

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2012

City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of City of South Bay Florida (the "City") as of and for the year ended September 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1 (d)(5) to the financial statements, management has not recorded certain general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City as of September 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, and each major fund of the City as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 36 through 37 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.

A handwritten signature in blue ink that reads "Harvey Covington & Thomas, P.C." The signature is written in a cursive, flowing style.

Harvey Covington and Thomas of South Florida, LLC

Hollywood, Florida

August 19, 2013

City of South Bay, Florida **Management's Discussion and Analysis**

The purpose of financial reporting, in general, is to provide the readers of the financial statements with information that will help them make decisions or draw conclusions about the City of South Bay's (the "City") financial position and results of operations as of and for fiscal year ended September 30, 2012. 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.

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

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

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

- Statement of net assets
- Statement of activities

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

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

- Governmental funds
- Proprietary funds

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as a comparison 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 demonstrate compliance with this budget.

Financial Highlights:

- The City's total net assets increased by \$40,255, as a result of a net increase of \$118,131 in business-type and a decrease of \$77,876 in governmental activities fund groups.
- The net assets of the governmental activities decreased by \$77,876 mainly due to current year depreciation expense in the amount of \$51,911.
- The net assets in business type activities increased by \$118,131 mainly due to an increase of \$120,312 in the sanitation fund which resulted from an increase in charges for services.

Analysis of government-wide financial statements:

City of South Bay, Florida
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 712,042	\$ 534,498	\$ 3,118,223	\$ 3,053,931	\$ 3,830,265	\$ 3,588,429
Capital assets	992,962	1,026,263	270,593	273,163	332,348	1,299,426
Total assets	<u>1,705,004</u>	<u>1,560,761</u>	<u>3,388,816</u>	<u>3,327,094</u>	<u>4,162,613</u>	<u>4,887,855</u>
Liabilities, excluding long-term liabilities	1,382,096	1,131,713	190,860	124,125	641,749	1,255,838
Long-term liabilities	484,735	512,999	1,432,505	1,555,649	1,917,240	2,068,648
Total liabilities	<u>1,866,831</u>	<u>1,644,712</u>	<u>1,623,365</u>	<u>1,679,774</u>	<u>2,558,989</u>	<u>3,324,486</u>
Net assets:						
Invested in capital assets						
(net of related debt)	508,227	449,927	270,593	273,163	778,820	723,090
Restricted for prepaid items	72,057	46,972	-	-	72,057	46,972
Unrestricted	<u>(742,111)</u>	<u>(580,850)</u>	<u>1,494,858</u>	<u>1,374,157</u>	<u>752,747</u>	<u>793,307</u>
	<u><u>\$ (161,827)</u></u>	<u><u>\$ (83,951)</u></u>	<u><u>\$ 1,765,451</u></u>	<u><u>\$ 1,647,320</u></u>	<u><u>\$ 1,603,624</u></u>	<u><u>\$ 1,563,369</u></u>

A significant portion of the City's net assets (49%) reflect its investment in capital assets (e.g. lands, 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 assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4%) represents resources that are subject to restriction on how they may be used (prepaid items).

The net assets increased from \$1,563,369 to \$1,603,624, as a result of net increase of \$118,131 in business-type and a decrease of \$77,876 in governmental activities fund groups.

Expenses and Revenues – Governmental Activities:

Net assets increase or decrease over time serves a useful indicator of the government's financial position. Net assets in governmental activities decreased by \$77,876 in the current year, while the net assets in prior year decreased by \$762,190.

Expenses and Revenues – Governmental Activities (Continued):

City of South Bay, Florida Change in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charge for services	\$ 47,016	\$ 40,376	\$ 656,320	\$ 571,363	\$ 703,336	\$ 611,739
Operating grant and contribution	-	-	41,800	-	41,800	-
Capital grant and contribution	-	-	-	-	-	-
General revenues:						
Property taxes	297,848	289,897	-	-	297,848	289,897
Franchise	466,642	480,817	-	-	466,642	480,817
Other taxes	814,865	729,482	-	-	814,865	729,482
Other	43,981	138,097	143,580	165,774	187,561	303,871
Total revenues	<u>1,670,352</u>	<u>1,678,669</u>	<u>841,700</u>	<u>737,137</u>	<u>2,512,052</u>	<u>2,415,806</u>
Expenses:						
General government	1,297,615	1,255,058	-	-	1,297,615	1,255,058
Public safety	176,008	181,875	-	-	176,008	181,875
Highway and street	498,107	472,057	-	-	498,107	472,057
Culture and recreation	65,433	90,355	-	-	65,433	90,355
Water and sewer	-	-	94,366	2,378	94,366	2,378
Sanitation	-	-	323,673	309,498	323,673	309,498
Disposal/deletion of assets	-	753,460	-	-	-	753,460
Interest on long term debt	3,400	3,054	13,195	333	16,595	3,387
Total expenses	<u>2,040,563</u>	<u>2,755,859</u>	<u>431,234</u>	<u>312,209</u>	<u>2,471,797</u>	<u>3,068,068</u>
Increase (decrease) in net assets before transfer in (out)	(370,211)	(1,077,190)	410,466	424,928	40,255	(652,262)
Transfer in /(out)	<u>292,335</u>	<u>315,000</u>	<u>(292,335)</u>	<u>(315,000)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(77,876)	(762,190)	118,131	109,928	40,255	(652,262)
Net assets at beginning of year	<u>(83,951)</u>	<u>678,239</u>	<u>1,647,320</u>	<u>1,537,392</u>	<u>1,563,369</u>	<u>2,215,631</u>
Net assets at end of year	<u><u>\$ (161,827)</u></u>	<u><u>\$ (83,951)</u></u>	<u><u>\$ 1,765,451</u></u>	<u><u>\$ 1,647,320</u></u>	<u><u>\$ 1,603,624</u></u>	<u><u>\$ 1,563,369</u></u>

The net assets in business-type activities increased by \$118,131 over the prior year, primarily due to increased service charges.

