

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2014

**City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2014**

Table of Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3-9
Government-Wide Financial Statements	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of the Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position – Proprietary Funds.....	16-17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds.....	19
Notes to the Financial Statements	20-36
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund.....	37
Note to Budgetary Comparison Schedule.....	38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39-40
Schedule of Findings and Response	41
State of Florida Reporting Requirement	42-43

INDEPENDENT AUDITORS' 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

West Palm Beach

Phone (561) 655-2664

Miami

Phone (305) 331-8768

Hollywood

Phone (954) 966-4435

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of South Bay, Florida as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **3-9** and **37 - 38** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2015, on our consideration of the City's internal control over financial reporting and on our test of its compliance with certain provisions of law, 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* in considering the City's internal control over financial reporting and compliance.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

March 22, 2015

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

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, 2014. The readers should take time to read and evaluate all sections of the financial statements including the footnotes and the other required supplementary information that is provided in addition to this Management's Discussion and Analysis "MD&A" section.

Financial Highlights:

- The City's total net position decreased by \$73,301 or 2.3% as a result of a net increase of \$11,852 in governmental activities and a decrease of \$85,153 in business-type in fund groups due to a settlement agreement in amount of \$500,000 in water and sewer fund with a vendor for prior sewer services.
- Governmental activities generated \$1,833,431 in revenues with \$1,821,579 in expenses.
- Business-type activities generated \$766,791 in revenues with \$851,944 in expenses.
- The net assets in business type activities decreased by \$85,153 mainly due to decrease of \$319,690 in water and sewer fund and increase of \$234,537 in sanitation fund.
- General fund balance increased by approximately \$223,000, as result, the unassigned fund balance was \$106,754 or 33.9% total of fund balance.

Overview of the Financial Statements

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

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

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 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 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.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

Analysis of government-wide financial statements:

City of South Bay, Florida
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,464,972	\$ 1,303,295	\$ 3,575,600	\$ 3,314,336	\$ 5,040,572	\$ 4,617,631
Capital assets	<u>1,558,090</u>	<u>1,744,297</u>	<u>265,452</u>	<u>268,022</u>	<u>1,823,542</u>	<u>2,012,319</u>
Total assets	<u>3,023,062</u>	<u>3,047,592</u>	<u>3,841,052</u>	<u>3,582,358</u>	<u>6,864,114</u>	<u>6,629,950</u>
Current and other liabilities	1,303,498	1,358,893	330,087	202,988	1,633,585	1,561,881
Long-term liabilities outstanding	<u>489,608</u>	<u>470,595</u>	<u>1,562,244</u>	<u>1,345,496</u>	<u>2,051,852</u>	<u>1,816,091</u>
Total liabilities	<u>1,793,106</u>	<u>1,829,488</u>	<u>1,892,331</u>	<u>1,548,484</u>	<u>3,685,437</u>	<u>3,377,972</u>
Net position:						
Invested in capital assets						
(net of related debt)	1,063,735	1,273,702	265,452	268,022	1,329,187	1,541,724
Restricted for prepaid items	59,467	110,603	-	-	59,467	110,603
Unrestricted	<u>106,754</u>	<u>(166,201)</u>	<u>1,683,269</u>	<u>1,765,852</u>	<u>1,790,023</u>	<u>1,599,651</u>
	<u>\$ 1,229,956</u>	<u>\$ 1,218,104</u>	<u>\$ 1,948,721</u>	<u>\$ 2,033,874</u>	<u>\$ 3,178,677</u>	<u>\$ 3,251,978</u>

A significant portion of the City's net position (42%) reflect its investment in capital assets (e.g. lands, infrastructure, buildings and equipment) less any debt related to those assets that are still outstanding. The City uses these capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the City's investment in its capital 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 position (2%) represents resources that are subject to restriction on how they may be used.

The net position decreased from \$3,251,978 to \$3,178,677, as a result of net decrease of \$85,153 in business-type and an increase of \$11,852 in governmental activities fund groups.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

Expenses and Revenues – Governmental Activities:

Net position increase or decrease over time serves a useful indicator of the government's financial position. Net position in governmental activities increased by \$11,852 in the current year, while the net assets in prior year decreased by \$37,291. Revenues in governmental activities including transfer in, decreased by \$46,017 when the expenditures decreased by \$95,160 in fiscal 2014.

