

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2021

**City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the 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 of the City of South Bay, Florida, as of September 30, 2021, 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.

We did not audit the financial statements of the Florida Retirement System (included in the General fund), which represent .37 percent, .89 percent, and .95 percent, respectively, of the assets, liabilities, and expenses of the City's pension plan as of September 30, 2021, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. 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.

Basis for Opinions

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* (Chapter 10.550). Our responsibilities under those standards and rules are further described in the Auditor's Responsibilities for the Audit of the Financial Statements sections of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Chapter 10.550 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Chapter 10.550, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension benefits on pages 4–11 and 47–54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 10, 2022

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

The purpose of Management's Discussion and Analysis (MD&A) is designed to provide the readers an overview of financial activities of the City of South Bay's (the "City") for the fiscal year ended September 30, 2021. This information is intended to assist the readers to identify changes in financial statements and help them to make decision or conclude about City's financial position.

The information contained within this MD&A is only a component of the entire financial statement report. 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, 2021 by \$11,483,062 of this amount \$5,260,099 may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$285,309 or 2.5% as a result of an increase of \$110,822 in governmental activities and an increase of \$174,487 in business-type activities.
- Governmental activities generated \$3,000,939 in revenues with \$2,890,117 in expenses.
- Business-type activities generated \$847,310 in revenues with \$672,823 in expenses.
- General fund balance increased by \$412,186, as result, the unassigned fund balance was \$1,569,096 or 88% total of fund balances.
- The net position in business type activities increased by \$174,487 due to increase of \$104,855 in the water and sewer fund and an increase of \$69,632 in the sanitation fund.
- At the end of the current fiscal year, the unassigned fund balance for the general fund represented 69.5% of the total general fund expenditures.

Overview of the Financial Statements

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

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

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

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

- Statement of Net Position
- Statement of Activities

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

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

2 – The focus of the *fund financial statements* is a micronization of specific activities within the City as opposed to the City as a whole. Specific funds are established to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City groups its funds in two categories:

- Governmental Funds
- Proprietary Funds

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

Proprietary Funds provide the same type of information as the *government-wide financial statements*, only in more detail. The City presents a separate column for the water and sewer

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

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 Palm Beach County Water Utility Department. The basis of accounting of the financial statements is similar to the basis used to prepare the government-wide financial statements.

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

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

Analysis of government-wide financial statements:

City of South Bay, Florida Condensed Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 5,391,409	\$ 3,833,562	\$4,628,149	\$ 4,490,485	\$ 10,019,558	\$ 8,324,047
Capital assets	<u>4,783,277</u>	<u>5,355,708</u>	<u>247,459</u>	<u>250,029</u>	<u>5,030,736</u>	<u>5,605,737</u>
Total assets	<u>10,174,686</u>	<u>9,189,270</u>	<u>4,875,608</u>	<u>4,740,514</u>	<u>15,050,294</u>	<u>13,929,784</u>
Current and other liabilities	2,460,138	1,599,638	63,146	69,539	2,523,284	1,669,177
Long-term liabilities outstanding	<u>137,716</u>	<u>123,622</u>	<u>874,000</u>	<u>907,000</u>	<u>1,011,716</u>	<u>1,030,622</u>
Total liabilities	<u>2,597,854</u>	<u>1,723,260</u>	<u>937,146</u>	<u>976,539</u>	<u>3,535,000</u>	<u>2,699,799</u>
Net position:						
Invested in capital assets (net of related debt)	4,660,248	5,206,263	247,459	250,029	4,907,707	5,456,292
Restricted for prepaid items	1,347,488	1,027,873	-	-	1,347,488	1,027,873
Unrestricted	<u>1,569,096</u>	<u>1,231,874</u>	<u>3,691,003</u>	<u>3,513,946</u>	<u>5,260,099</u>	<u>4,745,820</u>
Total net position	<u>\$ 7,576,832</u>	<u>\$ 7,466,010</u>	<u>\$3,938,462</u>	<u>\$ 3,763,975</u>	<u>\$ 11,515,294</u>	<u>\$11,229,985</u>

A significant portion of the City's net position (42.6%) reflect its investment in capital assets (e.g. lands, infrastructure, buildings and equipment) less any debt related to those assets that are still outstanding. The City uses these capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the City's investment in its capital

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11.7%) represents resources that are subject to restriction on how they may be used.

The net position increased from \$11,229,985 to \$11,515,294 as a result of a net increase of \$174,487 in business-type and an increase of \$110,822 in the governmental activities fund groups.

Expenses and Revenues – Governmental Activities:

Net position increases or decreases over time serve as a useful indicator of the government's financial position. Net position in governmental activities increased by \$110,822 in the current year, while the net position in prior year increased by \$995,570. Revenues in governmental activities including transfers in, decreased by \$931,465 when the expenditures decreased by \$46,717 in fiscal year 2021.