Discussion of Major Funds

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

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

Discussion of Major Funds (Continued)

The General fund is the primary operating fund accounting for all unrestricted operating expenditures of the City. Revenues and transfers from other funds aggregated \$1,962,687 while expenditures totaled \$2,072,684, resulting in \$109,997 decrease in the fund balance for the year end.

Proprietary Funds – The water and sewer and sanitation fund are identified as major proprietary funds and report the operating income (loss) and change in net assets.

Total proprietary funds' revenue for charges for services and other sources aggregated \$841,700 while the total expenditures and transfer out to general fund totaled \$723,569 resulting in \$118,131 increase in net assets.

General Fund Budgetary Highlights

The original approved appropriation of revenues and transfers in, and the actual result had a negative variance in amount of \$109,997. Actual expenditures exceeded appropriations by \$39,200 prior to the interfund transfer. The remaining negative variance was caused by a smaller interfund transfer from the business-type activities fund of \$60,000 than was originally budgeted for due to economic reasons. Additionally, actual revenue collection was less than budget by \$10,797, due to less fines and forfeitures being collected.

Capital Assets

The City's investment in capital assets (net of accumulated depreciation) as of September 30, 2012, amounted to \$1,263,555, a decrease of \$35,871 from the prior year. The decrease was primarily due to the recording of \$51,911 depreciation expense in the general fixed assets groups and \$2,570 depreciation expense in Water and Sewer fund, net of \$18,610 additions in general fixed assets groups.

City of South Bay, Florida						
Capital Assets						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 766,223	\$ 766,223	\$ 212,927	\$ 212,927	\$ 979,150	\$ 979,150
Buildings and improvements	727,541	721,076	-	-	727,541	721,076
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
Equipment and machinery	696,028	683,883	-	-	696,028	683,883
Total	2,371,711	2,353,101	341,448	341,448	2,713,159	2,694,549
Accumulated depreciation	(1,378,749)	(1,326,838)	(70,855)	(68,285)	(1,449,604)	(1,395,123)
Total capital assets, net	\$ 992,962	\$ 1,026,263	\$ 270,593	\$ 273,163	\$ 1,263,555	\$ 1,299,426

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$1,945,219 in notes, bonds and capital leases outstanding as compared to \$2,068,651 last year, a decrease of \$123,432. The decrease reflects pay down of principle on the current portion of the City's debts during fiscal 2012. 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	
	2012	2011	2012	2011	2012	2011
Revenues bonds	\$ -	\$ -	\$ 1,143,900	\$ 1,164,600	\$ 1,143,900	\$ 1,164,600
Notes	469,074	469,074	-	-	469,074	469,074
State revolving loan	-	-	36,782	42,614	36,782	42,614
Note payable	-	-	279,802	348,438	279,802	348,438
Capital Leases	15,661	43,925	-	-	15,661	43,925
Total	<u>\$484,735</u>	<u>\$512,999</u>	<u>\$1,460,484</u>	<u>\$1,555,652</u>	<u>\$1,945,219</u>	<u>\$2,068,651</u>

Economic Factors and Outlook for the Future

Effective October 1, 2009, the water and sewer services and operations were transferred to Glades Utility Authority (the "Authority") as well as outstanding bond debt and customers' deposits. The City anticipates that there will be some loss of revenues; however, it anticipates significant savings to the City by the transferring of the bond debt to the Authority. However, as a result of extreme high debt payment obligations, substandard infrastructure and loss of customers, there was a going concern with regard to Authority continuing to operate without substantial utility rate increase, accordingly; 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.

Additionally, the future annexation, inland port project, industrial park development and creation of the South Bay Chamber of the Commerce projects will help to create additional sources of income to the City.

The City primarily relies on various taxes levied by the state (sales and utilities) and franchise and other business tax receipts for governmental activities. In addition, the City's elected officials consider many factors when adopting the annual budget each year. The millage rate remains at 6.3089 and the property tax revenues are expected to increase due to improvement in the real estate market. The City is determined to provide the necessary services, efficiently, to its citizens in spite of the negative economic trends.

Request for Information

he financial report is designed to provide a general overview of the City's finances to its citizens, taxpayers, customers, creditors and investors, and to demonstrate the City's accountability to the aforementioned. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Department, 35 S.W. 2nd Avenue, South Bay, FL 33493.