City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charge for services	\$ 43,270	\$ 46,473	\$ 603,990	\$ 579,678	\$ 647,260	\$ 626,151
Operating grant and contribution	18,082	-	34,117	-	52,199	-
General revenues:						
Property taxes	292,490	285,603	-	-	292,490	285,603
Franchise	505,470	469,281	-	-	505,470	469,281
Other taxes	827,278	823,438	-	-	827,278	823,438
Other	106,841	126,153	128,684	167,068	235,525	293,221
Total revenues	<u>1,793,431</u>	<u>1,750,948</u>	<u>766,791</u>	<u>746,746</u>	<u>2,560,222</u>	<u>2,497,694</u>
Expenses:						
General government	928,100	1,011,470	-	-	928,100	1,011,470
Public safety	175,810	179,171	-	-	175,810	179,171
Highway and street	653,451	674,840	-	-	653,451	674,840
Culture and recreation	63,603	51,025	-	-	63,603	51,025
Water and sewer	-	-	464,865	7,774	464,865	7,774
Sanitation	-	-	331,330	325,564	331,330	325,564
Interest on long term debt	615	233	15,749	16,485	16,364	16,718
Total expenses	<u>1,821,579</u>	<u>1,916,739</u>	<u>811,944</u>	<u>349,823</u>	<u>2,633,523</u>	<u>2,266,562</u>
Increase (decrease) in net assets before transfer in (out)	(28,148)	(165,791)	(45,153)	396,923	(73,301)	231,132
Transfer in /(out)	<u>40,000</u>	<u>128,500</u>	<u>(40,000)</u>	<u>(128,500)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	11,852	(37,291)	(85,153)	268,423	(73,301)	231,132
Net position at beginning of year	<u>1,218,104</u>	<u>1,255,395</u>	<u>2,033,874</u>	<u>1,765,451</u>	<u>3,251,978</u>	<u>3,020,846</u>
Net position at end of year	<u>\$ 1,229,956</u>	<u>\$ 1,218,104</u>	<u>\$ 1,948,721</u>	<u>\$ 2,033,874</u>	<u>\$ 3,178,677</u>	<u>\$ 3,251,978</u>

The net position in business-type activities decreased by \$85,153 in the current year, when prior year net assets increased by \$268,423. The revenues in business-type increased by \$20,045 mainly due to capital contribution in amount of \$34,117, and the expenditures and transfer out increased by \$462,121 mainly due to an agreement in amount of \$500,000 with a vendor for prior years sewer services.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

Discussion of Major Funds

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

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

The General fund is the primary operating fund accounting for all unrestricted operating expenditures of the City. Revenues and transfers from other funds aggregated \$1,833,431 while expenditures totaled \$1,636,600, resulting in \$222,992 increase 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 propriety funds' revenue for charges for services and other sources aggregated \$766,791 while the total expenditures and transfer out to general fund totaled \$851,944 resulting in \$85,153 decrease in net assets.

General Fund Budgetary Highlights

General fund operations had a positive variance in amount of \$222,992, when the actual revenues including other financing sources were \$268,052 less than the final budget. Actual expenditures were less than the final appropriation by \$491,044. Budget amendments were done during year to make available funds for unexpected expenditures as well as to realign funding with changes in each department.

Capital Assets

The City's capital assets (net of accumulated depreciation) as of September 30, 2014, amounted to \$1,823,542, a decrease of \$188,777 from the prior year. The decrease was primarily due to the recording of \$223,064 depreciation expenses. Additional information for the City assets can be found in NOTE 3 Capital assets.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

City of South Bay, Florida
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 217,188	\$ 217,188	\$ 212,927	\$ 212,927	\$ 430,115	\$ 430,115
Buildings and improvements	825,541	825,541	-	-	825,541	825,541
Utility plant and systems	-	-	128,521	128,521	128,521	128,521
Improvements other than buildings and roads	181,919	181,919	-	-	181,919	181,919
Infrastructure	8,857,639	8,857,639	-	-	8,857,639	8,857,639
Equipment and machinery	<u>740,754</u>	<u>706,467</u>	<u>-</u>	<u>-</u>	<u>740,754</u>	<u>706,467</u>
Total	10,823,041	10,788,754	341,448	341,448	11,164,489	11,130,202
Accumulated depreciation	<u>(9,264,951)</u>	<u>(9,044,457)</u>	<u>(75,996)</u>	<u>(73,426)</u>	<u>(9,340,947)</u>	<u>(9,117,883)</u>
Total capital assets, net	<u>\$ 1,558,090</u>	<u>\$ 1,744,297</u>	<u>\$ 265,452</u>	<u>\$ 268,022</u>	<u>\$ 1,823,542</u>	<u>\$ 2,012,319</u>

