

**City of South Bay, Florida**

**Financial Statements**

*For the Fiscal Year ended September 30, 2016*

**City of South Bay, Florida**  
**Financial Statements and Other Financial Information**  
**For The Fiscal Year Ended September 30, 2016**

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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, each major fund, and the aggregate remaining fund information of City of South Bay, Florida (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fiduciary funds, which represent 0.87 percent, 4.95 percent, and 1.59 percent, respectfully, of the assets, liabilities, and expenses of the City's pension plan. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary funds, is based solely on the report of the others auditors. 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.

### **Opinions**

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, each major fund, and the aggregate remaining fund information of the City of South Bay, Florida as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and 47 - 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, 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

June 26, 2017

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2016**

The purpose of Management's Discussion and Analysis 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, 2016. 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 increased by \$780,663 or 22.2% as a result of an increase of \$392,015 in governmental activities and an increase of \$388,648 in business-type activities.
- Governmental activities generated \$2,372,804 in revenues with \$1,980,789 in expenses.
- Business-type activities generated \$801,454 in revenues with \$412,806 in expenses.
- General fund balance increased by \$275,628, as result, the unassigned fund balance was \$578,881 or 85.8% total of fund balances.
- The net position in business type activities increased by \$388,648 due to increase of \$135,602 in water and sewer fund and an increase of \$253,046 in sanitation fund.

**Overview of the Financial Statements**

The City's financial statements comprise of three components: 1) government-wide financial statements, 2) Fund financial statements, 3) notes to the financial statements, and 4) other. 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 position. Although the purpose of the City is not to accumulate net position, over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2016**

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

- Statement of net position
- Statement of activities

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

2 – The focus of the *fund financial statements* is 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.

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2016**

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

4- Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information 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.

Analysis of government-wide financial statements:

City of South Bay, Florida  
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,839,913	\$ 1,722,974	\$ 4,008,391	\$ 3,746,926	\$ 5,848,304	\$ 5,469,900
Capital assets	<u>1,408,943</u>	<u>1,343,473</u>	<u>260,311</u>	<u>262,881</u>	<u>1,669,254</u>	<u>1,606,354</u>
Total assets	<u>3,248,856</u>	<u>3,066,447</u>	<u>4,268,702</u>	<u>4,009,807</u>	<u>7,517,558</u>	<u>7,076,254</u>
Current and other liabilities	1,138,483	1,374,248	195,506	200,674	1,333,989	1,574,922
Long-term liabilities outstanding	<u>558,990</u>	<u>532,831</u>	<u>1,322,464</u>	<u>1,447,049</u>	<u>1,881,454</u>	<u>1,979,880</u>
Total liabilities	<u>1,697,473</u>	<u>1,907,079</u>	<u>1,517,970</u>	<u>1,647,723</u>	<u>3,215,443</u>	<u>3,554,802</u>
Net position:						
Invested in capital assets						
(net of related debt)	844,609	805,606	260,311	262,881	1,104,920	1,068,487
Restricted for prepaid items	127,893	42,588	-	-	127,893	42,588
Unrestricted	<u>578,881</u>	<u>311,174</u>	<u>2,490,421</u>	<u>2,099,203</u>	<u>3,069,302</u>	<u>2,410,377</u>
Total net position	<u>\$ 1,551,383</u>	<u>\$ 1,159,368</u>	<u>\$ 2,750,732</u>	<u>\$ 2,362,084</u>	<u>\$ 4,302,115</u>	<u>\$ 3,521,452</u>

A significant portion of the City's net position (25.7%) 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 (3%) represents resources that are subject to restriction on how they may be used.



**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2016**

The net position increased from \$3,521,452 to \$4,302,115 as a result of net an increase of \$388,648 in business-type and increase of \$392,015 in governmental activities fund groups.

**Expenses and Revenues – Governmental Activities:**

Net position increase or decrease over time serves as a useful indicator of the government's financial position. Net position in governmental activities increased by \$392,015 in the current year, while the net position in prior year decreased by \$22,330. Revenues in governmental activities including transfer in, increased by \$475,392 when the expenditures increased by \$61,047 in fiscal year 2016.

City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charge for services	\$ 49,151	\$ 46,302	\$ 645,253	\$ 629,203	\$ 694,404	\$ 675,505
Operating grant and contribution	359,815	53,450	-	-	359,815	53,450
General revenues:						
Property taxes	363,656	319,866	-	-	363,656	319,866
Franchise	522,245	524,351	-	-	522,245	524,351
Other taxes	947,119	864,611	-	-	947,119	864,611
Other	71,053	88,832	156,201	158,059	227,254	246,891
Total revenues	<u>2,313,039</u>	<u>1,897,412</u>	<u>801,454</u>	<u>787,262</u>	<u>3,114,493</u>	<u>2,684,674</u>
Expenses:						
General government	1,050,282	1,002,797	-	-	1,050,282	1,002,797
Public safety	176,806	174,329	-	-	176,806	174,329
Highway and street	672,872	676,636	-	-	672,872	676,636
Culture and recreation	79,835	64,696	-	-	79,835	64,696
Water and sewer	-	-	3,570	17,572	3,570	17,572
Sanitation	-	-	338,184	342,735	338,184	342,735
Interest on long term debt	994	1,284	11,287	13,592	12,281	14,876
Total expenses	<u>1,980,789</u>	<u>1,919,742</u>	<u>353,041</u>	<u>373,899</u>	<u>2,333,830</u>	<u>2,293,641</u>
Increase (decrease) in net assets before transfer in (out)	332,250	(22,330)	448,413	413,363	780,663	391,033
Transfer in /(out)	59,765	-	(59,765)	-	-	-
Increase (decrease) in net position	392,015	(22,330)	388,648	413,363	780,663	391,033
Net position at beginning of year	1,159,368	1,229,956	2,362,084	1,948,721	3,521,452	3,178,677
Prior period adjustment	-	(48,258)	-	-	-	(48,258)
Net position at beginning of year, restated	<u>1,159,368</u>	<u>1,181,698</u>	<u>2,362,084</u>	<u>1,948,721</u>	<u>3,521,452</u>	<u>3,130,419</u>
Net position at end of year	<u>\$ 1,551,383</u>	<u>\$ 1,159,368</u>	<u>\$ 2,750,732</u>	<u>\$ 2,362,084</u>	<u>\$ 4,302,115</u>	<u>\$ 3,521,452</u>