City of South Bay, Florida
Statement of Net Assets
September 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents	\$ 520,704	\$ 931,782	\$ 1,452,486
Accounts receivable (net of allowances for uncollectible accounts)	56,933	83,470	140,403
Due from other governments	60,796	-	60,796
Prepaid items	72,057	-	72,057
Due from other funds	-	931,207	-
Restricted assets:			
Cash and cash equivalents	-	28,105	28,105
Investments	-	1,088,480	1,088,480
Capital assets	992,962	270,593	1,263,555
Other assets	1,552	55,179	56,731
Total assets	<u>1,705,004</u>	<u>3,388,816</u>	<u>4,162,613</u>
Liabilities:			
Accounts payable	46,629	98,224	144,853
Accrued liabilities	14,687	-	14,687
Compensated absences	26,179	-	26,179
Due to other funds	894,415	36,792	-
Deferred revenue	400,186	-	400,186
Payable from restricted assets:			
Interest payable	-	27,865	27,865
Long-term debt:			
Due within in one year	15,661	55,594	71,255
State revolving loan payable	-	30,867	30,867
Due in more than one year	469,074	1,374,023	1,843,097
Total liabilities	<u>1,866,831</u>	<u>1,623,365</u>	<u>2,558,989</u>
Net Assets:			
Invested in capital assets, net of related debt	508,227	270,593	778,820
Restricted for:			
Prepaid items	72,057	-	72,057
Unrestricted	(742,111)	1,494,858	752,747
Total net (deficit) assets	<u>\$ (161,827)</u>	<u>\$ 1,765,451</u>	<u>\$ 1,603,624</u>

See notes to basic financial statements

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2012

		Program Revenues		Net Revenue (Expense) and Changes in Net Assets		
		Charges for	Capital	Governmental	Business	Total
	Expenses	Services	Grants and Contributions	Activities	Type Activities	
Governmental activities:						
General government	\$ 1,297,615	\$ -	\$ -	\$ (1,297,615)	\$ -	\$ (1,297,615)
Public safety	176,008	-	-	(176,008)	-	(176,008)
Highways and streets	498,107	47,016	-	(451,091)	-	(451,091)
Culture and recreation	65,433	-	-	(65,433)	-	(65,433)
Interest	3,400	-	-	(3,400)	-	(3,400)
Deletion of fixed assets	-	-	-	-	-	-
Total governmental activities	2,040,563	47,016	-	(1,993,547)	-	(1,993,547)
Business-type activities:						
Water and sewer	107,561	-	41,800	-	(65,761)	(65,761)
Sanitation	323,673	656,320	-	-	332,647	332,647
Total business-type activities	431,234	656,320	41,800	-	266,886	266,886
Total governmental	\$ 2,471,797	\$ 703,336	\$ 41,800	(1,993,547)	266,886	(1,726,661)
General revenue:						
Taxes:						
Ad Valorem				297,848	-	297,848
Gasoline				122,355	-	122,355
Franchise fees				480,817	-	480,817
Sales tax				197,038	-	197,038
State revenue sharing				144,558	-	144,558
Payment in lieu of taxes				292,097	-	292,097
Occupational licenses and permits				58,817	-	58,817
Investment earnings				3,797	329	4,126
Other				26,009	143,251	169,260
Interfund transfers				292,335	(292,335)	-
Total general revenues				1,915,671	(148,755)	1,766,916
Change in net assets				(77,876)	118,131	40,255
Net assets (deficit) – October 1, 2011				(83,951)	1,647,320	1,563,369
Net assets (deficit) – September 30, 2012				\$ (161,827)	\$ 1,765,451	\$ 1,603,624

See notes to basic financial statements

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2012

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:		
Cash and cash equivalents	\$ 520,704	\$ 520,704
Accounts receivable (net of allowances for uncollectible)	56,933	56,933
Due from other governments	60,796	60,796
Prepaid items	72,057	72,057
Other assets	<u>1,552</u>	<u>1,552</u>
Total assets	<u><u>\$ 712,042</u></u>	<u><u>\$ 712,042</u></u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 46,629	\$ 46,629
Accrued liabilities	14,687	14,687
Due to other funds	894,415	894,415
Deferred revenue	<u>400,186</u>	<u>400,186</u>
Total liabilities	<u>1,355,917</u>	<u>1,355,917</u>
Fund balances (deficit):		
Non-spendable:		
Prepaid items	72,057	72,057
Committed to:		
Compensated absences	26,179	26,179
Unassigned	<u>(742,111)</u>	<u>(742,111)</u>
Total fund deficit	<u>(643,875)</u>	<u>(643,875)</u>
Total liabilities and fund (deficit)	<u><u>\$ 712,042</u></u>	<u><u>\$ 712,042</u></u>

See Notes to basic financial statements

City of South Bay, Florida
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2012

Fund deficit – Total Governmental Funds	\$ (643,875)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet	992,962
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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	\$ (26,179)	
General obligation notes and lease payable	(484,735)	
	(510,914)	

Total net deficit – Governmental Activities	\$ (161,827)
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See notes to basic financial statements

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
For the Fiscal Year Ended September 30, 2012

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:		
Taxes	\$ 886,845	\$ 886,845
Licenses and permits	58,817	58,817
Intergovernmental	633,693	633,693
Charges for services	47,016	47,016
Fines and forfeitures	10,277	10,277
Rents	20,875	20,875
Investment income	3,797	3,797
Miscellaneous revenues	9,032	9,032
Total revenues	<u>1,670,352</u>	<u>1,670,352</u>
Expenditures:		
Current:		
General government	1,311,768	1,311,768
Public safety	176,008	176,008
Highways and streets	469,202	469,202
Culture and recreation	65,433	65,433
Capital outlay	18,609	18,609
Debt services:		
Principal	28,264	28,264
Interest	3,400	3,400
Total expenditures	<u>2,072,684</u>	<u>2,072,684</u>
Deficiency of revenues over expenditures	<u>(402,332)</u>	<u>(402,332)</u>
Other financing sources:		
Operating transfers in	<u>292,335</u>	<u>292,335</u>
Total other financing sources	<u>292,335</u>	<u>292,335</u>
Net change in fund deficit	(109,997)	(109,997)
Fund deficit at October 1, 2011	<u>(533,878)</u>	<u>(533,878)</u>
Fund deficit at September 30, 2012	<u><u>\$ (643,875)</u></u>	<u><u>(643,875)</u></u>