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$2,314,942 in notes and bonds outstanding as compared to \$1,876,351 last year, an increase of \$438,591. The increase mainly attributed to a settlement and installment agreement with a vendor in amount of \$500,000 in accounts payable. The City's obligations are secured by various revenues sources and capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues bonds	\$ -	\$ -	\$ 1,099,500	\$ 1,122,200	\$ 1,099,500	\$ 1,122,200
Notes	470,595	470,595	721,087	252,648	1,191,682	723,243
State revolving loan	-	-	-	30,908	-	30,908
Capital Leases	<u>23,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,760</u>	<u>-</u>
Total	<u>\$ 494,355</u>	<u>\$ 470,595</u>	<u>\$ 1,820,587</u>	<u>\$ 1,405,756</u>	<u>\$ 2,314,942</u>	<u>\$ 1,876,351</u>

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2014

Economic Factors and Outlook for the Future

The City's economic environment is dependent on Palm Beach County and State of Florida economic activities which impacted the City's source of revenues. Other economic factors such as weak economy, unemployment, commodities prices, growth and any new legislative bill and proposal may have a significant impact on the City's operations.

The City primarily relies on various taxes levied by the state (sales and utilities) and franchise and other business tax receipts for governmental activities. The governmental fund budget has kept operational spending fairly unchanged. The City's elected officials consider many factors, establish goals and priorities when adopting the annual budget each year. Future annexation, intermodal logistic center development of the South Bay Park of Commerce and implementation of the South Bay Commerce Center projects will help to create additional sources of income to the City and improve its tax base.

Effective October 1, 2006, the fire rescue services was transferred to Palm Beach County Fire Rescue MSTU (municipal service tax unit). In according with this agreement, the City's property owners \$3.4581 mills of \$1,000 of taxable value are maintained by Palm Beach County and the City's millage rate remains at 6.3089. The property values have begun to stabilize and an increase of 5.4% is projected for the fiscal year 2014-2015. The City is determined to provide the necessary services, efficiently to its citizens.

Request for Information

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

City of South Bay, Florida
Statement of Net Position
September 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 603,767	\$ 1,510,755	\$ 2,114,522
Accounts receivable (net of allowances for uncollectible accounts)	63,278	107,773	171,051
Due from government	78,232	-	78,232
Prepaid items	59,467	-	59,467
Due from other funds	-	830,090	830,090
Restricted assets:			
Cash and cash equivalents	111,102	27,722	138,824
Investments	-	1,047,901	1,047,901
Capital assets	1,558,090	265,452	1,823,542
Other assets	549,126	51,359	600,485
Total assets	<u>3,023,062</u>	<u>3,841,052</u>	<u>6,864,114</u>
Liabilities:			
Accounts payable	54,511	207,470	261,981
Accrued liabilities	16,925	-	16,925
Compensated absences	37,480	-	37,480
Due to other funds	793,298	36,792	830,090
Payable from restricted assets:			
Interest payable	-	27,482	27,482
Long-term debt:			
Due within in one year	4,747	58,343	63,090
Capital lease	19,013	-	19,013
Due in more than one year	470,595	1,562,244	2,032,839
Total liabilities	<u>1,396,569</u>	<u>1,892,331</u>	<u>3,288,900</u>
Deferred inflows:			
Unavailable revenue in governmental funds	<u>396,537</u>	<u>-</u>	<u>396,537</u>
Net Position:			
Invested in capital assets, net of related debt	1,063,735	265,452	1,329,187
Restricted for:			
Prepaid items	59,467	-	59,467
Unrestricted	106,754	1,683,269	1,790,023
Total net position	<u>\$ 1,229,956</u>	<u>\$ 1,948,721</u>	<u>\$ 3,178,677</u>

See notes to basic financial statements.