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
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The net position in business-type activities increased by \$388,648 in the current year, when prior year net position increased by \$413,363. The revenues in business-type increased by \$14,192 when the expenditures increased by \$38,907 mainly due to a transfer out in amount of \$59,765 to General Fund.

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 aggregated \$2,054,394 including a transfer in amount of \$59,765 while expenditures totaled \$1,778,766 including a transfer out to Capital Project fund in amount of \$81,921, resulting in \$275,628 increase in the fund balance for the year end.

Proprietary Funds – The *water and sewer fund* and sanitation fund are identified as major proprietary funds and report the operating income and change in net position.

Total propriety funds' revenues for charge for services and other sources aggregated \$801,454, while the total expenditures totaled \$412,806 including a transfer out of \$59,765 to the General Fund resulting in \$388,648 increase in net position.

General Fund Budgetary Highlights

General fund operations had a positive variance in amount of \$275,628, when the actual revenues were \$202,444, less than the final budget. Actual expenditures were less than the final appropriation by \$478,072. 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, 2016, amounted to \$1,669,254 an increase of \$62,900 from the prior year. The increase was primarily due to the recording of \$107,340 construction in progress. 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, 2016**

City of South Bay, Florida  
**Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 217,188	\$ 217,188	\$ 212,927	\$ 212,927	\$ 430,115	\$ 430,115
Buildings and improvements	830,166	830,166	-	-	830,166	830,166
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	9,027,907	8,857,639	-	-	9,027,907	8,857,639
Construction in Progress	107,340	-	-	-	107,340	-
Equipment and machinery	<u>658,503</u>	<u>741,913</u>	<u>-</u>	<u>-</u>	<u>658,503</u>	<u>741,913</u>
Total	11,023,023	10,828,825	341,448	341,448	11,364,471	11,170,273
Accumulated depreciation	<u>(9,614,080)</u>	<u>(9,485,352)</u>	<u>(81,137)</u>	<u>(78,567)</u>	<u>(9,695,217)</u>	<u>(9,563,919)</u>
Total capital assets, net	<u>\$ 1,408,943</u>	<u>\$ 1,343,473</u>	<u>\$ 260,311</u>	<u>\$ 262,881</u>	<u>\$ 1,669,254</u>	<u>\$ 1,606,354</u>

**Long-Term Debt**

At the end of the current fiscal year, the City had a total of \$2,011,383 in notes, bonds and capital lease outstanding as compared to \$2,100,938 last year, a decrease of \$89,555. The decrease mainly attributed to \$91,022 long-term portion of 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	
	2016	2015	2016	2015	2016	2015
Revenues bonds	\$ -	\$ -	\$ 1,050,700	\$ 1,075,700	\$ 1,050,700	\$ 1,075,700
Notes	470,595	470,595	-	-	470,595	470,595
Accounts payable	-	-	396,349	487,371	396,349	487,371
Capital Leases	13,978	19,014	-	-	13,978	19,014
Net pension liability	<u>79,761</u>	<u>48,258</u>	<u>-</u>	<u>-</u>	<u>79,761</u>	<u>48,258</u>
Total	<u>\$ 564,334</u>	<u>\$ 537,867</u>	<u>\$ 1,447,049</u>	<u>\$ 1,563,071</u>	<u>\$ 2,011,383</u>	<u>\$ 2,100,938</u>

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2016**

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 they are 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 and establish goals and priorities when adopting the annual budget each year. Improvements to roads and park which they will be funded by grants monies are expected to be started in January 2016. City's capital projects budget for road improvements, park and buildings for fiscal year 2016-2017, totaled \$2,389,808.

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 6.7% is projected for the fiscal year 2016-2017.

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. 2<sup>nd</sup> Avenue, South Bay, FL 33493. Additional information is also available on the City's website.