See notes to basic financial statements

City of South Bay, Florida
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities are

Net change in fund balance – total governmental funds	\$ (109,997)
Governmental fund report capital outlay as expenditures. However, in the	
Expenditures for capital assets	18,610
Current year depreciation	(51,911)
Some expenses reported in the government wide statement of activities do not	
Compensated absences	37,158
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	<u>28,264</u>
Change in net assets of governmental activities	<u><u>\$ (77,876)</u></u>

See notes to basic financial statements

City of South Bay, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Major Funds		Total Business- Activities Enterprise Funds
	Water and Sewer	Sanitation	
Assets			
Current assets:			
Cash and cash equivalents	\$ 228,388	\$ 703,394	\$ 931,782
Accounts receivable, net	13,773	69,697	83,470
Due from other funds	754,585	176,622	931,207
Restricted assets			
Cash and cash equivalents	28,105	-	28,105
Total current assets	<u>1,024,851</u>	<u>949,713</u>	<u>1,974,564</u>
Non-current assets:			
Restricted assets			
Investments	<u>1,088,480</u>	<u>-</u>	<u>1,088,480</u>
Capital assets			
Property, net	270,593	-	270,593
Other assets	<u>55,179</u>	<u>-</u>	<u>55,179</u>
Total non-current assets	<u>1,414,252</u>	<u>-</u>	<u>1,414,252</u>
Total assets	<u>\$ 2,439,103</u>	<u>\$ 949,713</u>	<u>\$ 3,388,816</u>
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ 70,839	\$ 27,385	\$ 98,224
Due to other fund	36,792	-	36,792
Current portion of State revolving loan	<u>5,915</u>	<u>-</u>	<u>5,915</u>
Total current liabilities	<u>113,546</u>	<u>27,385</u>	<u>140,931</u>
Current liabilities payable from restricted assets:			
Interest payable	27,865	-	27,865
Current portion of long-term debt	<u>49,679</u>	<u>-</u>	<u>49,679</u>
Total current liabilities payable from current restricted assets	<u>77,544</u>	<u>-</u>	<u>77,544</u>
Non-current liabilities:			
Long-term portion of note payable	251,823	-	251,823
Long-term portion of bond payable	1,122,200	-	1,122,200
State revolving loan payable	<u>30,867</u>	<u>-</u>	<u>30,867</u>
Total non-current liabilities	<u>1,404,890</u>	<u>-</u>	<u>1,404,890</u>
Total liabilities	<u>1,595,980</u>	<u>27,385</u>	<u>1,623,365</u>
Net assets:			
Invested in capital assets	270,593	-	270,593
Unrestricted	<u>572,530</u>	<u>922,328</u>	<u>1,494,858</u>
Total net assets	<u>\$ 843,123</u>	<u>\$ 922,328</u>	<u>\$ 1,765,451</u>

See notes to basic financial statements

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended September 30, 2012

	Major Funds		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 656,320	\$ 656,320
Municipal fee	143,251	-	143,251
Total operating revenues	143,251	656,320	799,571
Operating expenses:			
Contractual services	-	317,093	317,093
Supplies, materials and maintenance	91,796	-	91,796
Other services and charges	2,570	6,580	9,150
Total operating expenses	94,366	323,673	418,039
Operating income	48,885	332,647	381,532
Non-operating revenues (expenses):			
Grant income	41,800	-	41,800
Interest revenue	329	-	329
Interest expense	(13,195)	-	(13,195)
Total non-operating revenues (expenses)	28,934	-	28,934
Income before transfer out	77,819	332,647	410,466
Transfer out	(80,000)	(212,335)	(292,335)
Change in net assets	(2,181)	120,312	118,131
Net assets – October 1, 2011	845,304	802,016	1,647,320
Net assets – September 30, 2012	\$ 843,123	\$ 922,328	\$ 1,765,451

See notes to basic financial statements

City of South Bay, Florida
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2012

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Cash flows from operating activities:			
Receipts from customers and users	\$ 129,478	\$ 741,650	\$ 871,128
Payments to suppliers	(84,856)	(305,753)	(390,609)
Net cash provided by (used in) operating activities	44,622	435,897	480,519
Cash flows from apital and related financing activities:			
Grant income received	41,800	-	41,800
Interest paid	(13,195)	-	(13,195)
Principal paid	(81,268)	-	(81,268)
Repayments and advances to other funds	4,547	(81,125)	(76,578)
Net cash used in non-capital and related financing activities	(48,116)	(81,125)	(129,241)
Cash flows from non-capital and related financing activities			
Transfers to general Fund	(80,000)	(212,335)	(292,335)
Net cash used in non-capital and related financing activities	(80,000)	(212,335)	(292,335)
Cash flows from investing activities:			
Interest received	329	-	329
Sale of investment	20,700	-	20,700
Net cash provided by investing activities	21,029	-	21,029
Net (decrease) increase in cash	(62,465)	142,437	79,972
Cash and cash equivalents at beginning of year	290,853	560,957	851,810
Cash and cash equivalents at end of year	\$ 228,388	\$ 703,394	\$ 931,782
Reconciliation of operating income to net cash provided by (Used in) operating			
Operating income	\$ 48,885	\$ 332,647	\$ 381,532
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,570	-	2,570
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(13,773)	85,330	71,557
Increase (decrease) in accounts payable	6,940	17,920	24,860
Total adjustments	(4,263)	103,250	98,987
Net cash provided by (used in) operating activities	\$ 44,622	\$ 435,897	\$ 480,519

See notes to basic financial statements

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

(a) Reporting Entity

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

(b) The Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statements 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
September 30, 2012

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In fiscal year ended September 30, 2012, 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 are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation (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 and permits, fines and forfeitures, and miscellaneous revenue are recorded as revenue when received in cash because they are generally not measurable until actually received. Occupational license revenue collected in advance of periods to which they relate is recorded as deferred revenue.