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2014

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 928,100	\$ -	\$ 18,082	\$ (910,018)	\$ -	\$ (910,018)
Public safety	175,810	-	-	(175,810)	-	(175,810)
Highways and streets	653,451	43,270	-	(610,181)	-	(610,181)
Culture and recreation	63,603	-	-	(63,603)	-	(63,603)
Interest	615	-	-	(615)	-	(615)
Total governmental activities	<u>1,821,579</u>	<u>43,270</u>	<u>18,082</u>	<u>(1,760,227)</u>	<u>-</u>	<u>(1,760,227)</u>
Business-type activities:						
Water and sewer	480,614	-	34,117	-	(446,497)	(446,497)
Sanitation	331,330	603,990	-	-	272,660	272,660
Total business-type activities	<u>811,944</u>	<u>603,990</u>	<u>34,117</u>	<u>-</u>	<u>(173,837)</u>	<u>(173,837)</u>
Total governmental	<u>\$ 2,633,523</u>	<u>\$ 647,260</u>	<u>\$ 52,199</u>	<u>(1,760,227)</u>	<u>(173,837)</u>	<u>(1,934,064)</u>
General revenue:						
Taxes:						
Ad Valorem				292,490	-	292,490
Gasoline				124,244	-	124,244
Franchise				505,470	-	505,470
Sales tax				210,219	-	210,219
State revenue sharing				151,340	-	151,340
Payment in lieu of taxes				293,134	-	293,134
Occupational licenses and permits				48,341	-	48,341
Investment earnings				1,835	2,212	4,047
Other				105,006	126,472	231,478
Interfund transfers				<u>40,000</u>	<u>(40,000)</u>	<u>-</u>
Total general revenues				<u>1,772,079</u>	<u>88,684</u>	<u>1,860,763</u>
Change in net position				11,852	(85,153)	(73,301)
Net position – October 1, 2013				<u>1,218,104</u>	<u>2,033,874</u>	<u>3,251,978</u>
Net position – September 30, 2014				<u>\$ 1,229,956</u>	<u>\$ 1,948,721</u>	<u>\$ 3,178,677</u>

See notes to basic financial statements.

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2014

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:		
Cash and cash equivalents	\$ 603,767	\$ 603,767
Accounts receivable (net of allowances for uncollectible)	63,278	63,278
Due from government	78,232	78,232
Prepaid items	59,467	59,467
Other assets	549,126	549,126
Restricted assets:		
Cash and cash equivalents	111,102	111,102
Total assets	<u>\$ 1,464,972</u>	<u>\$ 1,464,972</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 54,511	\$ 54,511
Accrued liabilities	16,925	16,925
Due to other funds	793,298	793,298
Total liabilities	<u>864,734</u>	<u>864,734</u>
Deferred inflows	<u>396,537</u>	<u>396,537</u>
Fund balances:		
Non-spendable:		
Prepaid items	59,467	59,467
Committed to:		
Compensated absences	37,480	37,480
Unassigned	106,754	106,754
Total fund Balances	<u>203,701</u>	<u>203,701</u>
Total liabilities and fund balances	<u>\$ 1,464,972</u>	<u>\$ 1,464,972</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 Position
September 30, 2014

Fund Balance – Total Governmental Funds	\$	203,701
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet		1,558,090
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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	\$	(37,480)	
General obligation notes and lease payable		(494,355)	
			(531,835)

Total net position – Governmental Activities	\$	1,229,956
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See notes to basic financial statements.

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For Fiscal Year Ended September 30, 2014

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:		
Taxes	\$ 922,204	\$ 922,204
Licenses and permits	45,654	45,654
Intergovernmental	675,462	675,462
Charges for services	43,270	43,270
Fines and forfeitures	6,516	6,516
Rents	27,000	27,000
Investment income	1,835	1,835
Miscellaneous revenues	71,491	71,491
Total revenues	<u>1,793,432</u>	<u>1,793,432</u>
Expenditures:		
Current:		
General government	901,030	901,030
Public safety	175,810	175,810
Highways and streets	455,349	455,349
Culture and recreation	59,185	59,185
Capital outlay	42,211	42,211
Debt services:		
Principal	2,400	2,400
Interest	615	615
Total expenditures	<u>1,636,600</u>	<u>1,636,600</u>
Excess of revenues over expenditures	<u>156,832</u>	<u>156,832</u>
Other financing sources:		
Operating transfers in	40,000	40,000
Capital lease	26,160	26,160
Total other financing sources	<u>66,160</u>	<u>66,160</u>
Net change in fund balance	222,992	222,992
Fund deficit at October 1, 2013	(19,291)	(19,291)
Fund balance at September 30, 2014	<u>\$ 203,701</u>	<u>\$ 203,701</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 the Activities
For Fiscal Year Ended September 30, 2014

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

Net change in fund balance – total governmental funds	\$	222,992
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Governmental fund report capital outlay as expenditures. However, in the statement of the activities the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets		16,050
Current year depreciation		(228,418)

Some expenses reported in the government wide statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund:

Compensated absences		(1,172)
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The repayment of principal reduces long-term liabilities and is not reported in the statement of the activities, but the repayment is reported as expenditures in the governmental funds.