## **FINANCIAL STATEMENTS**

**City of South Bay, Florida**  
**Statement of Net Position**  
**September 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 868,137	\$ 2,013,401	\$ 2,881,538
Accounts receivable (net of allowances for uncollectible accounts)	63,305	131,552	194,857
Due from government	124,383	-	124,383
Prepaid items	47,422	-	47,422
Due from other funds	47,152	786,377	833,529
Restricted assets:			
Cash and cash equivalents	112,108	26,601	138,709
Investments	-	1,004,623	1,004,623
Capital assets	1,408,943	260,311	1,669,254
Other assets	549,151	45,837	594,988
Total assets	<u>3,220,601</u>	<u>4,268,702</u>	<u>7,489,303</u>
<b>Deferred outflows:</b>			
Deferred outflows-pension	28,255	-	28,255
Total deferred outflows	<u>28,255</u>	<u>-</u>	<u>28,255</u>
<b>Liabilities:</b>			
Accounts payable	144,472	7,769	152,241
Accrued liabilities	13,768	-	13,768
Compensated absences	48,612	-	48,612
Due to other funds	796,737	36,792	833,529
Payable from restricted assets:			
Interest payable	-	26,360	26,360
Long-term debt:			
Due within in one year	5,344	124,585	129,929
Capital lease	8,634	-	8,634
Due in more than one year	470,595	1,322,464	1,793,059
Net pension liability	79,761	-	79,761
Total liabilities	<u>1,567,923</u>	<u>1,517,970</u>	<u>3,085,893</u>
<b>Deferred inflows:</b>			
Deferred inflows-revenues	125,337	-	125,337
Deferred inflows-pension	4,213	-	4,213
Total deferred inflows	<u>129,550</u>	<u>-</u>	<u>129,550</u>
<b>Net Position:</b>			
Invested in capital assets, net of related debt	844,609	260,311	1,104,920
Restricted for:			
Prepaid items	47,422	-	47,422
Capital projects	80,471	-	80,471
Unrestricted	578,881	2,490,421	3,069,302
Total net position	<u>\$ 1,551,383</u>	<u>\$ 2,750,732</u>	<u>\$ 4,302,115</u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2016**

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 1,050,282	\$ -	\$ 41,405	\$ (1,008,877)	\$ -	\$ (1,008,877)
Public safety	176,806	-	-	(176,806)	-	(176,806)
Highways and streets	672,872	49,151	318,410	\$ (305,311)	-	(305,311)
Culture and recreation	79,835	-	-	(79,835)	-	(79,835)
Interest	994	-	-	(994)	-	(994)
Total governmental activities	1,980,789	49,151	359,815	(1,571,823)	-	(1,571,823)
Business-type activities:						
Water and sewer	14,857	-	-	-	(14,857)	(14,857)
Sanitation	338,184	645,253	-	-	307,069	307,069
Total business-type activities	353,041	645,253	-	-	292,212	292,212
Total governmental	<u>\$ 2,333,830</u>	<u>\$ 694,404</u>	<u>\$ 359,815</u>	<u>(1,571,823)</u>	<u>292,212</u>	<u>(1,279,611)</u>
General revenue:						
Taxes:						
Ad Valorem				363,656	-	363,656
Gasoline				109,956	-	109,956
Franchise				522,245	-	522,245
Sales tax				241,632	-	241,632
State revenue sharing				167,789	-	167,789
Payment in lieu of taxes				290,758	-	290,758
Occupational licenses and permits				136,984	-	136,984
Investment earnings				2,894	6,476	9,370
Other				68,159	149,725	217,884
Interfund transfers				59,765	(59,765)	-
Total general revenues				1,963,838	96,436	2,060,274
Change in net position				392,015	388,648	780,663
Net position – October 1, 2015				1,159,368	2,362,084	3,521,452
Net position – September 30, 2016				<u>\$ 1,551,383</u>	<u>\$ 2,750,732</u>	<u>\$ 4,302,115</u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2016**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor Fund</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 787,666	80,471	\$ 868,137
Accounts receivable (net of allowances for uncollectible)	63,305	-	63,305
Due from government	77,231	47,152	124,383
Prepaid items	47,422	-	47,422
Due from other funds	47,152	-	47,152
Other assets	549,151	-	549,151
<b>Restricted assets:</b>			
Cash and cash equivalents	112,108	-	112,108
Total assets	<u>\$ 1,684,035</u>	<u>\$ 127,623</u>	<u>\$ 1,811,658</u>
<b>Liabilities and fund balances:</b>			
Liabilities:			
Accounts payable	\$ 120,430	\$ -	\$ 120,430
Accrued liabilities	13,768	-	13,768
Due to other funds	749,585	47,152	796,737
Total liabilities	<u>883,783</u>	<u>47,152</u>	<u>930,935</u>
Deferred inflows	<u>125,337</u>	<u>-</u>	<u>125,337</u>
<b>Fund balances:</b>			
Non-spendable:			
Prepaid items	47,422	-	47,422
Restricted for:			
Capital projects	-	80,471	80,471
Committed to:			
Compensated absences	48,612	-	48,612
Unassigned	<u>578,881</u>	<u>-</u>	<u>578,881</u>
Total fund Balances	<u>674,915</u>	<u>80,471</u>	<u>755,386</u>
Total liabilities and fund balances	<u>\$ 1,684,035</u>	<u>\$ 127,623</u>	<u>\$ 1,811,658</u>

See accompanying notes to financial statements.



**City of South Bay, Florida**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**Governmental Funds**  
**September 30, 2016**

<b>Fund Balance – Total Governmental Funds</b>	\$	755,386
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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

1,408,943

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	\$	(48,612)
Pension liabilities		(79,761)
General obligation notes and lease payable		(484,573)

(612,946)