City of South Bay, Florida
Management's Discussion and Analysis
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City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charge for services	\$ 55,572	\$ 54,257	\$ 686,010	\$ 682,160	\$ 741,582	\$ 736,417
Operating grant and contribution	379,313	1,547,291	-	-	379,313	1,547,291
General revenues:						
Property taxes	450,788	434,246	-	-	450,788	434,246
Franchise and taxes	683,092	652,439	-	-	683,092	652,439
Other taxes	1,063,148	932,965	-	-	1,063,148	932,965
Other	211,424	123,736	161,300	176,730	372,724	300,466
Total revenues	<u>2,843,337</u>	<u>3,744,934</u>	<u>847,310</u>	<u>858,890</u>	<u>3,690,647</u>	<u>4,603,824</u>
Expenses:						
General government	1,373,904	1,591,625	-	-	1,373,904	1,591,625
Public safety	231,017	223,317	-	-	231,017	223,317
Highway and street	970,981	985,528	-	-	970,981	985,528
Culture and recreation	310,207	132,090	-	-	310,207	132,090
Water and sewer	-	-	3,570	3,600	3,570	3,600
Sanitation	-	-	511,651	494,738	511,651	494,738
Interest on long term debt	4,008	4,274	-	3,716	4,008	7,990
Total expenses	<u>2,890,117</u>	<u>2,936,834</u>	<u>515,221</u>	<u>502,054</u>	<u>3,405,338</u>	<u>3,438,888</u>
Increase (decrease) in net assets before transfer in (out)	(46,780)	808,100	332,089	356,836	285,309	1,164,936
Transfer in /(out)	<u>157,602</u>	<u>187,470</u>	<u>(157,602)</u>	<u>(187,470)</u>	<u>-</u>	<u>-</u>
Increase in net position	110,822	995,570	174,487	169,366	285,309	1,164,936
Net position at beginning of year	<u>7,466,010</u>	<u>6,470,440</u>	<u>3,763,975</u>	<u>3,594,609</u>	<u>11,229,985</u>	<u>10,065,049</u>
Net position at end of year	<u>\$7,576,832</u>	<u>\$7,466,010</u>	<u>\$ 3,938,462</u>	<u>\$ 3,763,975</u>	<u>\$ 11,515,294</u>	<u>\$ 11,229,985</u>

The net position in business-type activities increased by \$174,487 in the current year, when the prior year's net position increased by \$169,366. The revenues in business-type decreased by \$11,580 when the expenditures decreased by \$16,701 mainly due to transfer out within the Sanitation Fund.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

Discussion of Major Funds

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

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

The General Fund is the primary operating account for all unrestricted operating expenditures of the City. Revenues aggregated to \$2,670,368 including a transfer in the amount of \$157,602. While expenditures totaled \$2,258,182, resulting in a \$412,186 increase in the fund balance at year end.

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

Total proprietary funds revenue for service charges and other sources totaled \$847,310. The total expenditures totaled \$672,823 including a transfer out of \$157,602 to the General Fund resulting in \$174,487 increase in net position.

General Fund Budgetary Highlights

General Fund operations had a positive variance of \$412,186, when the actual revenues including other financing sources were \$269,612 more than the final budget. Actual expenditures were less than the final appropriation by \$142,574. Budget amendments were done throughout the year to make funds available for unexpected expenditures as well as to realign funding changes in each department.

Capital Assets

The City's capital assets (net of accumulated depreciation) as of September 30, 2021, amounted to \$5,030,736 a decrease of \$575,001 from the prior year. The decrease was primarily due to depreciation expenses in amount \$548,891 and write off old assets in amount of \$71,905 in 2021. Additional information for the City assets can be found in NOTE 3, Capital assets.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

City of South Bay, Florida
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 293,523	\$ 238,823	\$ 212,927	\$ 212,927	\$ 506,450	\$ 451,750
Buildings and improvements	787,715	843,715	-	-	787,715	843,715
Utility plant and systems	-	-	128,521	128,521	128,521	128,521
Improvements other than buildings and roads	1,286,022	181,919	-	-	1,286,022	181,919
Infrastructure	12,803,790	10,673,775	-	-	12,803,790	10,673,775
Construction in Progress	437,801	3,660,919	-	-	437,801	3,660,919
Equipment and machinery	821,034	856,844	-	-	821,034	856,844
Total	16,429,885	16,455,995	341,448	341,448	16,771,333	16,797,443
Accumulated depreciation	(11,646,608)	(11,100,287)	(93,989)	(91,419)	(11,740,597)	(11,191,706)
Total capital assets, net	\$ 4,783,277	\$ 5,355,708	\$ 247,459	\$ 250,029	\$ 5,030,736	\$ 5,605,737

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$1,072,516 in notes, bonds and capital leases outstanding as compared to \$1,089,946 last year, a decrease of \$17,130. The City's obligations are secured by various revenue sources and capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues bonds	\$ -	\$ -	\$ 907,000	\$ 938,500	\$ 907,000	\$ 938,500
Capital Leases	27,800	54,216	-	-	27,800	54,216
Compensated absences	137,716	97,230	-	-	137,716	97,230
Total	\$ 165,516	\$ 151,446	\$ 907,000	\$ 938,500	\$ 1,072,516	\$ 1,089,946

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2021

Economic Factors and Outlook for the Future

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

The City primarily relies on various taxes levied by the state (sales and utilities) as well as franchise and other business tax receipts for governmental activities. The governmental fund budget has kept operational spending fairly unchanged. The City's elected officials consider many factors and establish goals, and priorities when adopting the annual budget each year. Improvements to roads will be funded by grants' monies that are expected to be received during 2021-2022 fiscal year.

Effective October 1, 2006, the fire rescue services was transferred to Palm Beach County Fire Rescue MSTU (municipal service tax unit). In accordance with this agreement, the City's property owners \$3.4581 mills of \$1,000 of taxable value are maintained by Palm Beach County and the City's millage rate remains at 6.3089. The property values have begun to stabilize and an increase of 4.1% is projected for the fiscal year 2021-2022.