		2,400
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Change in net position of governmental activities	\$	11,852
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See notes to basic financial statements.

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2014

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Assets			
Current assets:			
Cash and cash equivalents	\$ 392,465	\$ 1,118,290	\$ 1,510,755
Accounts receivable, net	11,619	96,154	107,773
Due from other funds	749,585	80,505	830,090
Restricted assets			
Cash and cash equivalents	27,722	-	27,722
Total current assets	1,181,391	1,294,949	2,476,340
Non-current assets:			
Restricted assets			
Investments	1,047,901	-	1,047,901
Capital assets			
Property, net	265,452	-	265,452
Other assets	51,359	-	51,359
Total non-current assets	1,364,712	-	1,364,712
Total assets	\$ 2,546,103	\$ 1,294,949	\$ 3,841,052

See notes to basic financial statements.

City of South Bay, Florida
Statement of Net Position (Continued)
Proprietary Funds
September 30, 2014

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ 200,000	\$ 7,470	\$ 207,470
Due to other fund	36,792	-	36,792
Current portion of long-term debt	34,543	-	34,543
Total current liabilities	271,335	7,470	278,805
Current liabilities payable from restricted assets:			
Interest payable	27,482	-	27,482
Current portion of bond payable	23,800	-	23,800
Total current liabilities payable from current restricted assets	51,282	-	51,282
Non-current liabilities:			
Long-term portion of accounts payable	486,544		486,544
Long-term portion of bond payable	1,075,700	-	1,075,700
Total non-current liabilities	1,562,244	-	1,562,244
Total liabilities	1,884,861	7,470	1,892,331
Net position:			
Invested in capital assets	265,452	-	265,452
Unrestricted	395,790	1,287,479	1,683,269
Total net position	\$ 661,242	\$ 1,287,479	\$ 1,948,721

See notes to basic financial statements.

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2014

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 603,990	\$ 603,990
Municipal fee	126,472	-	126,472
Total operating revenues	126,472	603,990	730,462
Operating expenses:			
Contractual services	-	325,588	325,588
Supplies, materials and maintenance	461,295	-	461,295
Other services and charges	3,570	5,742	9,312
Total operating expenses	464,865	331,330	796,195
Operating income (loss)	(338,393)	272,660	(65,733)
Non-operating revenues (expenses):			
Interest revenue	335	1,877	2,212
Interest expense	(15,749)	-	(15,749)
Total non-operating revenues (expenses)	(15,414)	1,877	(13,537)
Income (loss) before capital contribution and transfer out	(353,807)	274,537	(79,270)
Capital contribution	34,117	-	34,117
Transfer out	-	(40,000)	(40,000)
Change in net position	(319,690)	234,537	(85,153)
Net position – October 1, 2013	980,932	1,052,942	2,033,874
Net position – September 30, 2014	\$ 661,242	\$ 1,287,479	\$ 1,948,721

See notes to basic financial statements.

City of South Bay, Florida
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2014

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Cash flows from operating activities:			
Receipts from customers and users	\$ 131,092	\$ 594,656	\$ 725,748
Payments to suppliers	(12,494)	(351,730)	(364,224)
Net cash provided by operating activities	118,598	242,926	361,524
Cash flows from capital and related financing activities:			
Capital contribution	34,117	-	34,117
Interest paid	(15,749)	-	(15,749)
Principal paid	(85,171)	-	(85,171)
Repayments and advances to other funds	-	68,645	68,645
Net cash provided by (used in) capital and related financing activities	(66,803)	68,645	1,842
Cash flows from non-capital and related financing activities:			
Transfer to general fund	-	(40,000)	(40,000)
Net cash used in non-capital and related financing activities	-	(40,000)	(40,000)
Cash flows from investing activities:			
Interest received	335	1,877	2,212
Decrease in investment	24,525	-	24,525
Net cash provided by investing activities	24,860	1,877	26,737
Net increase in cash	76,655	273,448	350,103
Cash and cash equivalents at beginning of year	315,810	844,842	1,160,652
Cash and cash equivalents at end of year	\$ 392,465	\$ 1,118,290	\$ 1,510,755
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (338,393)	\$ 272,660	\$ (65,733)
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	4,621	(9,334)	(4,713)
Increase (decrease) in accounts payable	449,800	(20,400)	429,400
Total adjustments	456,991	(29,734)	427,257
Net cash provided by operating activities	\$ 118,598	\$ 242,926	\$ 361,524