**Total net position – Governmental Activities**

\$ 1,551,383

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended September 30, 2016**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Revenues:</b>			
Taxes	\$ 995,857	\$ -	\$ 995,857
Licenses and permits	134,685	-	134,685
Intergovernmental	743,882	318,410	1,062,292
Charges for services	49,151	-	49,151
Fines and forfeitures	4,135	-	4,135
Rents	32,465	-	32,465
Investment income	2,894	-	2,894
Miscellaneous revenues	31,560	-	31,560
Total revenues	<u>1,994,629</u>	<u>318,410</u>	<u>2,313,039</u>
<b>Expenditures:</b>			
Current:			
General government	995,158	-	995,158
Public safety	176,806	-	176,806
Highways and streets	449,899	314,310	764,209
Culture and recreation	68,942	5,550	74,492
Debt services:			
Principal	5,046	-	5,046
Interest	994	-	994
Total expenditures	<u>1,696,845</u>	<u>319,860</u>	<u>2,016,705</u>
Other financing sources (uses):			
Operating transfer in	59,765	81,921	141,686
Operating transfer out	(81,921)	-	(81,921)
Total other financing sources (uses):	<u>(22,156)</u>	<u>81,921</u>	<u>59,765</u>
Net change in fund balance	275,628	80,471	356,099
Fund balance at October 1, 2015	<u>399,287</u>	<u>-</u>	<u>399,287</u>
Fund balance at September 30, 2016	<u>\$ 674,915</u>	<u>\$ 80,471</u>	<u>\$ 755,386</u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Governmental Funds**  
**For the Fiscal Year Ended September 30, 2016**

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

Net change in fund balance – total governmental funds	\$ 356,099
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	277,608
Current year depreciation	(212,138)
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	(3,097)
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.	
	5,046
Pension expense	(31,503)
Change in net position of governmental activities	<hr/> \$ 392,015 <hr/>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2016**

	<b>Major Fund</b>		<b>Total Business-Type Activities Enterprise Funds</b>
	<b>Water and Sewer</b>	<b>Sanitation</b>	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 314,879	\$ 1,698,522	\$ 2,013,401
Accounts receivable, net	27,703	103,849	131,552
Due from other funds	749,585	36,792	786,377
Restricted assets			
Cash and cash equivalents	26,601	-	26,601
Total current assets	1,118,768	1,839,163	2,957,931
Non-current assets:			
Restricted assets			
Investments	1,004,623	-	1,004,623
Capital assets			
Property, net	260,311	-	260,311
Other assets	45,837	-	45,837
Total non-current assets	1,310,771	-	1,310,771
Total assets	\$ 2,429,539	\$ 1,839,163	\$ 4,268,702

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2016**

	<b>Major Fund</b>		<b>Total Business-Type Activities Enterprise Funds</b>
	<b>Water and Sewer</b>	<b>Sanitation</b>	
<b>Liabilities and net assets</b>			
Liabilities:			
Current liabilities			
Accounts payable	\$ -	\$ 7,769	\$ 7,769
Due to other fund	36,792	-	36,792
Current portion of long-term debt	98,485	-	98,485
Total current liabilities	135,277	7,769	143,046
Current liabilities payable from restricted assets:			
Interest payable	26,360	-	26,360
Current portion of bond payable	26,100	-	26,100
Total current liabilities payable from current restricted assets	52,460	-	52,460
Non-current liabilities:			
Long-term portion of accounts payable	297,864		297,864
Long-term portion of bond payable	1,024,600	-	1,024,600
Total non-current liabilities	1,322,464	-	1,322,464
Total liabilities	1,510,201	7,769	1,517,970
Net position:			
Invested in capital assets	260,311	-	260,311
Unrestricted	659,027	1,831,394	2,490,421
Total net position	\$ 919,338	\$ 1,831,394	\$ 2,750,732

See accompanying notes to 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, 2016**

	<b>Major Fund</b>		<b>Total Business-Type Activities Enterprise Funds</b>
	<b>Water and Sewer</b>	<b>Sanitation</b>	
Operating revenues:			
Charges for services	\$ -	\$ 645,253	\$ 645,253
Municipal fee	149,725	-	149,725
Total operating revenues	149,725	645,253	794,978
Operating expenses:			
Contractual services	-	331,727	331,727
Other services and charges	3,570	6,457	10,027
Total operating expenses	3,570	338,184	341,754
Operating income	146,155	307,069	453,224
Non-operating revenues (expenses):			
Interest revenue	734	5,742	6,476
Interest expense	(11,287)	-	(11,287)
Total non-operating revenues (expenses)	(10,553)	5,742	(4,811)
Income before transfer out	135,602	312,811	448,413
Transfer out	-	(59,765)	(59,765)
Change in net position	135,602	253,046	388,648
Net position – October 1, 2015	783,736	1,578,348	2,362,084
Net position – September 30, 2016	\$ 919,338	\$ 1,831,394	\$ 2,750,732

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended September 30, 2016**

	<b>Major Fund</b>		<b>Total Business-Type Activities Enterprise Funds</b>
	<b>Water and Sewer</b>	<b>Sanitation</b>	
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 140,531	\$ 620,463	\$ 760,994
Payments to suppliers	(15,000)	(337,335)	(352,335)
Net cash provided by operating activities	125,531	283,128	408,659
<b>Cash flows from capital and related financing activities:</b>			
Interest paid	(11,287)	-	(11,287)
Principal paid	(116,022)	-	(116,022)
Repayments and advances to other funds	-	14,219	14,219
Net cash provided by (used in) capital and related financing activities	(127,309)	14,219	(113,090)
<b>Cash flows from non-capital and related financing activities:</b>			
Transfer out to General fund	-	(59,765)	(59,765)
Net cash (used in) capital and related financing activities	-	(59,765)	(59,765)
<b>Cash flows from investing activities:</b>			
Interest received	734	5,742	6,476
Decrease in investment	25,000	-	25,000
Net cash provided by investing activities	25,734	5,742	31,476
Net increase in cash	23,956	243,324	267,280
Cash and cash equivalents at beginning of year	290,923	1,455,198	1,746,121
Cash and cash equivalents at end of year	<u>\$ 314,879</u>	<u>\$ 1,698,522</u>	<u>\$ 2,013,401</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 146,155	\$ 307,069	\$ 453,224
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	(9,194)	(24,790)	(33,984)
(decrease) in accounts payable	(14,000)	849	(13,151)
Total adjustments	(20,624)	(23,941)	(44,565)
Net cash provided by operating activities	<u>\$ 125,531</u>	<u>\$ 283,128</u>	<u>\$ 408,659</u>