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

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 standards 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 and producing and delivering 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 service. Operating expenses for water and sanitation include the cost of providing these services as well as depreciation on capital assets and associated administrative costs. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Major Funds and Basis Presentation

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

The City reports the following major governmental funds:

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

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

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

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

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

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

(1) Cash and Cash Equivalents

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

Deposit Custodian Credit Risk

All of the City's bank deposits are held in qualified public depository and they are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The uninsured balance at September 30, 2012, was \$1,293,316 based on bank statements balance less FDIC insurance at that time.

(2) Unbilled Accounts Receivable

Property funds recognize revenue on the basis of the monthly cycle billing to customers for services provided. As result of this cycle billing method, there are unbilled receivable 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 for unbilled revenue for the Water and Sewer and Sanitation Funds at year end.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

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

(3) 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.

(4) 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.

(5) 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.

(6) Compensated Absences

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

(7) Capital Assets

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

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

(7) Capital Assets (Continued)

the construction period based upon average accumulated project expenditures.

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

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
Equipment and machinery	4-10

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

(8) Deferred and Unearned Revenues

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

(9) Property Tax Calendar

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

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

(10) Concentration of Credit Risk

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

(11) Accounts Receivable

Accounts receivables of the City are presented in the financial statements net of allowances for uncollectible accounts of approximately \$83,470 applicable to the business-type activities.

(12) Allowances for Doubtful Accounts

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

(13) Use of Estimates

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

(14) Fund Balance

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

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

(14) Fund Balance (Continued)

to constraint on the specific purpose for which amount in those fund can be spent. Amounts that are restricted to specific purpose as follows:

- Constraints placed on the use of resources by creditors, grantors, contributor, 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 purposes 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 management based on the City Commissioners' direction. Non-spendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable from or (b) legally or contractually required to be maintained intact. Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purpose within the general fund.

At the September 30, 2012, the general fund accumulated a deficit from prior years, accordingly, certain above classification of fund balances does not apply to the governmental funds.

(16) Net Assets

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

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

(e) Budget and Budgetary Accounting

The City prepares an annual operating budget for both the general fund and the special revenues fund which are reflected in these financial statements. The City's budgeting process is based on estimates of revenues and expenditures and requires that all budgets be approved by the City of South Bay City's 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, 2012:

	<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>\$ 20,305</u>	<u>\$ 111,419</u>	<u>\$ 144,100</u>	<u>\$ 812,656</u>	<u>\$1,088,480</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
September 30, 2012

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 or bills, or to arrange 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.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 3 – CAPITAL ASSETS:

	Balance 9/30/2011	Additions	Balance 9/30/2012
<u>Governmental Activities:</u>			
Capital assets not being depreciated			
Land	\$ 766,223	\$ -	\$ 766,223
Total capital assets not being depreciated	<u>766,223</u>	<u>-</u>	<u>766,223</u>
Capital assets, being depreciated			
Buildings and improvements	721,076	6,465	727,541
Improvement other than buildings and roads	181,919	-	181,919
Equipment and machinery	683,883	12,145	696,028
Total capital assets being depreciated	<u>1,586,878</u>	<u>18,610</u>	<u>1,605,488</u>
Less accumulated depreciation for:			
Buildings and improvements	551,046	13,399	564,445
Improvement other than buildings and roads	181,919	-	181,919
Equipment and machinery	593,873	38,512	632,385
Total accumulated depreciation	<u>1,326,838</u>	<u>51,911</u>	<u>1,378,749</u>
Total capital assets being depreciated, net	<u>260,040</u>	<u>(33,301)</u>	<u>226,739</u>
Governmental activities capital assets, net	<u><u>\$ 1,026,263</u></u>	<u><u>\$ (33,301)</u></u>	<u><u>\$ 992,962</u></u>
	Balance 9/30/2011	Additions	Balance 9/30/2012
<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>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>128,521</u>
Total accumulated depreciation	68,285	2,570	70,855
Total capital assets being depreciated	<u>60,236</u>	<u>(2,570)</u>	<u>57,666</u>
Business-type activities capital assets, net	<u><u>\$ 273,163</u></u>	<u><u>\$ 2,570</u></u>	<u><u>\$ 270,593</u></u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 3 – CAPITAL ASSETS (Continued):

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

Governmental activities

General government	\$ 17,813
Highway and streets	30,360
Culture and recreation	<u>3,738</u>
Total depreciation expense – governmental activities	<u>\$ 51,911</u>

NOTE 4 – LONG TERM DEBT:

Long-term debt activities for the year ended September 30, 2012, are shown below:

	<u>Balance</u> <u>9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2012</u>
<u>Governmental activities:</u>				
Notes payable	\$ 469,074	\$ -	\$ -	\$ 469,074
Capital lease obligation	43,925	-	28,264	15,661
Compensated absences	63,337	-	37,158	26,179
Total governmental activities	<u>\$ 576,336</u>	<u>\$ -</u>	<u>\$ 65,422</u>	<u>\$ 510,914</u>
<u>Business-type activities:</u>				
Bond payable	\$ 1,164,600	\$ -	\$ 20,700	\$ 1,143,900
State revolving loan	42,614	-	5,832	36,782
Account payable	348,438	-	68,636	279,802
Total business-type activities	<u>1,555,652</u>	<u>-</u>	<u>95,168</u>	<u>1,460,484</u>
Total long-term debt	<u>\$ 2,131,988</u>	<u>\$ -</u>	<u>\$ 160,590</u>	<u>\$ 1,971,398</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 of the water and sewer system, certain excise taxes, the City's guaranteed entitlement to revenue sharing trust funds and all other money of the City derived from sources other than ad valorem taxation are pledged as security for the bonds. The maturities of outstanding debt are summarized as follows:

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 4 – LONG TERM DEBT (Continued):

<u>Fiscal year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
Bond Series 1998 Second Subordinate Water Revenue			
2013	\$ 21,700	\$ 54,335	\$ 76,035
2014	22,700	53,305	76,005
2015	23,800	52,226	76,026
2016	25,000	51,096	76,096
2017	26,100	49,908	76,008
2018 - 2022	150,600	229,701	380,301
2023 - 2027	189,900	190,375	380,275
2028 - 2032	239,400	140,790	380,190
2033 - 2037	301,900	78,266	380,166
2038 - 2039	142,800	10,274	153,074
Total	<u>\$ 1,143,900</u>	<u>\$ 910,276</u>	<u>\$ 2,054,176</u>

Change during fiscal year:

Outstanding October 1, 2011

\$ 1,164,600

Retired

(20,700)

Outstanding September 30, 2012

\$ 1,143,900

Due within one year

\$ 21,700

Due in more than one year

1,122,200

\$ 1,143,900

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

State Revolving Loan:

In February 2005, the State of Florida Department of Environmental Protection approved a grant and a revolving loan in the amount of \$347,610 for sewer rehab and wastewater treatment facility. The approved loan amount to the City was \$72,515 with interest rate set at .71% and semi-annual installment payment of \$3,208 including principal and interest. The balance of the loan at September 30, 2012 was \$36,782 and maturity and outstanding amounts due on this loan are as follows:

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 4 – LONG TERM DEBT (Continued):

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,915	\$ 501
2014	6,000	416
2015	6,085	331
2016	6,172	244
2017	6,260	156
2018	6,350	66
	<u>\$ 36,782</u>	<u>\$ 1,714</u>

Long-Term Debt of Governmental Activities:

On July 2, 1997, the City purchased land in the amount of \$836,001. On May 17, 2005, the terms of the note were modified to reduce the principal amount due to \$697,040, reduce the interest rate from 6% to zero percent per annum, and extend the maturity to July 1, 2020. The note is secured by land. Payment on the note is required to be made each time a portion of the land is sold based on calculations outlined in the note agreement. The balance of this note at September 30, 2012 was \$469,074.

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

Outstanding balance at October 1, 2011	\$ 469,074
Retired	-
Outstanding balance at September 30, 2012	<u>\$ 469,074</u>

Accounts Payable:

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>	
2013	\$ 47,309
2014	47,309
2015	47,309
2016	47,309
2017	47,309
2018 – 2020	<u>122,216</u>
Total payment	358,761
Less amounts representing interest payment	<u>(78,959)</u>
Net payment	<u>\$ 279,802</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 5 – COMPENSATED ABSENCES

Employees earn 10 to 20 days of vacation and 12 days of sick leave 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.

NOTE 6 – CAPITAL LEASE:

Machinery and equipment of the City are used under capital leases with third party and recorded in the Governmental Activities at \$144,516. The future minimum lease payment under these capital leases and the present value of net minimum lease payment at September 30, 2012, are as follows:

<u>Years End</u>	
2013	
Total minimum lease payments	\$ 15,945
Less: amount representing interest	15,945
	<u>284</u>
Present value of future payments	<u>\$ 15,661</u>

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM:

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 plan year.

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (CONTINUED):

The pension expense under this plan for the year ended September 30, 2012, was as follows:

	<u>Governmental Activities</u>
General Fund	\$ 19,331

The Florida Retirement System Investment Plan for the City Commissioners and appointed officers was established by Ordinance 15-2010, and annual contribution rate for both employee and City are set annually by Plan. The contribution under this plan for the year ended September 30, 2012, was \$1,725. Under this Plan, the employee's benefits are vested upon completion of one year service.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2012 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund – major	\$ -	\$ 894,415	\$ 292,335	\$ -
Sanitation fund – major enterprise	176,622	-	-	80,000
Water & sewer fund – major enterprise	754,585	36,792	-	212,335
	<u>\$ 931,207</u>	<u>\$ 931,207</u>	<u>\$ 292,335</u>	<u>\$ 292,335</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." Transfers occurred to offset the deficit in the general fund

NOTE 9 – FUND DEFICIT:

The general fund had an accumulated deficit fund balance of \$643,875 at September 30, 2012, as a result of actual expenditures exceeding actual revenues from prior years' operations. For the fiscal year ended September 30, 2012, the City's general fund deficit increased by \$109,997. The City is attempting to remedy this problem by implementing reductions in expenditures, increasing resources and obtaining new grants.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 10 – CONTINGENCIES AND COMMITMENTS:

Contingencies

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 requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims would not have a material effect on the overall financial position of the City as of September 30, 2012.

The City is occasionally involved in various lawsuits incidental to its operations. In the opinion of management, any potential losses resulting from claims against the City, not covered by insurance would not have a materially adverse effect on the financial position of the City.