Request for Information

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

City of South Bay, Florida
Statement of Net Position
September 30, 2021

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 4,297,099	\$ 2,910,792	\$ 7,207,891
Accounts receivable (net of allowances for uncollectible accounts)	61,112	109,393	170,505
Due from government	254,148	-	254,148
Prepaid items	37,274	-	37,274
Due from other funds	32,037	678,085	710,122
Restricted assets:			
Cash and cash equivalents	116,231	23,119	139,350
Investments	-	874,873	874,873
Capital assets	4,783,277	247,459	5,030,736
Other assets	549,151	31,887	581,038
Total assets	<u>10,130,329</u>	<u>4,875,608</u>	<u>15,005,937</u>
Deferred outflows:			
Deferred outflows-pension	44,357	-	44,357
Total deferred outflows	<u>44,357</u>	<u>-</u>	<u>44,357</u>
Liabilities:			
Accounts payable	136,727	7,267	143,994
Accrued liabilities	14,497	-	14,497
Compensated absences	137,716	-	137,716
Due to other funds	710,122	-	710,122
Payable from restricted assets:			
Interest payable	-	22,879	22,879
Long-term debt:			
Due within in one year	24,226	33,000	57,226
Capital lease	3,574	-	3,574
Due in more than one year	-	874,000	874,000
Net pension liability	25,948	-	25,948
Total liabilities	<u>1,052,810</u>	<u>937,146</u>	<u>1,989,956</u>
Deferred inflows:			
Deferred inflows-revenues	1,463,638	-	1,463,638
Deferred inflows-pension	81,406	-	81,406
Net Position:			
Invested in capital assets, net of related debt	4,660,248	247,459	4,907,707
Restricted for:			
Prepaid items	37,274	-	37,274
Capital projects	1,237,982	-	1,237,982
General government	32,232	-	32,232
Parks and recreational	40,000	-	40,000
Unrestricted	1,569,096	3,691,003	5,260,099
Total net position	<u>\$ 7,576,832</u>	<u>\$ 3,938,462</u>	<u>\$ 11,515,294</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2021

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 1,373,904	\$ -	\$ 379,313	\$ (994,591)	\$ -	\$ (994,591)
Public safety	231,017	-	-	(231,017)	-	(231,017)
Highways and streets	970,981	55,572	-	(915,409)	-	(915,409)
Culture and recreation	310,207	-	-	(310,207)	-	(310,207)
Interest	4,008	-	-	(4,008)	-	(4,008)
Total governmental activities	<u>2,890,117</u>	<u>55,572</u>	<u>379,313</u>	<u>(2,455,232)</u>	<u>-</u>	<u>(2,455,232)</u>
Business-type activities:						
Water and sewer	3,570	-	-	-	(3,570)	(3,570)
Sanitation	511,651	686,010	-	-	174,359	174,359
Total business-type activities	<u>515,221</u>	<u>686,010</u>	<u>-</u>	<u>-</u>	<u>170,789</u>	<u>170,789</u>
Total governmental	<u>\$ 3,405,338</u>	<u>\$ 741,582</u>	<u>\$ 379,313</u>	<u>(2,455,232)</u>	<u>170,789</u>	<u>(2,284,443)</u>
General revenue:						
Taxes:						
Ad Valorem				450,788	-	450,788
Franchise and other taxes				683,092	-	683,092
Sales taxes				567,040	-	567,040
State revenue sharing				220,548	-	220,548
Payment in lieu of taxes				275,560	-	275,560
Occupational licenses and permits				99,874	-	99,874
Investment earnings				4,464	2,991	7,455
Other				107,086	158,309	265,395
Interfund transfers				157,602	(157,602)	-
Total general revenues				<u>2,566,054</u>	<u>3,698</u>	<u>2,569,752</u>
Change in net position				110,822	174,487	285,309
Net position, beginning of year				7,466,010	3,763,975	11,229,985
Net position, end of year				<u>\$ 7,576,832</u>	<u>\$ 3,938,462</u>	<u>\$ 11,515,294</u>

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2021

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Capital Projects	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 3,205,463	\$ 1,091,636	\$ 4,297,099
Accounts receivable (net of allowances for uncollectible)	61,112	-	61,112
Due from government	111,489	142,659	254,148
Due from other funds	-	32,037	32,037
Prepaid items	37,274	-	37,274
Other assets	549,151	-	549,151
Restricted assets:			
Cash and cash equivalents	116,231	-	116,231
Total assets	<u>\$ 4,080,720</u>	<u>\$ 1,266,332</u>	<u>\$ 5,347,052</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 108,377	\$ 28,350	\$ 136,727
Accrued liabilities	14,497	-	14,497
Due to other funds	710,122	-	710,122
Total liabilities	<u>832,996</u>	<u>28,350</u>	<u>861,346</u>
Deferred inflows	<u>1,463,638</u>	<u>-</u>	<u>1,463,638</u>
Fund balances:			
Non-spendable:			
Prepaid items	37,274	-	37,274
Restricted for:			
Capital projects	-	1,237,982	1,237,982
Committed to:			
Compensated absences	137,716	-	137,716
Assigned to:			
Parks and recreational	40,000	-	40,000
Unassigned	<u>1,569,096</u>	<u>-</u>	<u>1,569,096</u>
Total fund Balances	<u>1,784,086</u>	<u>1,237,982</u>	<u>3,022,068</u>
Total liabilities and fund balances	<u>\$ 4,080,720</u>	<u>\$ 1,266,332</u>	<u>\$ 5,347,052</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, 2021

Fund Balance – Total Governmental Funds	\$	3,022,068
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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		4,783,277
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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	\$	(137,716)	
Pension liabilities		(62,997)	
General obligation notes and lease payable		<u>(27,800)</u>	
			<u>(228,513)</u>

Total net position – Governmental Activities	\$	<u><u>7,576,832</u></u>
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City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2021

