

**City of South Bay, Florida**

**Financial Statements**

*For the Fiscal Year ended September 30, 2017*

**City of South Bay, Florida  
Financial Statements and Other Financial Information  
For The Fiscal Year Ended September 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fiduciary funds (included in the General fund), which represent 1.01 percent, 7.30 percent, and 1.00 percent, respectively, of the assets, liabilities, and expenses of the City's pension plan. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary funds, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Auditor General*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Chapter 10.550, *Rules of the Auditor General*, is 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 and schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally

accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards and state financial assistance 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 1, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida

June 1, 2018

## **MANAGEMENT'S DISUSSION AND ANALYSIS**

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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, 2017. The readers should take time to read and evaluate all sections of the financial statements including the footnotes and the other required supplementary information that is provided in addition to this Management's Discussion and Analysis "MD&A" section.

**Financial Highlights:**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at September 30, 2017, by \$3,858,170 of this amount \$821,248 may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$2,603,786 or 60.5% as a result of an increase of \$2,306,787 in governmental activities and an increase of \$296,999 in business-type activities.
- Governmental activities generated \$4,288,773 in revenues with \$2,021,666 in expenses.
- Business-type activities generated \$809,677 in revenues with \$452,778 in expenses.
- General fund balance increased by \$244,989, as result, the unassigned fund balance was \$821,248 or 89.3% total of fund balances.
- The net position in business type activities increased by \$296,999 due to increase of \$132,828 in water and sewer fund and an increase of \$164,171 in sanitation fund.
- At the end of the current fiscal year, the unassigned fund balance for the general fund represented 36.5% of the total general fund expenditures

**Overview of the Financial Statements**

The City's financial statements comprise of three components: 1) government-wide financial statements, 2) 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



**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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 and net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- Statement of net position
- Statement of activities

The statement of net position presents information on all of the City's 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 statement of revenues and expenditures, and changes in fund balances. These statements are prepared on an accounting basis that is significantly different from that used to prepare the *government-wide financial statements*. The focus of the financial statements is on short-term emphasis, 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

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**Management's Discussion and Analysis**  
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and sanitation funds. The sanitation fund charges a fee to customers for the use of services. The water and sewer fund receives an annual fee based on agreement between the City and Glades Utility Authority. The basis of accounting of the financial statements is similar to the basis used to prepare the government-wide financial statements.

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

4- Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,272,532	\$ 1,839,913	\$ 4,186,180	\$ 4,008,391	\$ 7,458,712	\$ 5,848,304
Capital assets	<u>2,450,884</u>	<u>1,408,943</u>	<u>257,741</u>	<u>260,311</u>	<u>2,708,625</u>	<u>1,669,254</u>
Total assets	<u>5,723,416</u>	<u>3,248,856</u>	<u>4,443,921</u>	<u>4,268,702</u>	<u>10,167,337</u>	<u>7,517,558</u>
Current and other liabilities	1,759,908	1,138,483	202,240	195,506	1,962,148	1,333,989
Long-term liabilities outstanding	<u>105,338</u>	<u>558,990</u>	<u>1,193,950</u>	<u>1,322,464</u>	<u>1,299,288</u>	<u>1,881,454</u>
Total liabilities	<u>1,865,246</u>	<u>1,697,473</u>	<u>1,396,190</u>	<u>1,517,970</u>	<u>3,261,436</u>	<u>3,215,443</u>
Net position:						
Invested in capital assets						
(net of related debt)	2,384,098	844,609	257,741	260,311	2,641,839	1,104,920
Restricted for prepaid items	652,824	127,893	-	-	652,824	127,893
Unrestricted	<u>821,248</u>	<u>578,881</u>	<u>2,789,990</u>	<u>2,490,421</u>	<u>3,611,238</u>	<u>3,069,302</u>
Total net position	<u>\$ 3,858,170</u>	<u>\$ 1,551,383</u>	<u>\$ 3,047,731</u>	<u>\$ 2,750,732</u>	<u>\$ 6,905,901</u>	<u>\$ 4,302,115</u>

A significant portion of the City's net position, 38.2%, 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.

**City of South Bay, Florida**  
**Management's Discussion and Analysis**  
**September 30, 2017**

An additional portion of the City's net position, 9%, represents resources that are subject to restriction on how they may be used.

The net position increased from \$4,302,115 to \$6,905,901 as a result of net an increase of \$296,999 in business-type and increase of \$2,306,787 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 \$2,306,787 in the current year, while the net position in prior year increased by \$392,015. Revenues in governmental activities including transfer in, increased by \$1,915,969 when the expenditures increased by \$40,877 in fiscal year 2017.