The City is also subject to a lawsuit filed by the City of Belle Glade to recoup monies alleged to be due for waste water disposal. The City of Belle Glade is seeking damages up to \$900,000. The City is aggressively defending this claim. At this time, the exact exposure to the City is not yet determinable.

NOTE 11 – INSURANCE:

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

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. The City anticipates that there will be some loss of revenue to the water and sewer department; however, it anticipates significant savings because the debt will be assumed by the Authority and the City’s debts were assumed by Authority.

However, due to extreme high debt payment obligations, substandard infrastructure and loss of customers, there was going concern in regard to the Authority continuing to operate as a going concern without substantial utility rate increase. Thus, the Authority dissolved, and effective March 31, 2013, all the utilities functions of the three-cities were transferred to Palm Beach County Water Utility Department (PBCWUD).

City of South Bay, Florida
Notes to Financial Statements
September 30, 2012

NOTE 12 – UTILITY CONTRACT (CONTINUED):

As result of this transition, all the outstanding debts of the City in amount of \$2,157,000 as of March 31, 2013, were paid in full in May 2013.

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, 2012, the City paid \$6,931 for the collection fees.

The agreement with PBCWUD shall be for an initial term of fifty (50) fiscal years and 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, the both Authority and PBCWUD are required to pay to the City an annual entity transfer fee equal to seven percent based on annual gross revenues. For the year ended September 30, 2012, the City received \$143,251 for entity transfer fee.

NOTE 13 – RELATED PARTY TRANSACTION:

The City had a member who sat on the board of the Glades Utility Authority as a part of the utility contract disclosed in Note 12 above. During the year ended September 30, 2012, the Authority paid for transfer fees to the City amounting to \$143,251.

REQUIRED SUPPLEMENTARY INFORMATION

City of South Bay, Florida
Schedule of Revenues, Expenditures
and Changes in Fund Balance Deficit
Budget and Actual -General Fund
For the Fiscal Year Ended September 30, 2012

	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 887,025	\$ 886,845	\$ (180)
Licenses and permits	40,500	58,817	18,317
Intergovernmental	661,710	633,693	(28,017)
Charges for services	43,351	47,016	3,665
Fines and forfeitures	22,500	10,277	(12,223)
Rents	19,500	20,875	1,375
Investment income	1,413	3,797	2,384
Miscellaneous	5,150	9,032	3,882
Total revenues	<u>1,681,149</u>	<u>1,670,352</u>	<u>(10,797)</u>
Expenditures:			
Current:			
General government	1,258,559	1,311,768	(53,209)
Public safety	174,240	176,008	(1,768)
Highways and streets	504,300	469,202	35,098
Culture and recreation	64,755	65,433	(678)
Capital outlay	-	18,609	(18,609)
Debt services:			
Principal	28,265	28,264	1
Interest	3,365	3,400	(35)
Total expenditures	<u>2,033,484</u>	<u>2,072,684</u>	<u>(39,200)</u>
Deficiency of revenues over expenditures	(352,335)	(402,332)	(49,997)
Other financing sources:			
Operating transfers in	352,335	292,335	(60,000)
Total other financing sources	<u>352,335</u>	<u>292,335</u>	<u>(60,000)</u>
Net change in fund deficit	<u>\$ -</u>	(109,997)	<u>\$ (109,997)</u>
Deficit at October 1, 2011		(533,878)	
Deficit at September 30, 2012		<u>\$ (643,875)</u>	

See notes to required supplementary information Budgetary Comparison Schedule

City of South Bay, Florida
Notes to Required Supplementary Information
September 30, 2012

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 is prepared by fund, function and activities and includes all proposed expenditures and the 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.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget based (if applicable) on legally authorized revisions to the original budgets during the year. There were no amendments made to the original budget

Actual general fund revenues exceeded appropriations for the fiscal year ended September 30, 2012 by \$109,997 and were not covered under the inter-fund transfer.

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, 2012, 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.

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

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, of City of South Bay, Florida (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's 's basic financial statements and have issued our report thereon dated August 19, 2013. The report on the City of South Bay was qualified because management has not recorded certain general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness - **2012-01**.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies- **2012-02, 2012-03.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item **2012-06.**

We noted certain other matters that we also reported to management of the City in the schedule of findings and responses.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Commission, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.



Harvey, Covington and Thomas of South Florida, LLC

Hollywood, Florida

August 19, 2013

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Financial Statement Findings

Prior Year Findings

2011-01 - Infrastructure Capital Assets - Not resolved; matter repeated.

2011-1 (Appendix A of Management letter) - Cash Disbursement-Electronic Check Signatures - Not resolved; matter repeated.

2011-2 (Appendix A of Management letter) - Inter-local Agreement with Glades Utility Authority - Not resolved; matter repeated

2011-3 (Appendix A of Management letter) Capital Assets - Buildings and Facilities -Not Resolved; matter repeated

Current year Findings

Material Weaknesses

2012-01 Infrastructure Capital Assets

Condition

During our audit of capital assets, we noted that there was no record of certain general infrastructure capital assets recorded in the governmental activities and accordingly no depreciation expense was recorded on those assets.

Criteria

GASB 34 required that governments with less than \$10 million in revenues record infrastructure assets for periods beginning after June 15, 2003. These may be recorded retroactively or prospectively. In addition, accounting principles generally accepted in the United States require such assets to be depreciated.

Cause

Management has not performed a detailed review of the City's infrastructure assets

Effect

Total net assets and expenses of the governmental activities were understated. The amount by which they are understated is not reasonably determinable. As a result of not recording the infrastructure capital assets, the City received an adverse audit opinion for the fiscal year ended September 30, 2012.