See accompanying notes to financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**



**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

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

**(a) Reporting Entity**

The financial statements were prepared in accordance with the governmental accounting standards 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 the City appoints a voting majority of the organization's governing board, and if 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, 2016**

**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 as *general revenues*, instead.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In fiscal year ended September 30, 2016, there are no remaining governmental funds to be aggregated and reported as non-major funds.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to reconcile the fund-based financial statements to the governmental activities column of the government-wide presentation. The City applies eligible expenses against available restricted resources before the use of unrestricted resources.

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

The government-wide financial statements, as well as the proprietary fund financial statements, are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue 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, 2016**

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

**Major Funds and Basis Presentation**

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, 2016**

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

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

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

The *Sanitation Fund* accounts for activities related to solid waste, trash, and mosquito control services 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 a qualified public depository and they are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The uninsured balance at September 30, 2016 was \$2,863,194 on bank statements balance less FDIC insurance at that time.

**(2) Unbilled Accounts Receivable**

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

**(3) Accounts Receivable**

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

**(4) Allowances for Doubtful Accounts**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**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 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, 2016**

**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 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, as well as the proprietary 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 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, 2016**

**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 then remits to the City monies collected from the previous calendar year, as prescribed by law.

**(14) Deferred inflows and outflows of Resources**

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

**(15) Use of Estimates**

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

**(16) Fund Balance**

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

Additionally the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

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

**(16) Fund Balance (Continued)**

incurred for the purpose for which amounts in any unrestricted fund balance classifications could be used.

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

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

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

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

**(17) Net Position**

Net assets of the government-wide and proprietary funds are categorized as *invested in capital assets*, net of related debt, restricted or unrestricted. *Invested 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, 2016**

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

**(18) Budget and Budgetary Accounting**

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

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

**NOTE 2 – INVESTMENTS:**

Investments consist of U.S Government time deposit securities. The table below summarizes the scheduled maturities of the investments at September 30, 2016:

	<u>Fair Value of Investments Maturities</u>				
	<u>Less Than</u>	<u>One to</u>	<u>Six To</u>	<u>More Than</u>	
	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>	<u>Ten Years</u>	<u>Total</u>
U.S Government securities	<u>\$ 23,287</u>	<u>\$ 136,788</u>	<u>\$ 177,639</u>	<u>\$ 666,909</u>	<u>\$1,004,623</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.

*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.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 2 – INVESTMENTS (Continued):**

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.

**NOTE 3 – CAPITAL ASSETS:**

Changes in capital assets of the City as of September 30, 2016, are shown below:

	<b>Balance 9/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2016</b>
<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	830,166	-	-	830,166
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	8,857,639	170,268	-	9,027,907
Equipment and machinery	741,913	-	83,410	658,503
Construction in progress	-	107,340	-	107,340
Total capital assets being depreciated	<u>10,611,637</u>	<u>277,608</u>	<u>83,410</u>	<u>10,805,835</u>
Less accumulated depreciation for:				
Buildings and improvements	617,242	16,144		633,386
Improvement other than buildings and roads	181,918	-		181,918
Infrastructure	7,971,877	182,828		8,154,705
Equipment and machinery	714,315	13,166	83,410	644,071
Total accumulated depreciation	<u>9,485,352</u>	<u>212,138</u>	<u>83,410</u>	<u>9,614,080</u>
Total capital assets being depreciated, net	<u>1,126,285</u>	<u>65,470</u>	<u>-</u>	<u>1,191,755</u>
Governmental activities capital assets, net	<u>\$ 1,343,473</u>	<u>\$ 65,470</u>	<u>-</u>	<u>\$ 1,408,943</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 3 – CAPITAL ASSETS (Continued):**

	<b>Balance 9/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2016</b>
<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	78,567	2,570	-	81,137
Total capital assets being depreciated	49,954	(2,570)	-	47,384
Business-type activities capital assets, net	\$ 262,881	\$ (2,570)	\$ -	\$ 260,311

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

Governmental activities

General government	\$ 20,534
Highway and streets	186,262
Culture and recreation	5,342

Total depreciation expense – governmental activities      \$ 212,138

**NOTE 4 – LONG TERM DEBT:**

Long-term debt activities for the year ended September 30, 2016, are shown below:

	<b>Balance 9/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2016</b>
<b><u>Governmental activities:</u></b>				
Notes payable	\$ 470,595	\$ -	\$ -	\$ 470,595
Capital lease obligation	19,014	-	5,036	13,978
Compensated absences	45,525	3,087	-	48,612
<b>Total governmental activities</b>	<u>\$ 535,134</u>	<u>\$ 3,087</u>	<u>\$ 5,036</u>	<u>\$ 533,185</u>
<b><u>Business-type activities:</u></b>				
Bond payable	\$ 1,075,700	\$ -	\$ 25,000	\$ 1,050,700
Account payable	487,371	-	91,022	396,349
<b>Total business-type activities</b>	<u>1,563,071</u>	<u>-</u>	<u>116,022</u>	<u>1,447,049</u>
<b>Total long-term debt</b>	<u>\$ 2,098,205</u>	<u>\$ 3,087</u>	<u>\$ 121,058</u>	<u>\$ 1,980,234</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