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City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charge for services	\$ 55,189	\$ 49,151	\$ 656,160	\$ 645,253	\$ 711,349	\$ 694,404
Operating grant and contribution	1,913,382	359,815	-	-	1,913,382	359,815
General revenues:						
Property taxes	376,318	363,656	-	-	376,318	363,656
Franchise	547,915	522,245	-	-	547,915	522,245
Other taxes	953,149	947,119	-	-	953,149	947,119
Other	<u>382,920</u>	<u>71,053</u>	<u>153,517</u>	<u>156,201</u>	<u>536,437</u>	<u>227,254</u>
Total revenues	<u>4,228,873</u>	<u>2,313,039</u>	<u>809,677</u>	<u>801,454</u>	<u>5,038,550</u>	<u>3,114,493</u>
Expenses:						
General government	1,074,027	1,050,282	-	-	1,074,027	1,050,282
Public safety	181,271	176,806	-	-	181,271	176,806
Highway and street	682,958	672,872	-	-	682,958	672,872
Culture and recreation	82,724	79,835	-	-	82,724	79,835
Water and sewer	-	-	3,570	3,570	3,570	3,570
Sanitation	-	-	440,383	338,184	440,383	338,184
Interest on long term debt	<u>686</u>	<u>994</u>	<u>8,825</u>	<u>11,287</u>	<u>9,511</u>	<u>12,281</u>
Total expenses	<u>2,021,666</u>	<u>1,980,789</u>	<u>452,778</u>	<u>353,041</u>	<u>2,474,444</u>	<u>2,333,830</u>
Increase (decrease) in net assets before transfer in (out)	2,207,207	332,250	356,899	448,413	2,564,106	780,663
Transfer in /(out)	<u>59,900</u>	<u>59,765</u>	<u>(59,900)</u>	<u>(59,765)</u>	<u>-</u>	<u>-</u>
Increase in net position	2,267,107	392,015	296,999	388,648	2,564,106	780,663
Net position at beginning of year	1,551,383	1,159,368	2,750,732	2,362,084	4,302,115	3,521,452
Prior period adjustment	<u>39,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,680</u>	<u>-</u>
Net position at beginning of year, restated	<u>1,591,063</u>	<u>1,159,368</u>	<u>2,750,732</u>	<u>2,362,084</u>	<u>4,341,795</u>	<u>3,521,452</u>
Net position at end of year	<u>\$ 3,858,170</u>	<u>\$ 1,551,383</u>	<u>\$ 3,047,731</u>	<u>\$ 2,750,732</u>	<u>\$ 6,905,901</u>	<u>\$ 4,302,115</u>

The net position in business-type activities increased by \$296,999 in the current year, when prior year net position increased by \$388,648. The revenues in business-type increased by \$8,223 when the expenditures increased by \$99,872 mainly due to contractual services in Sanitation Fund.

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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 \$2,906,480 including a transfer in amount of \$59,900 and \$23,838 proceeds from capital lease while expenditures totaled \$2,661,491 including a transfer out to Capital Project fund in amount of \$409,968, resulting in \$244,989 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 service charges for services and other sources aggregated \$809,677, while the total expenditures totaled \$452,778 including a transfer out of \$59,900 to the General Fund resulting in \$269,999 increase in net position.

General Fund Budgetary Highlights

General fund operations had a positive variance in amount of \$244,989, when the actual revenues including other financing sources were \$457,283 more than the final budget. Actual expenditures were more than the final appropriation by \$212,294. 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, 2017, amounted to \$2,708,625, an increase of \$1,039,371 from the prior year. The increase was primarily due to grants City received for road improvements in the amount of \$1,244,441 from Department of Transportation. Additional information for the City assets can be found in NOTE 3 Capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 217,188	\$ 217,188	\$ 212,927	\$ 212,927	\$ 430,115	\$ 430,115
Buildings and improvements	843,715	830,166	-	-	843,715	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	10,394,285	9,027,907	-	-	10,394,285	9,027,907
Construction in Progress	27,654	107,340	-	-	27,654	107,340
Equipment and machinery	<u>688,893</u>	<u>658,503</u>	<u>-</u>	<u>-</u>	<u>688,893</u>	<u>658,503</u>
Total	12,353,654	11,023,023	341,448	341,448	12,695,102	11,364,471
Accumulated depreciation	<u>(9,902,770)</u>	<u>(9,614,080)</u>	<u>(83,707)</u>	<u>(81,137)</u>	<u>(9,986,477)</u>	<u>(9,695,217)</u>
Total capital assets, net	<u>\$ 2,450,884</u>	<u>\$ 1,408,943</u>	<u>\$ 257,741</u>	<u>\$ 260,311</u>	<u>\$ 2,708,625</u>	<u>\$ 1,669,254</u>

**Long-Term Debt**

At the end of the current fiscal year, the City had a total of \$1,439,430 in notes, bonds and capital lease outstanding as compared to \$2,011,383 last year, a decrease of \$571,953. The decrease mainly attributed to \$470,595 forgiveness of the outstanding balance of the City's mortgage on the land located at South Bay Park of Commerce. 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	
	2017	2016	2017	2016	2017	2016
Revenues bonds	\$ -	\$ -	\$ 1,024,600	\$ 1,050,700	\$ 1,024,600	\$ 1,050,700
Notes	-	470,595	-	-	-	470,595
Accounts payable	-	-	297,862	396,349	297,862	396,349
Capital Leases	27,010	13,978	-	-	27,010	13,978
Net pension liability	<u>89,958</u>	<u>79,761</u>	<u>-</u>	<u>-</u>	<u>89,958</u>	<u>79,761</u>
Total	<u>\$ 116,968</u>	<u>\$ 564,334</u>	<u>\$ 1,322,462</u>	<u>\$ 1,447,049</u>	<u>\$ 1,439,430</u>	<u>\$ 2,011,383</u>

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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 received during 2017-2018.

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 2.1% is projected for the fiscal year 2017-2018.