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Taxes and franchise fees	\$ 1,133,880	\$ -	\$ 1,133,880
Licenses and permits	99,874	-	99,874
Intergovernmental	1,112,696	329,765	1,442,461
Charges for services	55,572	-	55,572
Fines and forfeitures	3,338	-	3,338
Rents	29,526	-	29,526
Investment income	3,658	806	4,464
Miscellaneous revenues	74,222	-	74,222
Total revenues	<u>2,512,766</u>	<u>330,571</u>	<u>2,843,337</u>
Expenditures:			
Current:			
General government	1,298,055	23,425	1,321,480
Public safety	231,017	-	231,017
Highways and streets	467,347	54,241	521,588
Culture and recreation	184,244	-	184,244
Capital outlay	47,095	-	47,095
Debt services:			
Principal	26,416	-	26,416
Interest	4,008	-	4,008
Total expenditures	<u>2,258,182</u>	<u>77,666</u>	<u>2,335,848</u>
Other financing sources:			
Operating transfer in	157,602	-	157,602
Total other financing sources:	<u>157,602</u>	<u>-</u>	<u>157,602</u>
Net change in fund balance	412,186	252,905	665,091
Fund balances, beginning of year	<u>1,371,900</u>	<u>985,077</u>	<u>2,356,977</u>
Fund balances, end of year	<u>\$ 1,784,086</u>	<u>\$ 1,237,982</u>	<u>\$ 3,022,068</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, 2021

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

Net change in fund balance – total governmental funds	\$	665,091
<p>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:</p>		
Expenditures for capital assets		47,095
Sales of capital asset		(1,300)
Current year depreciation		(618,226)
<p>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.</p>		
<p>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:</p>		
		26,416
Compensated absences		(40,486)
Pension expense		32,232
		110,822
Change in net position of governmental activities	\$	110,822

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2021

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Assets			
Current assets:			
Cash and cash equivalents	\$ 654,101	\$ 2,256,691	\$ 2,910,792
Accounts receivable, net	18,532	90,861	109,393
Due from other funds	678,085	-	678,085
Restricted assets			
Cash and cash equivalents	23,119	-	23,119
Total current assets	<u>1,373,837</u>	<u>2,347,552</u>	<u>3,721,389</u>
Non-current assets:			
Restricted assets			
Investments	874,873	-	874,873
Capital assets			
Property, net	247,459	-	247,459
Other assets	31,887	-	31,887
Total non-current assets	<u>1,154,219</u>	<u>-</u>	<u>1,154,219</u>
Total assets	<u>\$ 2,528,056</u>	<u>\$ 2,347,552</u>	<u>\$ 4,875,608</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2021

	<u>Major Fund</u>		Total Business-Type Activities Enterprise Funds
	<u>Water and Sewer</u>	<u>Sanitation</u>	
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ -	\$ 7,267	\$ 7,267
Total current liabilities	<u>-</u>	<u>7,267</u>	<u>7,267</u>
Current liabilities payable from restricted assets:			
Interest payable	22,879	-	22,879
Current portion of bond payable	<u>33,000</u>	<u>-</u>	<u>33,000</u>
Total current liabilities payable from current restricted assets	<u>55,879</u>	<u>-</u>	<u>55,879</u>
Non-current liabilities:			
Long-term portion of bond payable	<u>874,000</u>	<u>-</u>	<u>874,000</u>
Total non-current liabilities	<u>874,000</u>	<u>-</u>	<u>874,000</u>
Total liabilities	<u>929,879</u>	<u>7,267</u>	<u>937,146</u>
Net position:			
Invested in capital assets	247,459	-	247,459
Unrestricted	<u>1,350,718</u>	<u>2,340,285</u>	<u>3,691,003</u>
Total net position	<u>\$ 1,598,177</u>	<u>\$ 2,340,285</u>	<u>\$ 3,938,462</u>

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2021

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 686,010	\$ 686,010
Municipal fee	158,309	-	158,309
Total operating revenues	<u>158,309</u>	<u>686,010</u>	<u>844,319</u>
Operating expenses:			
Contractual services	-	504,248	504,248
Other services and charges	3,570	7,403	10,973
Total operating expenses	<u>3,570</u>	<u>511,651</u>	<u>515,221</u>
Operating income	<u>154,739</u>	<u>174,359</u>	<u>329,098</u>
Non-operating revenues:			
Interest revenue	<u>218</u>	<u>2,773</u>	<u>2,991</u>
Total non-operating revenues	<u>218</u>	<u>2,773</u>	<u>2,991</u>
Income before transfers out	154,957	177,132	332,089
Transfers out	<u>(50,102)</u>	<u>(107,500)</u>	<u>(157,602)</u>
Change in net position	104,855	69,632	174,487
Net position, beginning of year	<u>1,493,322</u>	<u>2,270,653</u>	<u>3,763,975</u>
Net position, end of year	<u>\$ 1,598,177</u>	<u>\$ 2,340,285</u>	<u>\$ 3,938,462</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2021

