees access to edit times in the system. Additionally, there are no formal policies or procedures for what happens when employees forget to use the “Pay Punch Lite” timekeeping system using finger print recognition software.

Current Year Status: Condition has been resolved in FY 2018.

III. Current Year Financial Statement Findings

None noted.

**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF
THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Honorable Mayor and City Council
City of South Bay, Florida.

Report on the Financial Statements

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, 2018, and have issued our report thereon dated May 23, 2019.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated May 23, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. All related disclosures have been made in the notes to the financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statute.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City. 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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our, we did not have any such recommendations.

Special District Component Units

Sections 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

May 23, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SECTION
218.415, FLORIDA STATUTES, LOCAL GOVERNMENT INVESTMENT
POLICIES**

To the Honorable Mayor and City Council
The 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 year ended September 30, 2018, and have issued our report thereon dated May 23, 2019.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Schedule of Findings and Questioned Costs; the Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General, and the management letter in accordance with the rules of the Auditor General of the State of Florida. Disclosures in those reports and schedule, which are dated June 1, 2018, should be considered in conjunction with this report.

Local Government Investment Policies

We have examined the City's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2018. Management is responsible for City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

West Palm Beach
Phone (561) 655-2664

Miami
Phone (305) 331-8768

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Phone (954) 966-4435

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018. This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

May 23, 2019