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, 2017**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,690,402	\$ 2,211,114	\$ 3,901,516
Accounts receivable (net of allowances for uncollectible accounts)	58,257	138,344	196,601
Due from government	755,049	-	755,049
Prepaid items	45,119	-	45,119
Due from other funds	3,248	786,377	789,625
Restricted assets:			
Cash and cash equivalents	113,900	25,985	139,885
Investments	-	981,336	981,336
Capital assets	2,450,884	257,741	2,708,625
Other assets	549,151	43,024	592,175
Total assets	<u>5,666,010</u>	<u>4,443,921</u>	<u>10,109,931</u>
<b>Deferred outflows:</b>			
Deferred outflows-pension	57,406	-	57,406
Total deferred outflows	<u>57,406</u>	<u>-</u>	<u>57,406</u>
<b>Liabilities:</b>			
Accounts payable	397,259	7,941	405,200
Accrued liabilities	14,294	-	14,294
Compensated absences	53,537	-	53,537
Due to other funds	749,585	40,040	789,625
Payable from restricted assets:			
Interest payable	-	25,745	25,745
Long-term debt:			
Due within in one year	11,630	128,514	140,144
Capital lease	15,380	-	15,380
Due in more than one year	-	1,193,950	1,193,950
Net pension liability	89,958	-	89,958
Total liabilities	<u>1,331,643</u>	<u>1,396,190</u>	<u>2,727,833</u>
<b>Deferred inflows:</b>			
Deferred inflows-revenues	526,379	-	526,379
Deferred inflows-pension	7,224	-	7,224
<b>Net Position:</b>			
Invested in capital assets, net of related debt	2,384,098	257,741	2,641,839
Restricted for:			
Prepaid items	45,119	-	45,119
Capital projects	607,705	-	607,705
Unrestricted	821,248	2,789,990	3,611,238
Total net position	<u>\$ 3,858,170</u>	<u>\$ 3,047,731</u>	<u>\$ 6,905,901</u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2017**

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 1,074,027	\$ -	\$ 507,320	\$ (566,707)	\$ -	\$ (566,707)
Public safety	181,271	-	-	(181,271)	-	(181,271)
Highways and streets	682,958	55,189	1,406,062	778,293	-	778,293
Culture and recreation	82,724	-	-	(82,724)	-	(82,724)
Interest	686	-	-	(686)	-	(686)
Total governmental activities	2,021,666	55,189	1,913,382	(53,095)	-	(53,095)
Business-type activities:						
Water and sewer	12,395	-	-	-	(12,395)	(12,395)
Sanitation	440,383	656,160	-	-	215,777	215,777
Total business-type activities	452,778	656,160	-	-	203,382	203,382
Total governmental	<u>\$ 2,474,444</u>	<u>\$ 711,349</u>	<u>\$ 1,913,382</u>	<u>(53,095)</u>	<u>203,382</u>	<u>150,287</u>
General revenue:						
Taxes:						
Ad Valorem				376,318	-	376,318
Gasoline				128,904	-	128,904
Franchise				547,915	-	547,915
Sales tax				253,300	-	253,300
State revenue sharing				186,601	-	186,601
Payment in lieu of taxes				286,826	-	286,826
Occupational licenses and permits				97,518	-	97,518
Investment earnings				1,644	9,100	10,744
Other				381,276	144,417	525,693
Interfund transfers				59,900	(59,900)	-
Total general revenues				2,320,202	93,617	2,413,819
Change in net position				2,267,107	296,999	2,564,106
Net position – October 1, 2016				1,551,383	2,750,732	4,302,115
Prior period adjustment				39,680	-	39,680
Net position – October 1, 2016, restated				1,591,063	2,750,732	4,341,795
Net position – September 30, 2017				<u>\$ 3,858,170</u>	<u>\$ 3,047,731</u>	<u>\$ 6,905,901</u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2017**

	<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	\$ 1,447,491	242,911	\$ 1,690,402
Accounts receivable (net of allowances for uncollectible)	58,257	-	58,257
Due from government	79,744	675,305	755,049
Prepaid items	45,119	-	45,119
Due from other funds	3,248	-	3,248
Other assets	549,151	-	549,151
<b>Restricted assets:</b>			
Cash and cash equivalents	113,900	-	113,900
<b>Total assets</b>	<u><u>\$ 2,296,910</u></u>	<u><u>\$ 918,216</u></u>	<u><u>\$ 3,215,126</u></u>
<b>Liabilities and fund balances:</b>			
Liabilities:			
Accounts payable	\$ 86,748	\$ 310,511	\$ 397,259
Accrued liabilities	14,294	-	14,294
Due to other funds	749,585	-	749,585
<b>Total liabilities</b>	<u>850,627</u>	<u>310,511</u>	<u>1,161,138</u>
Deferred inflows	<u>526,379</u>	<u>-</u>	<u>526,379</u>
<b>Fund balances:</b>			
Non-spendable:			
Prepaid items	45,119	-	45,119
Restricted for:			
Capital projects	-	607,705	607,705
Committed to:			
Compensated absences	53,537	-	53,537
Unassigned	<u>821,248</u>	<u>-</u>	<u>821,248</u>
<b>Total fund Balances</b>	<u>919,904</u>	<u>607,705</u>	<u>1,527,609</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 2,296,910</u></u>	<u><u>\$ 918,216</u></u>	<u><u>\$ 3,215,126</u></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, 2017**

<b>Fund Balance – Total Governmental Funds</b>	\$	1,527,609
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet		2,450,884
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.