	Major Fund		Total
	Water and Sewer	Sanitation	Business-Type Activities Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	\$ 161,614	\$ 687,298	\$ 848,912
Payments to suppliers	(1,000)	(513,768)	(514,768)
Net cash provided by operating activities	<u>160,614</u>	<u>173,530</u>	<u>334,144</u>
Cash flows from capital and related financing activities:			
Principal paid	(36,500)	-	(36,500)
Net cash (used in) capital and related financing activities	<u>(36,500)</u>	<u>-</u>	<u>(36,500)</u>
Cash flows from non-capital and related financing activities:			
Transfers out to other funds	(50,102)	(107,500)	(157,602)
Net cash (used in) non-capital and related financing activities	<u>(50,102)</u>	<u>(107,500)</u>	<u>(157,602)</u>
Cash flows from investing activities:			
Interest received	218	2,773	2,991
Decrease in investment	31,501	-	31,501
Net cash provided by investing activities	<u>31,719</u>	<u>2,773</u>	<u>34,492</u>
Net increase in cash	105,731	68,803	174,534
Cash and cash equivalents at beginning of year	548,370	2,187,888	2,736,258
Cash and cash equivalents at end of year	<u>\$ 654,101</u>	<u>\$ 2,256,691</u>	<u>\$ 2,910,792</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 154,739	\$ 174,359	\$ 329,098
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,570	-	2,570
Changes in assets and liabilities:			
Decrease in accounts receivable	3,305	1,288	4,593
Decrease in accounts payable	-	(2,117)	(2,117)
Total adjustments	<u>5,875</u>	<u>(829)</u>	<u>5,046</u>
Net cash provided by operating activities	<u>\$ 160,614</u>	<u>\$ 173,530</u>	<u>\$ 334,144</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

(a) Reporting Entity

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

(b) The Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental Revenues, are reported separately from business-type Activities, which rely to a significant extent, on fees and charges for support.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

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, 2021, there are no remaining governmental funds to be aggregated and reported as non-major funds.

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

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

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

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

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

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 standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

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

Major Funds and Basis Presentation

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

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue is derived primarily from property taxes, state and federal distributions, grants and other intra-governmental revenue. The general operating expenditures, fixed

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

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

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

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

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

(1) Cash and Cash Equivalents

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

(2) Unbilled Accounts Receivable

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

(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.

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 - Continued
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 are accrued; whereas in the government-wide presentations, both the current and long-term portions are reported.

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

(10) Deferred and Unearned Revenues

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

(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.

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 - Continued
September 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 - Continued
September 30, 2021

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 – Deposits

All of the City’s bank deposits are held in qualified public depositories approved by State Treasurer of the State of Florida and they are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000.

The uninsured balance at September 30, 2021 was \$4,133,490 on bank statements balance less FDIC insurance at that time.

The City’s deposit in the Florida Cooperative Liquid Assets Securities Systems (FL Class), a public entity investment trust organized under the laws of the State of Florida, is presented at Net Asset Value (NAV), which reflects fair value. The objectives of FL Class are to generate investment income while maintaining safety and liquidity. There are no restrictions or terms and conditions on the City in redeeming the deposit and the City has no unfunded commitments related to this deposit.

NOTE 3 – INVESTMENTS:

Investments consist of U.S Government time deposit securities. The table below summarizes the scheduled maturities of the investments at September 30, 2021:

	Fair Value of Investments Maturities				Total
	Less Than One Year	One to Five Years	Six To Ten Years	More Than Ten Years	
U.S Government securities	\$ 30,325	\$ 177,639	\$ 229,416	\$ 437,493	\$ 874,873

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 3 – INVESTMENTS (Continued):

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.

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

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

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 4 – CAPITAL ASSETS:

Changes in capital assets of the City as of September 30, 2021, are shown below:

	<u>Balance 9/30/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2021</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 238,823	\$ 56,000	\$ 1,300	\$ 293,523
Total capital assets not being depreciated	<u>238,823</u>	<u>56,000</u>	<u>1,300</u>	<u>293,523</u>
Capital assets, being depreciated				
Buildings and improvements	843,715	-	56,000	787,715
Improvement other than buildings and roads	181,919	1,104,103	-	1,286,022
Infrastructure	10,673,775	2,130,015	-	12,803,790
Equipment and machinery	856,844	36,095	71,905	821,034
Construction in progress	3,660,919	-	3,223,118	437,801
Total capital assets being depreciated	<u>16,217,172</u>	<u>3,270,213</u>	<u>3,353,623</u>	<u>16,136,362</u>
Less accumulated depreciation for:				
Buildings and improvements	689,229	19,999	-	709,228
Improvement other than buildings and roads	181,919	110,410	-	292,329
Infrastructure	9,471,020	440,230	-	9,911,250
Equipment and machinery	758,119	47,587	71,905	733,801
Total accumulated depreciation	<u>11,100,287</u>	<u>618,226</u>	<u>71,905</u>	<u>11,646,608</u>
Total capital assets being depreciated, net	<u>5,116,885</u>	<u>2,651,987</u>	<u>3,281,718</u>	<u>4,489,754</u>
Governmental activities capital assets, net	<u>\$ 5,355,708</u>	<u>\$ 2,707,987</u>	<u>\$ 3,283,018</u>	<u>\$ 4,783,277</u>
	<u>Balance 9/30/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2021</u>
Business-Type Activities:				
Capital assets not being depreciated				
Land	\$ 212,927	\$ -	\$ -	\$ 212,927
Total capital assets not being depreciated	<u>212,927</u>	<u>-</u>	<u>-</u>	<u>212,927</u>
Capital assets being depreciated:				
Utility plant and systems	128,521	-	-	128,521
Total capital assets being depreciated	<u>128,521</u>	<u>-</u>	<u>-</u>	<u>128,521</u>
Total accumulated depreciation	<u>91,419</u>	<u>2,570</u>	<u>-</u>	<u>93,989</u>
Total capital assets being depreciated	<u>37,102</u>	<u>(2,570)</u>	<u>-</u>	<u>34,532</u>
Business-type activities capital assets, net	<u>\$ 250,029</u>	<u>\$ (2,570)</u>	<u>\$ -</u>	<u>\$ 247,459</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 4 – CAPITAL ASSETS (Continued):

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

<u>Governmental activities</u>	
General government	\$ 42,870
Highway and streets	449,393
Culture and recreation	<u>125,963</u>
Total depreciation expense – governmental activities	<u>\$ 618,226</u>