See notes to basic financial statements.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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, 2014

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, 2014, 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, 2014

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

accordance with their legal or contractual requirements if collected in the current period or within 30 days after year end. Interest is recorded when earned. Licenses 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 standard do not conflict with or contradict guidance of the Governmental Accounting Standard 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:

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

charges and capital outlay costs that are not paid through other funds are paid from the General Fund.

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

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, 2014, was \$2,092,432 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.

(3) Accounts Receivable

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

(4) Allowances for Doubtful Accounts

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

(5) Investments

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

(6) Restricted Assets and Reserves

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

(7) Grants from Government Agencies

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

(8) Capital Assets

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

Infrastructure assets (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 capitalized and reported in the infrastructure category.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

Capital Assets (Continued)

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

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

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

(9) Compensated Absences

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

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

(10) Deferred and Unearned Revenues

Deferred revenues are recorded for governmental fund receivable that are not yet available. Inflow that 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.

(11) Long-Term Obligations

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

(12) Concentration of Credit Risk

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

(13) Property Tax Calendar

Property taxes are levied on October 1 of 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.

(14) Use of Estimates

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

(15) 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 primarily on the extent to which the City is bound to constraint on the specific purpose for which amount in those fund can be spent. Amounts that are restricted to specific purpose as follows:

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

Fund Balance (Continued)

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

(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.

(17) 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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

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

Budget and Budgetary Accounting (Continued):

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, 2014:

	Fair Value of Investments Maturities				Total
	Less Than One Year	One to Five Years	Six To Ten Years	More Than Ten Years	
U.S Government securities	\$ 21,083	\$ 123,177	\$ 160,095	\$ 743,546	\$1,047,901

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.

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:

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 2 – INVESTMENTS (Continued):

- (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.

NOTE 3 – CAPITAL ASSETS:

Changes in capital assets of the City as of September 30, 2014, are shown below:

	<u>Balance 9/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2014</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 217,188	\$ -	\$ -	\$ 217,188
Total capital assets not being depreciated	<u>217,188</u>	<u>-</u>	<u>-</u>	<u>217,188</u>
Capital assets, being depreciated				
Buildings and improvements	825,541	-	-	825,541
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	8,857,639	-	-	8,857,639
Equipment and machinery	706,465	42,211	7,922	740,754
Total capital assets being depreciated	<u>10,571,564</u>	<u>42,211</u>	<u>7,922</u>	<u>10,605,853</u>
Less accumulated depreciation for:				
Buildings and improvements	582,044	17,599		599,643
Improvement other than buildings and roads	181,918	-		181,918
Infrastructure	7,617,570	177,154		7,794,724
Equipment and machinery	662,923	33,665	7,922	688,666
Total accumulated depreciation	<u>9,044,455</u>	<u>228,418</u>	<u>7,922</u>	<u>9,264,951</u>
Total capital assets being depreciated, net	<u>1,527,109</u>	<u>(186,207)</u>	<u>-</u>	<u>1,340,902</u>
Governmental activities capital assets, net	<u>\$ 1,744,297</u>	<u>\$ (186,207)</u>	<u>-</u>	<u>\$ 1,558,090</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 3 – CAPITAL ASSETS (Continued):

	Balance 9/30/2013	Additions	Deletions	Balance 9/30/2014
<u>Business-Type Activities:</u>				
Capital assets not being depreciated				
Land	\$ 212,927	\$ -	\$ -	\$ 212,927
Total capital assets not being depreciated	212,927	-	-	212,927
Capital assets being depreciated:				
Utility plant and systems	128,521	-	-	128,521
Total capital assets being depreciated	128,521	-	-	128,521
Total accumulated depreciation	73,426	2,570	-	75,996
Total capital assets being depreciated	55,095	(2,570)	-	52,525
Business-type activities capital assets, net	\$ 268,022	\$ (2,570)	\$ -	\$ 265,452

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

Governmental activities

General government	\$ 25,898
Highway and streets	198,102
Culture and recreation	4,418