Compensated absences	\$	(53,537)	
Pension liabilities		(39,776)	
General obligation notes and lease payable		(27,010)	
			(120,323)

<b>Total net position – Governmental Activities</b>	\$	3,858,170
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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, 2017**

	<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	\$ 1,053,136	\$ -	\$ 1,053,136
Licenses and permits	95,540	-	95,540
Intergovernmental	1,236,025	1,406,062	2,642,087
Charges for services	55,189	-	55,189
Fines and forfeitures	4,844	-	4,844
Rents	29,350	-	29,350
Investment income	1,574	70	1,644
Miscellaneous revenues	347,084	-	347,084
Total revenues	<u>2,822,742</u>	<u>1,406,132</u>	<u>4,228,874</u>
<b>Expenditures:</b>			
Current:			
General government	1,007,817	5,277	1,013,094
Public safety	181,271	-	181,271
Highways and streets	472,900	-	472,900
Culture and recreation	76,752	-	76,752
Capital outlay	30,390	1,283,589	1,313,979
Debt services:			
Principal	481,707	-	481,707
Interest	686	-	686
Total expenditures	<u>2,251,523</u>	<u>1,288,866</u>	<u>3,540,389</u>
Other financing sources (uses):			
Operating transfer in	59,900	409,968	469,868
Operating transfer out	(409,968)	-	(409,968)
Capital lease	23,838	-	23,838
Total other financing sources (uses):	<u>(326,230)</u>	<u>409,968</u>	<u>83,738</u>
Net change in fund balance	244,989	527,234	772,223
Fund balance at October 1, 2016	<u>674,915</u>	<u>80,471</u>	<u>755,386</u>
Fund balance at September 30, 2017	<u>\$ 919,904</u>	<u>\$ 607,705</u>	<u>\$ 1,527,609</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, 2017**

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

Net change in fund balance – total governmental funds	\$ 772,223
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	1,355,631
Current year depreciation	(313,690)
Capital lease	(23,838)
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	(4,925)
Forgiveness of debt	470,900
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.	10,806
	<hr/>
Change in net position of governmental activities	<u><u>\$ 2,267,107</u></u>

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2017**

	<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	\$ 356,596	\$ 1,854,518	\$ 2,211,114
Accounts receivable, net	22,900	115,444	138,344
Due from other funds	749,585	36,792	786,377
Restricted assets			
Cash and cash equivalents	25,985	-	25,985
Total current assets	1,155,066	2,006,754	3,161,820
Non-current assets:			
Restricted assets			
Investments	981,336	-	981,336
Capital assets			
Property, net	257,741	-	257,741
Other assets	43,024	-	43,024
Total non-current assets	1,282,101	-	1,282,101
Total assets	\$ 2,437,167	\$ 2,006,754	\$ 4,443,921

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2017**

	<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	\$ -	\$ 7,941	\$ 7,941
Due to other fund	36,792	3,248	40,040
Current portion of long-term debt	101,114	-	101,114
Total current liabilities	137,906	11,189	149,095
Current liabilities payable from restricted assets:			
Interest payable	25,745	-	25,745
Current portion of bond payable	27,400	-	27,400
Total current liabilities payable from current restricted assets	53,145	-	53,145
Non-current liabilities:			
Long-term portion of accounts payable	196,750		196,750
Long-term portion of bond payable	997,200	-	997,200
Total non-current liabilities	1,193,950	-	1,193,950
Total liabilities	1,385,001	11,189	1,396,190
Net position:			
Invested in capital assets	257,741	-	257,741
Unrestricted	794,425	1,995,565	2,789,990
Total net position	\$ 1,052,166	\$ 1,995,565	\$ 3,047,731

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, 2017**

	<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	\$ -	\$ 656,160	\$ 656,160
Municipal fee	144,417	-	144,417
Total operating revenues	144,417	656,160	800,577
Operating expenses:			
Contractual services	-	433,209	433,209
Other services and charges	3,570	7,174	10,744
Total operating expenses	3,570	440,383	443,953
Operating income	140,847	215,777	356,624
Non-operating revenues (expenses):			
Interest revenue	806	8,294	9,100
Interest expense	(8,825)	-	(8,825)
Total non-operating revenues (expenses)	(8,019)	8,294	275
Income before transfer out	132,828	224,071	356,899
Transfer out	-	(59,900)	(59,900)
Change in net position	132,828	164,171	296,999
Net position – October 1, 2016	919,338	1,831,394	2,750,732
Net position – September 30, 2017	\$ 1,052,166	\$ 1,995,565	\$ 3,047,731

See accompanying notes to financial statements.

**City of South Bay, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended September 30, 2017**

	<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	\$ 149,220	\$ 644,565	\$ 793,785
Payments to suppliers	(999)	(440,211)	(441,210)
Net cash provided by operating activities	148,221	204,354	352,575
<b>Cash flows from capital and related financing activities:</b>			
Interest paid	(8,825)	-	(8,825)
Principal paid	(124,585)	-	(124,585)
Advances from other funds	-	3,248	3,248
Net cash provided by (used in) capital and related financing activities	(133,410)	3,248	(130,162)
<b>Cash flows from non-capital and related financing activities:</b>			
Transfer out to General fund	-	(59,900)	(59,900)
Net cash (used in) capital and related financing activities	-	(59,900)	(59,900)
<b>Cash flows from investing activities:</b>			
Interest received	806	8,294	9,100
Decrease in investment	26,100	-	26,100
Net cash provided by investing activities	26,906	8,294	35,200
Net increase in cash	41,717	155,996	197,713
Cash and cash equivalents at beginning of year	314,879	1,698,522	2,013,401
Cash and cash equivalents at end of year	\$ 356,596	\$ 1,854,518	\$ 2,211,114
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 140,847	\$ 215,777	\$ 356,624
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,570	-	2,570
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	4,804	(11,595)	(6,791)
Increase in accounts payable	-	172	172
Total adjustments	7,374	(11,423)	(4,049)
Net cash provided by operating activities	\$ 148,221	\$ 204,354	\$ 352,575

See accompanying notes to financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

**(b) The Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net assets and the 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, 2017**

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

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

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

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

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

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

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

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

accordance with their legal or contractual requirements, if collected in the current period or within 30 days after year end. Interest is recorded when earned. Licenses, permits, fines, forfeitures, and miscellaneous revenue are recorded as revenue when received in cash because they are generally not measurable until actually received. Occupational license revenue collected in advance of periods to which they relate is recorded as deferred revenue.