NOTE 5 – LONG TERM DEBT:

Long-term debt activities for the year ended September 30, 2021, are shown below:

	<u>Balance</u> <u>9/30/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/2021</u>
<u>Governmental activities:</u>				
Capital lease obligation	\$ 54,216	\$ -	\$ 26,416	\$ 27,800
Compensated absences	<u>97,230</u>	<u>40,486</u>	<u>-</u>	<u>137,716</u>
Total governmental activities	<u>\$ 151,446</u>	<u>\$ 40,486</u>	<u>\$ 26,416</u>	<u>\$ 165,516</u>
<u>Business-type activities:</u>				
Bond payable	\$ 938,500	\$ -	\$ 31,500	\$ 907,000
Total business-type activities	<u>938,500</u>	<u>-</u>	<u>31,500</u>	<u>907,000</u>
Total long-term debt	<u>\$ 1,089,946</u>	<u>\$ 40,486</u>	<u>\$ 57,916</u>	<u>\$ 1,072,516</u>

Long-Term Debt of Business type Activities:

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 5 – LONG TERM DEBT (Continued):

Bond Series 1998 Second Subordinate Water Revenue

<u>Fiscal year of Maturity</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 33,000	\$ 43,083	\$ 76,083
2023	34,500	41,515	76,015
2024	36,200	39,876	76,076
2025	37,900	38,157	76,057
2026	39,700	36,356	76,056
2027 - 2031	228,600	151,649	380,249
2032 - 2036	288,200	91,955	380,155
2037 - 2039	208,900	20,197	229,097
Total	<u>\$ 907,000</u>	<u>\$ 462,788</u>	<u>\$ 1,369,788</u>

Change during fiscal year:

Outstanding October 1, 2020	\$ 938,500
Retired	(31,500)
Outstanding September 30, 2021	<u>\$ 907,000</u>
Due within one year	\$ 33,000
Due in more than one year	874,000
	<u>\$ 907,000</u>

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

NOTE 6 – 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, 2020	\$ 97,230
Increase	40,486
Balance at September 30, 2021	<u>\$ 137,716</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 7 – CAPITAL LEASE:

- 1- The City purchased various autos under capital leases from third parties and recorded the transactions in *Governmental Activities*. The future minimum lease payments under this capital leases and the present value of net minimum lease payments at September 30, 2021 are as follows:

<u>Year Ending</u>	
2022	\$ 25,459
2023	<u>3,628</u>
Total minimum lease payments	29,087
Less: amount representing interest	<u>(1,287)</u>
Present value of future payments	<u>\$ 27,800</u>

NOTE 8 - FLORIDA RETIREMENT SYSTEM

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

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

Pension Plan

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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

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

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

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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

Contributions – The Florida legislative establishes rates for participating employers and employees. Contribution rates during the 2020-2021 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer</u>
Regular	3.00%	10.00%
Special Risk	3.00%	24.45%
DROP	3.00%	16.98%
Senior Management Service	3.00%	27.29%
Elected Officers	3.00%	49.18%

The City’s contributions, including employee contributions, to the Pension Plan totaled \$10,648 for the fiscal year ended September 30, 2021.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2021, the City reported a liability of \$16,766 for its proportionate share of the Pension Plan’s net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021. The City’s proportionate share of the net pension liability was based on the City’s 2019-2020 fiscal year contributions relative to the 2020-2021 fiscal year contributions of all participating members. At June 30, 2021, the City's proportionate share was .000221954 percent, which was a decrease of .000026664 percent from its proportionate share measured as of June 30, 2020.

For the fiscal year ended September 30, 2021, the City recognized excess of pension expense in amount of (\$2,295). In additions the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,874	\$ -
Change in assumptions	11,472	-
Net difference between projected and actual earnings on pension plan investments	-	58,493
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	5,903	20,760
City pension plan contributions Subsequent to the measurement date	<u>2,232</u>	<u>-</u>
Total	<u>\$ 22,481</u>	<u>\$ 79,253</u>

The deferred outflows of resources related to the Pension Plan, totaling \$2,232 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, 2021. 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:

<u>Fiscal Year Ending September 30,</u>	<u>Amount</u>
2022	\$ (2,290)
2023	(3,220)
2024	(2,910)
2025	(4,341)
2026	(3,364)
Thereafter	<u>(42,879)</u>
Total	<u>\$ (59,004)</u>

Actuarial Assumptions – The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions. The assumptions were applied to all periods included in the measurement:

Inflation	2.40 %
Salary increases	3.25%, average, including inflation
Investment rate of return	6.80%, net of pension plan investment expense, including inflation

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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

The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	2.1%	2.1%	1.1%
Fixed Income	20.0%	3.8%	3.7%	3.3%
Global Equity	54.2%	8.2%	6.7%	17.8%
Real Estate	10.3%	7.1%	6.2%	13.8%
Private Equity	10.8%	11.7%	8.5%	26.4%
Strategic Investments	3.7%	5.7%	5.4%	8.4%
Total	100.00%			
Assumed Inflation - Mean			2.40%	1.20%

Discount Rate - The discount rate used to measure the total pension liability was 6.80%. 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 6.80%, 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 (5.80%) or one percentage point higher (7.80%) than the current rate:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

	1% Decrease (5.8%)	Current Discount Rate (6.8%)	1% Decrease (7.8%)
City's proportionate share of the net pension liability	\$ 74,979	\$ 16,766	\$ (31,893)

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, 2021, the City reported a payable in the amount of \$16,766 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2021.

