

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2019



List of Principal Officials

City Commissioners

Joe Kyles, Sr.....Mayor
 Betty J. Bernard..... Vice Mayor
 Esther E. Berry.....Commissioner
 John E. Wilson.....Commissioner
 Taranza L. McKelvin..... Commissioner

Administrative Staff

Leondrae D. Camel.....City Manager
 Edgar Kerr.....Public Works Director
 Massih Saadatmand, CPA.....Finance Director
 Nepoleon T. Collins.....Director of Economic and Business Development
 Natalie MaloneCity Clerk

Professional Advisors

Burnadette Norris-Weeks, PA.....Attorney
 Miguel Diaz , P.E. CAP Government/CAP Engineering.....Consulting Engineer

**City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2019**

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Financial Statements and Other Financial Information
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fiduciary funds (included in the General fund), which represent .38 percent, .90 percent, and .96 percent, respectively, of the assets, liabilities, and expenses of the City's pension plan. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary funds, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and Chapter 10.550, *Rules of the Auditor General*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of South Bay, Florida, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–10 and 49–51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors.

In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 30, 2020

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

The purpose of Management's Discussion and Analysis 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, 2019. 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 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, 2019 by \$10,065,049 of this amount \$4,554,282 may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$2,214,058 or 28.2% as a result of an increase of \$1,967,811 in governmental activities and an increase of \$246,247 in business-type activities.
- Governmental activities generated \$4,451,097 in revenues with \$2,483,286 in expenses.
- Business-type activities generated \$857,698 in revenues with \$611,451 in expenses.
- General fund balance increased by \$196,683, as result, the unassigned fund balance was \$1,212,273 or 90.6% total of fund balances.
- The net position in business type activities increased by \$246,247 due to increase of \$158,517 in the water and sewer fund and an increase of \$87,730 in the sanitation fund.
- At the end of the current fiscal year, the unassigned fund balance for the general fund represented 56.8% of the total general fund expenditures.

Overview of the Financial Statements

The City's financial statements comprise of four 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.

1 - The focus of the *government-wide financial statements* is on the overall financial position and activities of the City. The difference between the City's total assets and total liabilities 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.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

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, sewer and sanitation funds. The Sanitation Fund charges a fee to customers for the use of services. The Water and Sewer Fund receives an annual fee based on agreement between the City and Glades Utility Authority. The basis of accounting of the financial statements is similar to the basis used to prepare the government-wide financial statements.

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

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$3,745,314	\$3,131,361	\$4,434,684	\$4,323,122	\$ 8,179,998	\$7,454,483
Capital assets	4,584,828	2,685,188	252,600	255,171	4,837,428	2,940,359
Total assets	<u>8,330,142</u>	<u>5,816,549</u>	<u>4,687,284</u>	<u>4,578,293</u>	<u>13,017,426</u>	<u>10,394,842</u>
Deferred outflows of resources	49,701	76,229	-	-	49,701	76,229
Current and other liabilities	1,353,365	1,102,524	149,175	168,610	1,502,540	1,271,134
Long-term liabilities	128,931	123,278	943,500	1,061,321	1,072,431	1,184,599
Total liabilities	<u>1,482,296</u>	<u>1,225,802</u>	<u>1,092,675</u>	<u>1,229,931</u>	<u>2,574,971</u>	<u>2,455,733</u>
Deferred inflows of resources	427,107	164,347	-	-	427,107	164,347
Net position:						
Invested in capital assets (net of related debt)	4,421,522	2,542,543	252,600	255,171	4,674,122	2,797,714
Restricted for prepaid items	836,645	936,126	-	-	836,645	936,126
Unrestricted	<u>1,212,273</u>	<u>1,023,960</u>	<u>3,342,009</u>	<u>3,093,191</u>	<u>4,554,282</u>	<u>4,117,151</u>
Total net position	<u>\$6,470,440</u>	<u>\$4,502,629</u>	<u>\$3,594,609</u>	<u>\$3,348,362</u>	<u>\$ 10,065,049</u>	<u>\$7,850,991</u>

A significant portion of the City's net position (46.4%) reflect its investment in capital assets (e.g. lands, infrastructure, buildings and equipment) less any debt related to those assets that are still outstanding. The City uses these capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the City's investment in its capital assets 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 (8.3%) represents resources that are subject to restriction on how they may be used.

The net position increased from \$7,850,991 to \$10,065,049 as a result of a net increase of \$246,247 in business-type and an increase of \$1,967,811 in the governmental activities fund groups.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

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 \$1,967,811 in the current year, while the net position in prior year increased by \$644,459. Revenues in governmental activities including transfers in, increased by \$1,424,913 when the expenditures increased by \$101,561 in fiscal year 2019.