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

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both governmental-wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of the Governmental Accounting 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 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 recorded 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, 2017**

**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 qualified public depositories and they are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000.

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

**(2) Unbilled Accounts Receivable**

Property funds recognize revenue on the monthly cycle billing basis to customers for services provided. As a result of this cycle billing method, there are unbilled receivable at the end of each fiscal year, with respect to services provided but not billed at fiscal year end. It is the policy of the City to accrue Water and Sewer and Sanitation Funds unbilled revenue 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, 2017**

**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 (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, 2017**

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

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

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

**(15) Use of Estimates**

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

**(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, 2017**

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

**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 specific purpose are as follows:

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

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

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

**(17) Net Position**

Net assets of the government-wide and proprietary funds are categorized as *invested in capital assets*, net of related debt, restricted or unrestricted. *Invested 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, 2017**

**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, 2017:

	<u>Fair Value of Investments Maturities</u>				<u>Total</u>
	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Six To Ten Years</u>	<u>More Than Ten Years</u>	
U.S Government securities	<u>\$ 24,580</u>	<u>\$ 144,100</u>	<u>\$ 187,045</u>	<u>\$ 625,611</u>	<u>\$ 981,336</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, bills, or interest-bearing time deposits with the depositories of the City. The interest derived from such investments or deposits shall accrue as revenue to the general fund of the City, except in the case of special funds for which the City is required by agreement or by law to credit such special funds with interest on the invested balances.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**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, 2017, are shown below:

	<u>Balance</u> <u>9/30/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/2017</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 217,188	\$ -	\$ -	\$ 217,188
Total capital assets not being depreciated	<u>217,188</u>	<u>-</u>	<u>-</u>	<u>217,188</u>
Capital assets, being depreciated				
Buildings and improvements	830,166	38,549	25,000	843,715
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	9,027,907	1,366,378	-	10,394,285
Equipment and machinery	658,503	30,390	-	688,893
Construction in progress	107,340	22,104	101,790	27,654
Total capital assets being depreciated	<u>10,805,835</u>	<u>1,457,421</u>	<u>126,790</u>	<u>12,136,466</u>
Less accumulated depreciation for:				
Buildings and improvements	633,386	18,996	25,000	627,382
Improvement other than buildings and roads	181,918	-	-	181,918
Infrastructure	8,154,705	279,629	-	8,434,334
Equipment and machinery	644,071	15,065	-	659,136
Total accumulated depreciation	<u>9,614,080</u>	<u>313,690</u>	<u>25,000</u>	<u>9,902,770</u>
Total capital assets being depreciated, net	<u>1,191,755</u>	<u>1,143,731</u>	<u>101,790</u>	<u>2,233,696</u>
Governmental activities capital assets, net	<u>\$ 1,408,943</u>	<u>\$ 1,143,731</u>	<u>101,790</u>	<u>\$ 2,450,884</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

	Balance 9/30/2016	Increases	Decreases	Balance 9/30/2017
<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	81,137	2,570	-	83,707
Total capital assets being depreciated	47,384	(2,570)	-	44,814
Business-type activities capital assets, net	\$ 260,311	\$ (2,570)	\$ -	\$ 257,741

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

Governmental activities

General government	\$ 22,736
Highway and streets	284,982
Culture and recreation	5,972

Total depreciation expense – governmental activities      \$ 313,690

**NOTE 4 – LONG TERM DEBT:**

Long-term debt activities for the year ended September 30, 2017, are shown below:

	Balance 9/30/2016	Additions	Deletions	Balance 9/30/2017
<b><u>Governmental activities:</u></b>				
Notes payable	\$ 470,595	\$ -	\$ 470,595	\$ -
Capital lease obligation	13,978	23,838	10,806	27,010
Compensated absences	48,612	4,925	-	53,537
<b>Total governmental activities</b>	<u>\$ 533,185</u>	<u>\$ 28,763</u>	<u>\$ 481,401</u>	<u>\$ 80,547</u>
<b><u>Business-type activities:</u></b>				
Bond payable	\$ 1,050,700	\$ -	\$ 26,100	\$ 1,024,600
Account payable	396,349	-	98,485	297,864
<b>Total business-type activities</b>	<u>1,447,049</u>	<u>-</u>	<u>124,585</u>	<u>1,322,464</u>
<b>Total long-term debt</b>	<u>\$ 1,980,234</u>	<u>\$ 28,763</u>	<u>\$ 605,986</u>	<u>\$ 1,403,011</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**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>
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	33,000	43,083	76,083
2023 - 2027	189,900	190,375	380,275
2028 - 2032	239,400	140,790	380,190
2033 - 2037	301,900	78,266	380,166
2038 - 2039	142,800	10,274	153,074
Total	<u>\$ 1,024,600</u>	<u>\$ 649,407</u>	<u>\$ 1,674,007</u>

Change during fiscal year:

Outstanding October 1, 2016	\$ 1,050,700
Retired	(26,100)
Outstanding September 30, 2017	<u>\$ 1,024,600</u>
Due within one year	\$ 27,400
Due in more than one year	997,200
	<u>\$ 1,024,600</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 to \$697,040, reduce the interest rate from 6% to zero percent per annum, and extend the maturity to July 1, 2020. 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), which exceeds the loan amount by \$305, 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.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**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>	
	2018	\$ 47,309
	2019	47,309
	2020	<u>27,598</u>
Total payment		122,216
Less amount represent interest payment		<u>( 9,352)</u>
Net payment		<u>\$ 112,864</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>	
	2018	\$ 60,000
	2019	60,000
	2020	60,000
	2021	<u>5,000</u>
Total payment		<u>\$ 185,000</u>



**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**NOTE 5 – COMPENSATED ABSENCES**

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

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

	<u>Governmental Activities</u>
Balances at October 1, 2016	\$ 48,612
Increase	4,925
Balance at September 30, 2017	<u>\$ 53,537</u>

**NOTE 6 – CAPITAL LEASE:**

- 1- 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, 2017 are as follows:

<u>Year Ending</u>	
2018	\$ 6,030
2019	<u>3,015</u>
Total minimum lease payment	9,045
Less: amount representing interest	<u>( 411)</u>
Present value of future payments	<u>\$ 8,634</u>

- 2- The City purchased three lawn mowers under a capital lease from a third party and recorded the transaction in *Governmental Activities* at \$23,838. The future minimum lease payment under this capital lease and the present value of net minimum lease payment at September 30, 2017 are as follows:

<u>Year Ending</u>	
2018	\$ 5,960
2019	5,960
2020	5,960
2020	<u>496</u>
Total minimum lease payment	<u>\$ 18,376</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM**

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

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information from FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the following Web site: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](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. This payment is equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before the age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service, or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life. The payment is equal to 2.0% of their final average compensation based on the five highest years of salary each year of credited service. Elected Officers' class members who retire at or after age 62, with at least six years of credited service or 30 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

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

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

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for 60 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, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017, respectively, were as follows: Regular—7.52% and 7.92%; Special Risk Administrative Support—28.06% and 34.63%; Special Risk—22.57% and 23.27%; Senior Management Service—21.77% and 22.71%; Elected Officers'—42.47% and 45.50%; and DROP participants—12.99% and 13.26%. These employer contribution rates include 1.66% HIS Plan

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

subsidy for the periods October 1, 2016 through June 30, 2017 and from July 1, 2016 through September 30, 2017 respectively.

The City's contributions, including employee contributions, to the Pension Plan totaled \$9,405 for the fiscal year ended September 30, 2017.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2017, the City reported a liability of \$81,906 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2016-2017 fiscal year contributions relative to the 2015-2016 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was .000276902 percent, which was an increase (decrease) of (.000004591) percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$19,740. 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	\$ 7,517	\$ 454
Change in assumptions	27,526	-
Net difference between projected and actual earnings on pension plan investments	-	2,030
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	20,000	3,280
City pension plan contributions Subsequent to the measurement date	2,835	-
Total	<u>\$ 57,878</u>	<u>\$ 5,764</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

The deferred outflows of resources related to the Pension Plan, totaling \$2,835 and resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the Pension Plan, will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2018	\$ 6,098
2019	6,098
2020	4,348
2021	575
2022	355
Thereafter	31,805
Total	\$ 49,279

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions. The assumptions were applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.10%, net of pension plan investment expense, including inflation

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

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

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.8%
Fixed Income	18.0%	4.5%	4.4%	4.2%
Global Equity	53.0%	7.8%	6.6%	17.0%
Real Estate	10.0%	6.6%	5.9%	12.8%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	9.7%
Total	100.00%			
Assumed Inflation - Mean				
			2.60%	1.90%

Discount Rate - The discount rate used to measure the total pension liability was 7.10%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.10%, 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 (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.1%)	Current Discount Rate (7.1%)	1% Increase (8.1%)
City's proportionate share of the net pension liability	\$ 148,244	\$ 81,906	\$ 26,829

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, 2017, the City reported a payable in the amount of \$81,906 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2017.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

**HIS Plan**

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

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

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2017, the

HIS contribution for the period October 1, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017 was 1.66% respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event 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 \$399 for the fiscal year ended September 30, 2017.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Related to Pensions – At September 30, 2017, City reported a liability of \$8,052 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,

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

2016, the City's proportionate share was .000075302 percent, which was an increase (decrease) of .000000790 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$724. 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	\$ -	\$ 696
Change in assumptions	1,132	-
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	1,227	748
City pension plan contributions Subsequent to the measurement date	145	-
Total	<u>\$ 2,508</u>	<u>\$ 1,444</u>

The deferred outflows of resources related to the HIS Plan, totaling \$145 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, 2018. 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:

<u>Fiscal Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 111
2019	111
2020	111
2021	178
2022	(27)
Thereafter	<u>435</u>
Total	<u>\$ 919</u>



**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

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

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.58%

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

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

Discount Rate - The discount rate used to measure the total pension liability was 3.58%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

liability was calculated using the discount rate of 3.58% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Discount Rate 3.58%	1% Increase 4.58%
City's proportionate share of the net pension liability	\$ 9,188	\$ 8,052	\$ 7,105

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, 2017, the City reported a payable in the amount of \$8,052 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2017.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

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

**Investment Plan**

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

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

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

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 \$9,405 for the fiscal year ended September 30, 2017.