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

Bond Series 1998 Second Subordinate Water Revenue

<u>Fiscal year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 26,100	\$ 49,908	\$ 76,008
2018	27,400	48,669	76,069
2019	28,700	47,367	76,067
2020	30,000	46,004	76,004
2021	31,500	44,579	76,079
2022 - 2026	181,300	198,987	380,287
2027 - 2031	228,600	151,649	380,249
2032 - 2036	288,200	91,955	380,155
2037 - 2038	208,900	20,197	229,097
Total	<u>\$ 1,050,700</u>	<u>\$ 699,315</u>	<u>\$ 1,750,015</u>

Change during fiscal year:

Outstanding October 1, 2015	\$ 1,075,700
Retired	(25,000)
Outstanding September 30, 2016	<u>\$ 1,050,700</u>
Due within one year	\$ 26,100
Due in more than one year	1,024,600
	<u>\$ 1,050,700</u>

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

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, 2016 was \$470,594 (See Note 14 subsequent event).

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 4 – LONG TERM DEBT (Continued):**

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>	
	2017	\$ 47,309
	2018	47,309
	2019	47,309
	2020	<u>27,598</u>
Total payment		169,525
Less amount represent interest payment		<u>(18,176)</u>
Net payment		<u>\$ 151,349</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 the sewer services from September 2005 through September 30, 2009. Under the term of this settlement, the City agreed to pay an initial payment of \$200,000 on January 20, 2015, and \$5,000 monthly installment payments effective October 1, 2015 for sixty months. The monthly payment is secured by host fees which it payable to the City by Palm Beach County Water Department. The future payment for this liability is as follows:

	<u>September 30,</u>	
	2017	\$ 60,000
	2018	60,000
	2019	60,000
	2020	60,000
	2021	<u>5,000</u>
Total payment		<u>\$ 245,000</u>

**NOTE 5 – COMPENSATED ABSENCES**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 5 – COMPENSATED ABSENCES (Continued)**

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

	<u>Governmental Activities</u>
Balances at October 1, 2015	\$ 45,525
Increase	3,087
Balance at September 30, 2016	<u>\$ 48,612</u>

**NOTE 6 – CAPITAL LEASE:**

The City purchased an auto under a capital lease from a third party and recorded the transaction in *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, 2016 are as follows:

<u>Year Ending</u>	
2017	\$ 6,030
2018	6,030
2019	<u>3,015</u>
Total minimum lease payment	15,075
Less: amount representing interest	<u>( 1,097)</u>
Present value of future payments	<u>\$ 13,978</u>

**NOTE 7 - FLORIDA RETIREMENT SYSTEM**

General Information - In accordance with Ordinance 15-2010 dated October 19, 2010, the City established Florida Retirement System (FRS) Investment Plan for the City Commissioners and the appointed officers (defined contribution plan). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services; (1) Division of Retirement, including the FRS Pension Plan (“Pension Plan”), and (2) the Retiree Health Insurance Subsidy (“HIS Plan”). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (“Investment Plan”) alternative to the FRS Pension Plan, which is administered by the State Board of Administration (“SBA”). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, City government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

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

**Pension Plan**

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

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

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service and increased the normal retirement age to 65 or 33 years of service regardless of age members for regular members, senior management service members, and Elected Officers’ class members. For special risk and special risk administrative support class members, the vesting requirement increased the normal retirement to age 60 or 30 years of service regardless of age. Additionally, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

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

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular—7.26% and 7.52%; Special Risk Administrative Support—32.95% and 28.06%; Special Risk—22.04% and 22.57%; Senior Management Service—21.43% and 21.77%; Elected Officers’—42.27% and 42.47%; and DROP participants—18.75% and 12.99%. These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively.

The City’s contributions, including employee contributions, to the Pension Plan totaled \$8,458 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the City reported a liability of \$71,077 for its proportionate share of the Pension Plan’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City’s proportionate share of the net pension liability was based on the City’s 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City’s proportionate share was .000281493 percent, which was an increase (decrease) of (.000277) percent from its proportionate share measured as of June 30, 2015.



**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$17,047. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,442	\$ 662
Change in assumptions	4,300	-
Net difference between projected and actual earnings on pension plan investments	18,373	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	26,818	3,289
City pension plan contributions Subsequent to the measurement date	<u>1,863</u>	<u>-</u>
Total	<u>\$ 56,796</u>	<u>\$ 3,951</u>

The deferred outflows of resources related to the Pension Plan, totaling \$1,863 and resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the Pension Plan, will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2017	\$ (3,159)
2018	(3,159)
2019	4,708
2020	914
2021	239
Thereafter	<u>51,439</u>
Total	<u>\$ 50,982</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods, included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, net of pension plan investment expense, including inflation

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

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

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed Income	18.0%	4.7%	4.6%	4.6%
Global Equity	53.0%	8.1%	6.8%	17.2%
Real Estate	10.0%	6.4%	5.8%	12.0%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	11.1%
Total	<u>100.00%</u>			

Assumed Inflation - Mean	2.60%	2.00%
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Discount Rate - The discount rate used to measure the total pension liability was 7.65%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
City's proportionate share of the net pension liability	\$ 130,858	\$ 71,077	\$ 21,318

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

Payables to the Pension Plan - At September 30, 2016, the City reported a payable in the amount of \$71,077 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

**HIS Plan**

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

Benefits Provided – For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered, retirement system must provide proof of health insurance coverage, which may include medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2016, the