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Current year Findings (Continued)

Material Weaknesses (Continued)

2012-01 Infrastructure Capital Assets (Continued)

Recommendation

We noted that the City is still in the process of determining what infrastructure assets to include. We recommend that management implement these procedures as soon as possible to cure the adverse audit opinion at September 30, 2013.

Management response

The City agrees with the finding. The finance director has received a valuation in amount of \$9,100,000 for its infrastructure, after proper review, this finding will be implemented.

Significant Deficiencies

2012-02 - Cash Disbursements

Condition

During our audit procedures performed over cash disbursements we noted that some disbursements were not properly approved and lacked supporting documentation. The problem was most pervasive amongst credit card usage. Additionally, some electronically signed checks over a certain dollar threshold showed no evidence of review by the commission check signers before they were mailed out.

Criteria

Effective controls over cash disbursements require oversight by those charged with governance.

Cause

Ineffective policies and procedures.

Effect

Cash disbursements may not be for the legitimate business of the City.

Recommendation

We recommend that management establish policies and procedures over cash disbursements and enforce them strictly, especially with regard to credit card usage and approval procedures.

Management Response

The City agrees with the finding. By adopting new purchasing policy and periodically distribution of the check registers to Commissioners, these will provide effective procedures and oversight to cash disbursements.

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Current year Findings (Continued)

Significant Deficiencies (Continued)

2012-03 - Segregation of Duties

Condition

While performing our internal control walk through procedures we noted that the Finance Director receives the bank statements and prepares the bank reconciliations. The bank reconciliations are not reviewed by anyone other than the preparer.

Criteria

Bank reconciliations require independent oversight outside of the accounting function

Cause

There is nobody in place to review the Finance Director's work

Effect

The Potential effect is that the bank reconciliations could be incorrect and the errors would go undetected. In a worst case scenario, there is a risk of asset misappropriation.

Recommendation

We recommend that bank statements should be opened and reviewed by someone other than the finance director before he prepares the bank reconciliations. We further recommend that the financial analyst prepare the bank reconciliations, which should then be reviewed by the Finance Director.

Management response

The City agrees with the finding, and the management will develop a proper procedure to review the process and preparation of monthly bank reconciliation, completed by the City Manger or designee.

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Current year Findings (Continued)

Other Matters

2012-04 - Interlocal Agreement with the Glades Utility Authority (GUA)

Condition

The GUA was supposed to assume the City's debt on October 1, 2010. However, the actual debt remains in the name of the City.

Criteria

The City should have no obligation for this debt due to the GUA agreement.

Cause

The GUA was not able to transfer the original debt into its name.

Effect

The City remains technically liable for this debt

Recommendation

We recommend that management obtain legal advice to ensure that the City is not exposed to any additional risk of liability in relation to the transfer of debt to the GUA.

Management Response

The City agrees with the finding. Effective March 1, 2013, the GUA's operations were transferred to Palm Beach County Water Utility Department, after this transition in May 2013, all the City's debts were paid in full.

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Current year Findings (Continued)

Other Matters (Continued)

2012-05 Capital Assets- Buildings and Facilities

Condition

During our tour of the City's infrastructure and capital assets we noted that certain buildings and facilities had been neglected and were run down.

Criteria

Capital assets should be safeguarded by the City.

Cause

The City has failed to upkeep and maintain certain buildings and facilities.

Effect

Certain assets may become impaired and therefore be overstated in value in the government activities of the City

Recommendation

We recommend that management implement procedures to provide some basic maintenance to its buildings and facilities in order to safeguard the City's Capital Assets.

Management Response

The City agrees with this finding and management are currently conducting an assessment to determine how this recommendation could be accomplished by the overall review of the City's capital projects.

**City of South Bay
Schedule of Findings and Responses
Year Ended September 30, 2012**

Current year Findings (Continued)

Compliance

2012-06 – Adoption of 2012 budget and budgeted appropriations

Condition

The final budget was not adopted formally by the City's Commission and was not posted on the City's website. Additionally, actual expenses exceeded appropriations for the year.

Criteria

The Florida Statutes under section 166.241 "Fiscal years budgets, and budget amendments" require the governing body of each municipality to adopt a budget each fiscal year by an ordinance or a resolution unless otherwise specified in the City's Charter. The tentative budget must also be posted on the City's website at least 2 days before the budget hearing and the final budget posted within 30 days after adoption. The budget should also be amended by a resolution if it appears that expenses are going to exceed fiscal appropriations.

Cause

The City failed to follow the Florida Statutes

Effect

The City was not in compliance with the Florida Statutes.

Recommendation

The City has up to 60 days after the year end to amend the budget to ensure that expenses do not exceed appropriations. We recommend that the City amend the budget to stop this from happening in the future.

Management Response

The City agreed with finding and for the fiscal year 2012-2013, this requirement has been implemented properly for the City's annual budget.

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

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

We have audited the financial statements of the City of South Bay, Florida, (the "City") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated August 19, 2013.

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 Rules of the Florida Auditor General. 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, Disclosures in those reports, which are dated August 19, 2013, should be considered in conjunction with this management letter.

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

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. Certain corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report and are noted in the Schedule of Findings and Responses.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have made such recommendations in the Schedule of Findings and Responses.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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 more than inconsequential. In connection with our audit, we did not have any such findings.

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

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

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.

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

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, other governmental agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the City of South Bay and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

A handwritten signature in blue ink, reading "Harvey, Covington & Thomas, P.A.", is displayed on a light blue rectangular background.

Harvey, Covington and Thomas of South Florida, LLC
August 19, 2013