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

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

**Money Purchase Pension Plan:**

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

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

The pension expense under this plan for the year ended September 30, 2017, was as follows:

	Governmental <u>Activities</u>
General Fund	\$ <u>30,351</u>

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

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

Interfund receivable and payable balances at September 30, 2017 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ 3,248	\$ 749,585	\$ 47,152	\$ -
Capital Projects Fund	-	-		47,152
Sanitation fund – major enterprise	36,792	3,248	-	-
Water & sewer fund – major enterprise	749,585	36,792	-	-
	<u>\$ 789,625</u>	<u>\$ 789,625</u>	<u>\$ 47,152</u>	<u>\$ 47,152</u>

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

**NOTE 10 – CONTINGENCIES AND COMMITMENTS:**

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenues sharing programs. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims, resulting from such audits, could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims would not have a material effect on the overall financial position of the City as of September 30, 2017.

**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.

**City of South Bay, Florida**  
**Notes to Financial Statements**  
**September 30, 2017**

**NOTE 12 – UTILITY CONTRACT (Continued):**

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

The City of South Bay will continue to provide the solid waste, trash and mosquito control services. Under the agreement, the Authority agreed to bill the City's customers for the sanitation services for a fee of one percent to the total of the monthly collection revenue. For the fiscal year ended September 30, 2017, the City paid \$7,403 for the collection fees.

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

Under the agreement, both Authority and PBCWUD are required to pay the City an annual entity transfer fee equal to seven percent based on annual gross revenues. For the year ended September 30, 2017, the City received \$144,417 for entity transfer fee.

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

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

**NOTE 14 – MANAGEMENT'S REVIEW:**

Management has evaluated subsequent event through June 1, 2018, which is the date the financial statements were available to be issued.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT:**

Due to implementation of various GASB Statements in prior year, the balance of net position related to capital assets understated by \$39,680 in the governmental activities. The prior period adjustment did not affect the City's operation for the year ended September 30, 2017.

## **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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes	\$ 980,814	\$ 997,814	\$ 1,053,136	\$ 55,322
Licenses and permits	78,200	223,200	95,540	(127,660)
Intergovernmental	722,747	743,897	1,236,025	492,128
Charges for services	46,740	52,565	55,189	2,624
Fines and forfeitures	4,500	4,500	4,844	344
Rents	32,800	32,800	29,350	(3,450)
Investment income	825	825	1,574	749
Miscellaneous	16,803	333,696	347,084	13,388
Total revenues	<u>1,883,429</u>	<u>2,389,297</u>	<u>2,822,742</u>	<u>433,445</u>
<b>Expenditures:</b>				
Current:				
General government	1,101,263	1,248,613	1,007,817	240,796
Public safety	182,388	182,388	181,271	1,117
Highways and streets	487,628	497,628	472,900	24,728
Culture and recreation	85,490	87,490	76,752	10,738
Capital outlay	7,500	11,550	30,390	(18,840)
Debt services:				
Principal	10,875	10,875	481,707	(470,832)
Interest	685	685	686	(1)
Total expenditures	<u>1,875,829</u>	<u>2,039,229</u>	<u>2,251,523</u>	<u>(212,294)</u>
Excess of revenues over expenditures	<u>7,600</u>	<u>350,068</u>	<u>571,219</u>	<u>221,151</u>
Other financing sources (uses):				
Operating transfer in	59,900	59,900	59,900	-
Operating transfer out	(67,500)	(409,968)	(409,968)	-
Capital lease	-	-	23,838	23,838
Total other financing sources (uses):	<u>(7,600)</u>	<u>(350,068)</u>	<u>(326,230)</u>	<u>23,838</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	244,989	<u>\$ 244,989</u>
Fund balance at October 1, 2016			674,915	
Fund balance at September 30, 2017			<u>\$ 919,904</u>	

**City of South Bay, Florida**  
Note to Budgetary Comparison Schedule  
Budget and Actual – General Fund  
For the Fiscal Year Ended September 30, 2017

**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 increased by \$505,868, the revenue increased primarily due to additional revenues from permits and sales of a property and expenditures due to an additional transfers out to Capital Project Fund in amount of \$342,468.

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

Actual general fund revenues were over appropriations by \$433,455, when the actual general fund expenditures were over the appropriation by \$212,294.

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, 2017, 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, 2017**

	<b>Capital Projects</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 242,911	\$ 242,911
Due from government	675,305	675,305
Total assets	<u>\$ 918,216</u>	<u>\$ 918,216</u>
<b>Liabilities and fund balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 310,511	\$ 310,511
Total liabilities	<u>310,511</u>	<u>310,511</u>
<b>Fund balances:</b>		
Restricted for:		
Capital projects	607,705	607,705
Total fund Balances	<u>607,705</u>	<u>607,705</u>
Total liabilities and fund balances	<u>\$ 918,216</u>	<u>\$ 918,216</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, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>				
Intergovernmental	\$ 2,054,187	\$ 2,111,687	\$ 1,406,062	\$ (705,625)
Interest income	-	-	70	70
Total revenues	2,054,187	2,111,687	1,406,132	(705,555)
<b>Expenditures:</b>				
Current:				
General government	125,000	125,000	5,277	119,723
Highways and streets	1,596,687	2,078,576	-	2,078,576
Culture and recreation	400,000	400,000	-	400,000
Capital outlay	-	-	1,283,589	(1,283,589)
Total expenditures	2,121,687	2,603,576	1,288,866	1,314,710
Deficiency of revenues over expenditures	(67,500)	(491,889)	117,266	609,155
Other financing sources:				
Operating transfer in	67,500	491,889	409,968	(81,921)
Total other financing sources:	67,500	491,889	409,968	(81,921)
Net change in fund balance	\$ -	\$ -	527,234	\$ 527,234
Fund balance at October 1, 2016			80,471	
Fund balance at September 30, 2017			\$ 607,705	

## **COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the 'City'), as of and for the year ended September 30, 2017, 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 1, 2018. Our report includes a reference to other auditors who audited the financial statements of the Fiduciary Funds, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2017-01).