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, 2021, 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, 2021, the HIS contribution for the period October 1, 2020 through June 30, 2021 and from July 1, 2021 through September 30, 2021 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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

The City's contributions to the HIS Plan totaled \$440 for the fiscal year ended September 30, 2021.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Related to Pensions – At September 30, 2021, City reported a liability of \$9,182 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021. The City's proportionate share of the net pension liability was based on the City's 2019-2020 fiscal year contributions relative to the 2020-2021 fiscal year contributions of all participating members. At June 30, 2021, the City's proportionate share was .000074857 percent, which was a decrease of .000001500 percent from its proportionate share measured as of June 30, 2020.

For the fiscal year ended September 30, 2021, the City recognized pension expense of \$809. In addition the City reported deferred outflow of resources and deferred inflows of resources related to pension from the following resource:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 307	\$ 4
Change in assumptions	722	378
Net difference between projected and actual earnings on pension plan investments	10	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	1,221	1771
City pension plan contributions Subsequent to the measurement date	110	-
Total	<u>\$ 2,370</u>	<u>\$ 2,153</u>

The deferred outflows of resources related to the HIS Plan, totaling \$110 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a

reduction of the net pension liability in the fiscal year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the HIS Plan will be recognized in pension expense as follows:

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

Fiscal Year Ending September 30,	Amount
2022	\$ (47)
2023	(28)
2024	(19)
2025	(306)
2026	(131)
Thereafter	638
Total	\$ 107

Actuarial Assumptions – The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.16%

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

The actuarial assumptions used in the July 1, 2021, valuation was 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 3.50%. 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 2.16% as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.16%) or one percentage point higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current Discount Rate 2.16%	1% Increase 3.16%
City's proportionate share of the net pension liability	\$ 10,616	\$ 9,182	\$ 8,008

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 – FLORIDA RETIREMENT SYSTEM (Continued):

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, 2021, the City reported a payable in the amount of \$9,182 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2021.

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 3.00% percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2021-2022 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular Class 10.82%, Special Risk Class 25.89%, Senior Management Service Class 29.01% and Drop 18.34%.

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 8 – FLORIDA RETIREMENT SYSTEM (Continued)

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, 2021, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

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

The City's Investment Plan pension expense totaled \$9,853 for the fiscal year ended September 30, 2021.

NOTE 9 – 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, 2021, was as follows:

	Governmental <u>Activities</u>
General Fund	\$ <u>36,469</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2021

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2021 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ -	\$ 678,085	\$ -	\$ -
Water & sewer fund – major enterprise	678,085	-	-	-
	<u>\$ 678,085</u>	<u>\$ 678,085</u>	<u>\$ -</u>	<u>\$ -</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 11 – 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, 2021.

NOTE 12 – 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 13 – 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 - Continued
September 30, 2021

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

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

The City of South Bay will continue to provide the solid waste, trash and mosquito control services. Under the agreement, the Authority agreed to bill the City's customers for the sanitation services for a fee of one percent to the total of the monthly collection revenue. For the fiscal year ended September 30, 2021, 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, 2021, the City received \$158,310 for entity transfer fee.

NOTE 14 – 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 15 – MANAGEMENT'S REVIEW:

Management has evaluated subsequent event through June 10, 2022, which is the date the financial statements were available to be issued.

REQUIRED 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, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes and franchise fees	\$ 1,062,314	\$ 1,079,814	\$ 1,133,880	\$ 54,066
Licenses and permits	90,750	92,450	99,874	7,424
Intergovernmental	712,832	873,227	1,112,696	239,469
Charges for services	58,455	58,455	55,572	(2,883)
Fines and forfeitures	2,500	2,500	3,338	838
Rents	26,550	26,550	29,526	2,976
Investment income	3,425	3,425	3,658	233
Miscellaneous	17,863	106,733	74,222	(32,511)
Total revenues	<u>1,974,689</u>	<u>2,243,154</u>	<u>2,512,766</u>	<u>269,612</u>
Expenditures:				
Current:				
General government	1,222,718	1,366,883	1,298,055	68,828
Public safety	228,890	231,040	231,017	23
Highways and streets	496,710	496,710	467,347	29,363
Culture and recreation	153,522	214,522	184,244	30,278
Capital outlay	-	61,150	47,095	14,055
Debt services:				
Principal	26,441	26,441	26,416	25
Interest	4,010	4,010	4,008	2
Total expenditures	<u>2,132,291</u>	<u>2,400,756</u>	<u>2,258,182</u>	<u>142,574</u>
Excess of revenues over (under) expenditures	<u>(157,602)</u>	<u>(157,602)</u>	<u>254,584</u>	<u>412,186</u>
Other financing sources:				
Operating transfer in	<u>157,602</u>	<u>157,602</u>	<u>157,602</u>	<u>-</u>
Total other financing sources:	<u>157,602</u>	<u>157,602</u>	<u>157,602</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>412,186</u>	<u>\$ 412,186</u>
Fund balance, beginning of year			<u>1,371,900</u>	
Fund balance, end of year			<u>\$ 1,784,086</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, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 1,907,748	\$ 1,907,748	\$ 329,765	\$ (1,577,983)
Interest income	3,150	3,150	806	(2,344)
Total revenues	<u>1,910,898</u>	<u>1,910,898</u>	<u>330,571</u>	<u>(1,580,327)</u>
Expenditures:				
Current:				
General government	620,085	620,085	23,425	596,660
Highways and streets	1,290,813	1,290,813	54,241	1,236,572
Total expenditures	<u>1,910,898</u>	<u>1,910,898</u>	<u>77,666</u>	<u>1,833,232</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>252,905</u>	<u>252,905</u>
Other financing sources:				
Total other financing sources:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>252,905</u>	<u>\$ 252,905</u>
Fund balance, beginning of year			<u>985,077</u>	
Fund balance, end of year			<u>\$ 1,237,982</u>	

City of South Bay, Florida
Note to Budgetary Comparison Schedule
Budget and Actual – General Fund
For the Fiscal Year Ended September 30, 2021

NOTE 1 – BUDGETARY ACCOUNTING

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

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

Changes or amendments to increase or decrease the total amount of budgeted revenue or expenditures for a given fund must be approved by a majority vote of the City Commissioners; however, the change, amendments or transfers within the total revenue or expenditures for functions, activities or departments of a given fund may be approved by the City Manager. During the year the original budget increased by \$268,465, the revenue increased primarily due to additional revenues from various taxes, grants from State and insurance refund, and expenditures increased due to increase of operating expenses incurred in various departments.