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

HIS contribution for the period October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.26% and 1.66%, respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contribution are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$382 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources, Related to Pensions – At September 30, 2016, the City reported a liability of \$8,684 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was .000074512 percent, which was an increase (decrease) of (.000071) percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$822. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 20
Change in assumptions	1,363	-
Net difference between projected and actual earnings on pension plan investments	4	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	1,437	924
City pension plan contributions Subsequent to the measurement date	95	-
Total	<u>\$ 2,899</u>	<u>\$ 944</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
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**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

The deferred outflows of resources related to the HIS Plan, totaling \$95 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the HIS Plan, will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2017	\$ 114
2018	114
2019	113
2020	113
2021	91
Thereafter	1,315
Total	\$ 1,860

Actuarial Assumptions – The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.85%

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

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

Discount Rate - The discount rate used to measure the total pension liability was 4.29%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

liability calculated using the discount rate of 2.85%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
City's proportionate share of the net pension liability	\$ 9,963	\$ 8,684	\$ 7,623

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

Payables to the Pension Plan - At September 30, 2016, the City reported a payable in the amount of \$8,684 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

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

**Investment Plan**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued):**

class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and City Elected Officers class 11.34%.

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

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

The City's Investment Plan pension expense totaled \$8,458 for the fiscal year ended September 30, 2016.

**NOTE 8 – EMPLOYEE MONEY PURCHASE PENSION PLAN:**

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

**Money Purchase Pension Plan:**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

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

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

The pension expense under this plan for the year ended September 30, 2016, was as follows:

	<u>Governmental Activities</u>
General Fund	\$ <u>19,747</u>

**NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES:**

Interfund receivable and payable balances at September 30, 2016 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund – major	\$ 47,152	\$ 749,585	\$ -	\$ 61,371
Capital projects fund	-	47,152	47,152	-
Sanitation fund – major enterprise	36,792	-	14,219	-
Water & sewer fund – major enterprise	749,585	36,792	-	-
	<u>\$ 833,529</u>	<u>\$ 833,529</u>	<u>\$ 61,371</u>	<u>\$ 61,371</u>

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

**NOTE 10 – CONTINGENCIES AND COMMITMENTS:**

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenues sharing programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, 2016.



**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 11 – RISK MANAGEMENT:**

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

**NOTE 12 – UTILITY CONTRACT:**

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

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

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

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, 2016, the City paid \$6,804 for the collection fees.

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

Under the agreement, both the Authority and PBCWUD are required to pay the City an annual entity transfer fee equal to seven percent based on annual gross revenues. For the year ended September 30, 2016, the City received \$149,725 for entity transfer fee.

**NOTE 13 – OTHER POST EMPLOYMENT BENEFITS:**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE 14 – MANAGEMENT’S REVIEW:**

Management has evaluated subsequent event through June 26, 2017, which is the date the financial statements were available to be issued.

**NOTE 15 – SUBSEQUENT EVENTS:**

- 1- On October 4, 2016, in accordance with agreement between Florida Department of Economic Opportunity “DEO” and Board of the Internal Improvement Trust Fund “IITF”, the DEO agreed to transfer amount of \$470,900 to IITF (the mortgagee) in exchange for the forgiveness of the outstanding balance of the City’s mortgage on the land located at South Bay Park of Commerce in connection with the State economic development goals.
- 2- On March 6, 2017, the City sold a property in amount of \$249,894. The proceeds of the sale is intended to be used for City capital projects.

## **SUPPLEMENTARY INFORMATION**

**City of South Bay, Florida**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2016**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes	\$ 949,036	\$ 965,211	\$ 995,857	\$ 30,646
Licenses and permits	78,150	120,650	134,685	14,035
Intergovernmental	702,951	754,425	743,882	(10,543)
Charges for services	43,967	43,967	49,151	5,184
Fines and forfeitures	5,250	5,250	4,135	(1,115)
Rents	30,050	30,050	32,465	2,415
Investment income	460	460	2,894	2,434
Miscellaneous	269,660	277,060	31,560	(245,500)
Total revenues	<u>2,079,524</u>	<u>2,197,073</u>	<u>1,994,629</u>	<u>(202,444)</u>
<b>Expenditures:</b>				
Current:				
General government	1,032,978	1,140,527	995,158	145,369
Public safety	177,950	177,950	176,806	1,144
Highways and streets	499,350	509,350	449,899	59,451
Culture and recreation	86,030	86,030	68,942	17,088
Debt services:				
Principal	5,060	5,060	5,046	14
Interest	1,000	1,000	994	6
Total expenditures	<u>1,802,368</u>	<u>1,919,917</u>	<u>1,696,845</u>	<u>223,072</u>
Excess of revenues over expenditures	<u>277,156</u>	<u>277,156</u>	<u>297,784</u>	<u>20,628</u>
Other financing sources (uses):				
Operating transfer in	59,765	59,765	59,765	-
Operating transfer out	<u>(336,921)</u>	<u>(336,921)</u>	<u>(81,921)</u>	<u>255,000</u>
Total other financing (uses):	<u>(277,156)</u>	<u>(277,156)</u>	<u>(22,156)</u>	<u>255,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>275,628</u>	<u>\$ 275,628</u>
Fund balance at October 1, 2015			<u>399,287</u>	
Fund balance at September 30, 2016			<u>\$ 674,915</u>	

See accompanying notes to the budgetary comparison schedule

**City of South Bay, Florida**  
Notes to Budgetary Comparison Schedule  
Budget and Actual – General Fund  
For the Fiscal Year Ended September 30, 2016

**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 1<sup>st</sup>. The Annual Budget and Financial Plan are prepared by fund, function and activities and include all proposed expenditures and means of financing them. Public hearings are conducted to obtain taxpayers comments. Prior to October 1<sup>st</sup>, 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 and they were increased by \$117,549 primarily due to additional revenues and expenditures received and incurred during fiscal year 2016.