## **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*.

## **The City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida

June 1, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
AND CHAPTER 10.550, RULES OF THE FLORIDA AUDITOR GENERAL

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of South Bay, Florida's (the 'City') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs and state projects for the year ended September 30, 2017. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance applicable to its federal programs and state projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Florida Auditor General*. Those standards, the Uniform Guidance, and Chapter 10.550 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state project occurred. An audit includes 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 audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2017.

## **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.550, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.550. Accordingly, this report is not suitable for any other purpose.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida

June 1, 2018



**CITY OF SOUTH BAY, FLORIDA**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For Year Ended September 30, 2017**

<b>Federal Grantor/Pass- Through Grantor/Program Title</b>	<b>Federal CFDA #</b>	<b>Contract Number</b>	<b>Program Award Amount</b>	<b>Reimbursable/ Disbursements Expense</b>
HUD Community Development Block Grant CDBG Passed thru PBCounty	14.218	B-16-UC-12-0004	\$ 30,372	\$ 36,421
<b>Total Federal Awards</b>			<u>\$ 30,372</u>	<u>\$ 36,421</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance

**CITY OF SOUTH BAY, FLORIDA**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance (Continued)**  
**For Year Ended September 30, 2017**

<b>State Agency/Pass-Through Grantor/Program Title</b>	<b>State CSFA #</b>	<b>Contract Number</b>	<b>Program Award Amount</b>	<b>Reimbursable/ Disbursements Expense</b>
FDOT Economic Development Transportation Project	55.009	G-0A03	\$ 170,000	\$ 22,104
FDOT Small County Outreach Program	55.009	ARU-70	1,416,687	1,222,336
Department of Economic Opportunity Local Economic Development Initiatives	40.012	SL016	470,900	470,900
<b>Total State Financial Assistance</b>			<u>\$ 2,057,587</u>	<u>\$ 1,715,340</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance

**City of South Bay, Florida**  
Note to Schedule of Expenditures of Federal  
Awards and State Financial Assistance  
For the Fiscal Year Ended September 30, 2017

**NOTE 1 – GENERAL**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance Included herein represents the federal and state-initiated grant activity of the City of South Bay, Florida (the “City”), recorded by the City during the fiscal year ended September 30, 2017.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of presentation*

The information in this schedule is presented in accordance with the requirement of Title 2 U.S. Code of Federal regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards Subpart F*, Chapter 691-5, *Schedule of Expenditures of State Financial Assistance*, Rules of Department of Financial Services; and Chapter 10.550, Rules of the Auditor General. Therefore, some amount presented in this schedule may differ from amount presented in, or used in the preparation of, the basic financial statements of the City.

*Basis of Accounting*

The expenditures in the accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance are presented using modified accrual basis of accounting, except for the proprietary funds, which are presented on the accrual basis. The modified accrual basis recognizes expenditures in the period the associated liability is incurred, when matured and due, while under the accrual basis, expenses are recognized when incurred. Such expenditures are reported following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**City of South Bay, Florida**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended September 30, 2017**

**I. Summary of Independent Auditor's Results**

**Financial Statements**

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?                          yes                      X  no

**State Financial Assistance**

Internal control over major state projects:

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

Type of auditor's report issued on compliance for major state projects: **Unmodified.**

Any audit findings disclosed that are required to be reported in accordance with [Chapter 10.550?](#)                          yes                      X  no

Identification of major state projects:

CSFA No(s).	Names of State Project or Cluster
55.009	Small County Outreach Program (SCOP)

Dollar threshold used to distinguish between Type A and Type B Programs                    \$   500,000  

Auditee qualified as low-risk auditee?                          yes                      X  no

**City of South Bay, Florida**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended September 30, 2017**

II. Financial Statement Findings

**Finding 2017 – 01**

CONTROL DEFICIENCY

**Payroll Testing**

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

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

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

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

**Recommendation:** We recommend that the City establishes policies and procedures to require manual inputs into the system to go through a review and approval process. Additional, access should be restricted to all except certain authorized individuals.

**Views of responsible officials and planned corrective actions:** The City agrees with the finding. We will implement policies and procedures to prevent future deficiencies in monitoring employee’s time keeping.

III. Federal Award Findings and Questioned Costs

Not Applicable

IV. State Award Findings and Questioned Costs

None Noted

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

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

**Report on the Financial Statements**

We have audited the financial statements of the City of South Bay, Florida (the 'City'), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 1, 2018.

**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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 1, 2018, 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. There were no recommendations made in the preceding annual financial audit report.

**Official Title and Legal Authority**

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

## **Financial Condition and Management**

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

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

## **Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

## **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, finding 2017-01 can be found on the Schedule of Findings and Questioned Costs.

## **Purpose of this Letter**

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

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida  
June 1, 2018

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

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

We have audited the financial statements of the City of South Bay, Florida (the "City") as of and for the year ended September 30, 2017, and have issued our report thereon dated June 1, 2018.

### **Auditor's Responsibility**

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

### **Other Reports and Schedule**

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

### **Local Government Investment Policies**

We have examined the City's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2017. Management is responsible for City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

West Palm Beach  
Phone (561) 655-2664

Miami  
Phone (305) 331-8768

Hollywood  
Phone (954) 966-4435



In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017. This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*HCT Certified Public Accountants & Consultants, LLC*

Hollywood, Florida

June 1, 2018