Total depreciation expense – governmental activities \$ 228,418

NOTE 4 – LONG TERM DEBT:

Long-term debt activities for the year ended September 30, 2014, are shown below:

	Balance 9/30/2013	Additions	Deletions	Balance 9/30/2014
<u>Governmental activities:</u>				
Notes payable	\$ 470,595	\$ -	\$ -	\$ 470,595
Capital lease obligation	-	26,160	2,400	23,760
Compensated absences	36,308	1,172	-	37,480
Total governmental activities	\$ 506,903	\$ 27,332	\$ 2,400	\$ 531,835
<u>Business-type activities:</u>				
Bond payable	\$ 1,122,200	\$ -	\$ 22,700	\$ 1,099,500
State revolving loan	30,907	-	30,907	-
Notes payable	252,649	500,000	31,562	721,087
Total business-type activities	1,405,756	500,000	85,169	1,820,587
Total long-term debt	\$ 1,912,659	\$ 527,332	\$ 87,569	\$ 2,352,422

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 4 – LONG TERM DEBT (Continued):

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:

Bond Series 1998 Second Subordinate Water Revenue

<u>Fiscal year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 23,800	\$ 52,226	\$ 76,026
2016	25,000	51,096	76,096
2017	26,100	49,908	76,008
2018	27,400	48,669	76,069
2019	28,700	47,367	76,067
2020 - 2024	165,200	215,056	380,256
2025 - 2029	208,300	171,907	380,207
2030 - 2034	262,700	117,506	380,206
2035 - 2039	332,300	48,901	381,201
Total	<u>\$ 1,099,500</u>	<u>\$ 802,636</u>	<u>\$ 1,902,136</u>

Change during fiscal year:

Outstanding October 1, 2013	\$ 1,122,200
Retired	(22,700)
Outstanding September 30, 2014	<u>\$ 1,099,500</u>

Due within one year	\$ 23,800
Due in more than one year	1,075,700
	<u>\$ 1,099,500</u>

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. On May 20, 2014, the state revolving loan was paid in full as part of agreement with Palm Beach County Water Department as a result of the dissolution of the Glades Utility Authority.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 4 – LONG TERM DEBT (Continued):

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, 2014 was \$470,594.

Settlement Agreement:

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

	<u>September 30,</u>	
	2015	\$ 47,309
	2016	47,309
	2017	47,309
	2018	47,309
	2019	47,309
	2020	<u>27,598</u>
Total payment		264,143
Less amount represent interest payment		<u>(43,056)</u>
Net payment		<u>\$ 221,087</u>

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 5 – COMPENSATED ABSENCES

From 10 to 20 days of vacation and 24 days of sick leave can be earned by employees annually. If an employee resigns in good standing or retires, the City pays accrued vacation and from 25% to 50% of accumulated sick leaves up to a maximum of 60 days.

The change in compensated absences during year is as follows:

	Governmental Activities
Balances at October 1, 2013	\$ 36,308
Increase	1,172
Balance at September 30, 2014	<u>\$ 37,480</u>

NOTE 6 – CAPITAL LEASE:

The City purchased an auto under a capital lease with third party and recorded in the Governmental Activities at \$26,610. The future minimum lease payment under this capital lease and the present value of net minimum lease payment at September 30, 2014 are as follows:

<u>Year Ending</u>	
2015	\$ 6,030
2016	6,030
2017	6,030
2018	6,030
2019	<u>3,015</u>
Total minimum lease payment	27,135
Less: amount representing interest	<u>(3,375)</u>
Present value of future payments	<u>\$ 23,760</u>

NOTE 7 – EMPLOYEE PURCHASE MONEY PLAN:

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (Continued):

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.

The pension expense under this plan for the year ended September 30, 2014, was as follows:

	Governmental <u>Activities</u>
General Fund	\$ <u>15,967</u>

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, 2014, was \$5,691. 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, 2014 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ -	\$ 793,298	\$ -	\$ 68,644
Sanitation fund – major enterprise	80,505	-	68,644	-
Water & sewer fund – major enterprise	749,585	36,792	-	-
	<u>\$ 830,090</u>	<u>\$ 830,090</u>	<u>\$ 68,644</u>	<u>\$ 68,644</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."

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 9 – CONTINGENCIES AND COMMITMENTS:

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenues sharing programs. The disbursement of funds received under these programs generally 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, 2014.