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 \$202,466 due to a deferral of a sale of City's property to subsequent year, when the actual general fund expenditures were under the appropriation by \$223,072.

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, 2016, 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.

## **Nonmajor Governmental Fund**

### **Capital Projects Funds**

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

**City of South Bay, Florida**  
**Balance Sheet**  
**Nonmajor Governmental Fund**  
**September 30, 2016**

	<b>Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 80,471	\$ 80,471
Due from government	47,152	47,152
Total assets	<u>\$ 127,623</u>	<u>\$ 127,623</u>
<b>Liabilities and fund balances:</b>		
<b>Liabilities:</b>		
Due to other funds	\$ 47,152	\$ 47,152
Total liabilities	<u>47,152</u>	<u>47,152</u>
<b>Fund balances:</b>		
Restricted for:		
Capital projects	80,471	80,471
Total fund Balances	<u>80,471</u>	<u>80,471</u>
Total liabilities and fund balances	<u>\$ 127,623</u>	<u>\$ 127,623</u>

**City of South Bay, Florida**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**Capital Projects Fund**  
**For the Fiscal Year Ended September 30, 2016**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Intergovernmental	\$ 1,986,687	\$ 1,986,687	\$ 318,410	\$ (1,668,277)
Total revenues	<u>1,986,687</u>	<u>1,986,687</u>	<u>318,410</u>	<u>(1,668,277)</u>
<b>Expenditures:</b>				
Current:				
General government	125,000	125,000	-	125,000
Highways and streets	1,798,608	1,798,608	314,310	1,484,298
Culture and recreation	400,000	400,000	5,550	394,450
Total expenditures	<u>2,323,608</u>	<u>2,323,608</u>	<u>319,860</u>	<u>2,003,748</u>
Deficiency of revenues over expenditures	<u>(336,921)</u>	<u>(336,921)</u>	<u>(1,450)</u>	<u>335,471</u>
Other financing sources:				
Operating transfer in	<u>336,921</u>	<u>336,921</u>	<u>81,921</u>	<u>(255,000)</u>
Total other financing sources:	<u>336,921</u>	<u>336,921</u>	<u>81,921</u>	<u>(255,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>80,471</u>	<u>\$ 80,471</u>
Fund balance at October 1, 2015			<u>-</u>	
Fund balance at September 30, 2016			<u>\$ 80,471</u>	



## **COMPLIANCE SECTION**

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

To the Honorable Mayor and Members of the City Council  
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, each major fund, and the aggregate remaining fund information of City of South Bay, Florida, (the 'City') as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2017. Our report includes a reference to other auditors who audited the financial statements of the Fiduciary Funds, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida  
June 26, 2017

**CITY OF SOUTH BAY, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

**Financial Statement Findings**

Matters that are repeated

None.

Matters that are not repeated

**2015-01 Competitive Bidding Process – Control Deficiency**

**Condition**

During our test of expenditures, we discovered a contract entered into that did not follow the policies and procedures for the Request For Proposal (RFP). The City's received fewer bids than is required per their policies and procedures and was not re-advertised to receive the required amount.

**Recommendation**

We recommend that the City review its policies and procedures manual to ensure compliance with purchasing going forward.

**Status**

Implemented.

**2015-02 Fuel Reimbursement – Significant Deficiency**

**Condition**

The City pays for the City Manager's fuel for non-business miles driven (ie: home to City Hall).

**Recommendation**

We recommend that the City adopts a reimbursement policy that is in line with the federal rules and guidelines.

**Status**

Implemented.

**CITY OF SOUTH BAY, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Financial Statement Findings**

Matters that are not repeated (Continued)

**2015-03 Purchase Order Overage – Significant Deficiency**

**Condition**

The City paid on an invoice that exceeded the Purchase order (PO) amount without amending the current PO for the new unit price and quantity.

**Recommendation**

We recommend that the City establishes policies and procedures that do not allow the release of funds on PO overages until the current PO is amended, reviewed, and approved.

**Status**

Implemented.

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

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

**Report on the Financial Statements**

We have audited the financial statements of the City of South Bay, Florida (the 'City'), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 26, 2017.

**Auditor's Responsibility**

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

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 26, 2017, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address the finding and recommendation made in the preceding annual financial report which is described in the accompanying Schedule of Findings and Questioned Costs as items **2015-01, 2015-02, and 2015-03.**

## **Official Title and Legal Authority**

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

## **Financial Condition**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and 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.

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**

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

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

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor, the Commissioners, Council

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

We would like to thank the management and staff of the City for their assistance and courtesy during the engagement. Please feel free to contact us with any questions or comments, as we would be pleased to meet with you at your convenience.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida

June 26, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SECTION  
218.415, FLORIDA STATUTES, REQUIRED BY RULE 10.556(10) OF THE AUDITOR  
GENERAL OF THE STATE OF FLORIDA**

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

We have examined the City of South Bay, Florida's (the 'City') compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2016. This report 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, management, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

We did not audit the financial statements of the City's Pension Plan which represents 0.87 percent, 4.95 percent, 1.59 percent of, respectively the total assets, liabilities, and expenditures. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the fiduciary funds, is based solely on the report of the other auditors.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida  
June 26, 2017