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 \$269,612, when the actual general fund expenditures were under the appropriation by \$142,574.

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, 2021, the City has a commitment related to unperformed contracts in amount of \$40,000.

NOTE 2 – BUDGET AND ACTUAL COMPARISON

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
City's proportion of the net pension liability (asset)	0.000222%	0.000249%	0.000265%	0.000365%	0.000277%	0.000281%	0.000309%	0.000483%
City's proportion share of the net pension liability (asset)	\$ 16,766	\$ 107,755	\$ 91,308	\$ 109,994	\$ 81,906	\$ 71,077	\$ 39,933	\$ 8,224
City's covered-employee payroll	26,500	26,500	26,500	33,584	24,000	23,000	23,000	14,917
City's proportion share of the net pension liability (asset) as a percentage of its covered-employee payroll	63.27%	406.62%	344.56%	327.52%	341.28%	309.03%	173.62%	55.13%
Plan fiduciary net position as a percentage of the total pension liability	96.40%	78.85%	82.61%	84.26%	83.90%	84.88%	92.00%	96.09%

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

** Information prior to 2014 is not available.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
Contractually required contribution	\$ 10,648	\$ 10,351	\$ 10,277	\$ 11,923	\$ 10,215	\$ 9,148	\$ 8,035	\$ 6,196
Contribution in relation to the contractually required contribution	10,648	10,351	10,277	11,923	10,215	9,148	8,035	6,196
City's covered-employee payroll	26,500	26,500	26,500	31,454	27,000	23,000	23,000	16,833
Contribution as a percentage of covered-employee payroll	40.2%	39.1%	38.8%	37.9%	37.8%	39.8%	34.9%	36.8%

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

** Information prior to 2014 is not available.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
City's proportion of the net pension liability (asset)	0.000075%	0.000076%	0.000079%	0.000100%	0.000075%	0.000075%	0.000082%	0.000104%
City's proportion share of the net pension liability (asset)	\$ 9,853	\$ 9,323	\$ 8,866	\$ 10,654	\$ 8,052	\$ 8,684	\$ 8,325	\$ 5,569
City's covered-employee payroll	26,500	26,500	26,500	33,584	24,000	23,000	23,000	14,917
City's proportion share of the net pension liability (asset) as a percentage of its covered-employee payroll	37.18%	35.18%	33.46%	31.72%	33.55%	37.76%	36.20%	37.33%
Plan fiduciary net position as a percentage of the total pension liability	3.56%	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

** Information prior to 2014 is not available.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the contractually required contribution	-	-	-	-	-	-	-	-
City's covered-employee payroll	26,500	26,500	26,500	31,454	27,000	23,000	23,000	16,833
Contribution as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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

** Information prior to 2014 is not available.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the ‘City’), as of and for the year ended September 30, 2021, 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 10, 2022. 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.

Report on 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) as a basis for designing 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 City’s internal control.

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

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 10, 2022

City of South Bay, Florida
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2020

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(ies) identified? ___yes X none reported

Noncompliance material to financial statements noted? ___yes X no

City of South Bay, Florida
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended September 30, 2020

II. Prior Year Findings

2020-001 – Missing supporting documentation

Finding Type: Internal Control and Significant Deficiency

Condition:

During our review of the detailed expenditure testing, we noted some of the transactions were missing adequate supporting documentation.

Criteria:

Section 218.33, *Florida Statutes*, require that local government entities establish and maintain internal controls designed to: prevent and detect fraud, waste, and abuse; promote and encourage compliance with applicable laws, rules, contracts, grant agreements, and best practices; support economical and efficient operations; ensure reliability of financial records and reports; and safeguard assets.

Cause:

Management was unable to provide supporting documentation for some expenditures during testing.

Effect:

Not adhering to policies and procedures in place opens the City for potential fraud or higher risk of material misstatement.

Recommendation:

We recommend that the City ensure all existing policies and procedures are followed and maintained for all transactions.

Current year status: Fully implemented.

III. Financial Statement Findings

None

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

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

We have audited the financial statements of the City South Bay, Florida (the “City”) as of and for the year ended September 30, 2021, and have issued our report thereon dated June 10, 2022.

Auditor’s Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Schedule of Findings and Questioned Costs; 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 10, 2022, 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, 2021. 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.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2021. 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 10, 2022

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

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

Report on the Financial Statements

We have audited the financial statements of the City of South Bay, Florida (the ‘City’), as of and for the fiscal year ended September 30, 2021, and have issued our report thereon dated June 10, 2022.

Auditor’s Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings and Questioned Costs; and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 10, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and 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. There were no component units associated with the City.

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 communicate 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 Statutes.

Pursuant to Sections 10.554(1)(i)5.b. 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 audit, we did not have any such recommendations.

Special District Component Units

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

Additional Matters

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

Purpose of this letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor, Members of the City Council, 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 10, 2022