NOTE 10 – RISK MANAGEMENT:

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 11 – UTILITY CONTRACT:

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

Under this agreement, the City’s utilities operations were transferred to the Authority effective October 1, 2009, and the Authority assumed the responsibility of the water and sewer as well as the outstanding bond debt for the three cities.

During 2012, because of extreme high debt payment obligations, substandard infrastructure and loss of customers, there was going concern in regard to Authority continue to operates without substantial utility rate increase. As result, the Authority dissolved and effective March 31, 2013, all the utilities functions of the three-cities were transferred to Palm Beach County Water Utilities Department (PBCWUD). As result of this transition, all the outstanding debts of the City in amount of \$2,157,000 as of March 31, 2013 and on May 20, 2014, the State Revolving Loan was paid off (see NOTE 4 above).

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, 2014, the City paid \$6,055 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.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2014

NOTE 11 – UTILITY CONTRACT (Continued):

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, 2014, the City received \$126,472 for entity transfer fee.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS:

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

NOTE 13 – MANAGEMENT'S REVIEW:

Management has evaluated subsequent event through March 22, 2015, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of South Bay, Florida
Note to Budgetary Comparison Schedule
Budget and Actual – General Fund
For Fiscal Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 855,979	\$ 855,979	\$ 922,204	\$ 66,225
Licenses and permits	40,150	40,150	45,654	5,504
Intergovernmental	1,059,760	1,059,760	675,462	(384,298)
Charges for services	45,673	43,823	43,270	(553)
Fines and forfeitures	11,500	11,500	6,516	(4,984)
Rents	44,205	47,955	27,000	(20,955)
Investment income	150	150	1,835	1,685
Miscellaneous	8,427	28,327	71,491	43,164
Total revenues	<u>2,065,844</u>	<u>2,087,644</u>	<u>1,793,432</u>	<u>(294,212)</u>
Expenditures:				
Current:				
General government	968,195	963,710	901,030	62,680
Public safety	178,285	177,285	175,810	1,475
Highways and streets	448,089	483,799	455,349	28,450
Culture and recreation	455,625	469,830	59,185	410,645
Capital outlay	15,650	29,960	42,211	(12,251)
Debt services:				
Principal	-	2,400	2,400	-
Interest	-	660	615	45
Total expenditures	<u>2,065,844</u>	<u>2,127,644</u>	<u>1,636,600</u>	<u>491,044</u>
Excess (deficiency) of revenues over over expenditures	-	(40,000)	156,832	196,832
Other financing sources:				
Operating transfers in	-	40,000	40,000	-
Capital lease	-	-	26,160	26,160
Total other financing sources	-	40,000	66,160	26,160
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>222,992</u>	<u>\$ 222,992</u>
Fund deficit at October 1, 2013			(19,291)	
Fund balance at September 30, 2014			<u>\$ 203,701</u>	

City of South Bay, Florida
Note to Budgetary Comparison Schedule
Budget and Actual – General Fund
For Fiscal Year Ended September 30, 2014

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. During the year the original budget revenues and expenditures were amended by an increase of \$61,800 primarily due to increase in health insurance cost.

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

Actual general fund revenues were under appropriations by \$294,212 due to deferral of a grant income in amount of \$400,000 from the current fiscal year to the future. As a result, the actual general fund expenditures were under the appropriation since the related expenditures for this grant income did not occur during fiscal year 2014.

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, 2013, 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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of South Bay, Florida (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of South Bay's basic financial statements, and have issued our report thereon dated March 22, 2015.

Internal Control over Financial Reporting

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

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

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

West Palm Beach

Miami

Hollywood

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Phone (954) 966-4435

Compliance and Other Matters

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

Purpose of this Report

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

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.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

March 22, 2015

**City of South Bay, Florida
Schedule of Findings and Responses
Year Ended September 30, 2014**

Financial Statement Findings

Prior Year Findings

2013-01 Capital Assets – Buildings and Facilities - Significant Deficiency

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.

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.

Status

Partially Implemented.

Financial Statement Findings

Current Year Findings

None

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

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

Report on the Financial Statements

We have audited the financial statements of the City of South Bay, Florida, (the “City”) as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated March 22, 2015.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; (if applicable) OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, Rules of the Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in those reports and schedule, which are dated March 22, 2015, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City’s official title is disclosed in Note 1 to the Financial Statement. The City has no component units.

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

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

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations (or, if applicable, state the recommendations).

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

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, 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.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

March 22, 2015