	City of South Bay, Florida Change in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charge for services	\$ 58,551	\$ 54,377	\$ 648,799	\$ 655,265	\$ 707,350	\$ 709,642
Operating grant and contribution	1,923,209	460,446	-	-	1,923,209	460,446
General revenues:						
Property taxes	414,656	397,806	-	-	414,656	397,806
Franchise and taxes	684,095	680,039	-	-	684,095	680,039
Other taxes	982,518	990,795	-	-	982,518	990,795
Other	258,068	381,146	208,899	179,251	466,967	560,397
Total revenues	<u>4,321,097</u>	<u>2,964,609</u>	<u>857,698</u>	<u>834,516</u>	<u>5,178,795</u>	<u>3,799,125</u>
Expenses:						
General government	1,314,072	1,429,172	-	-	1,314,072	1,429,172
Public safety	187,270	193,761	-	-	187,270	193,761
Highway and street	836,461	636,138	-	-	836,461	636,138
Culture and recreation	140,552	121,330	-	-	140,552	121,330
Water and sewer	-	-	3,571	3,570	3,571	3,570
Sanitation	-	-	474,497	462,546	474,497	462,546
Interest on long term debt	4,931	1,324	3,383	6,194	8,314	7,518
Total expenses	<u>2,483,286</u>	<u>2,381,725</u>	<u>481,451</u>	<u>472,310</u>	<u>2,964,737</u>	<u>2,854,035</u>
Increase (decrease) in net assets before transfer in (out)	1,837,811	582,884	376,247	362,206	2,214,058	945,090
Transfer in /(out)	130,000	61,575	(130,000)	(61,575)	-	-
Increase in net position	1,967,811	644,459	246,247	300,631	2,214,058	945,090
Net position at beginning of year	<u>4,502,629</u>	<u>3,858,170</u>	<u>3,348,362</u>	<u>3,047,731</u>	<u>7,850,991</u>	<u>6,905,901</u>
Net position at end of year	<u>\$6,470,440</u>	<u>\$4,502,629</u>	<u>\$ 3,594,609</u>	<u>\$ 3,348,362</u>	<u>\$ 10,065,049</u>	<u>\$ 7,850,991</u>

The net position in business-type activities increased by \$246,247 in the current year, when the prior year's net position increased by \$300,631. The revenues in business-type increased by \$23,182 when the expenditures increased by \$77,566 mainly due to transfer out within the Sanitation Fund.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

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 \$2,329,415 including a transfer in the amount of \$80,000 and \$31,032 which were proceeds from capital lease. While expenditures totaled \$2,132,732 including a transfer out to the Capital Project Fund (also identified as a major governmental fund) in the amount of \$68,000, resulting in a \$196,683 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 propriety funds revenue for service charges and other sources totaled \$857,698. The total expenditures totaled \$611,451 including a transfer out of \$130,000 to the General and Capital Project Funds resulting in \$246,247 increase in net position.

General Fund Budgetary Highlights

General Fund operations had a positive variance of \$196,683, when the actual revenues including other financing sources were \$28,806 more than the final budget. Actual expenditures were less than the final appropriation by \$167,877. 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, 2019, amounted to \$4,837,428, an increase of \$1,897,069 from the prior year. The increase was primarily due to construction progress of \$2,220,920 in road and parks improvements during 2018-2019 fiscal year. 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, 2019

City of South Bay, Florida
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 238,823	\$ 238,823	\$212,927	\$212,927	\$ 451,750	\$ 451,750
Buildings and improvements	843,715	843,715	-	-	843,715	843,715
Utility plant and systems	-	-	128,521	128,521	128,521	128,521
Improvements other than buildings and roads	181,919	181,919	-	-	181,919	181,919
Infrastructure	10,673,775	10,673,775	-	-	10,673,775	10,673,775
Construction in Progress	2,389,442	168,522	-	-	2,389,442	168,522
Equipment and machinery	856,844	825,318	-	-	856,844	825,318
Total	15,184,518	12,932,072	341,448	341,448	15,525,966	13,273,520
Accumulated depreciation	(10,599,690)	(10,246,884)	(88,848)	(86,277)	(10,688,538)	(10,333,161)
Total capital assets, net	\$ 4,584,828	\$ 2,685,188	\$252,600	\$255,171	\$ 4,837,428	\$ 2,940,359

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$1,222,693 in notes, bonds and capital leases outstanding as compared to \$1,343,372 last year, a decrease of \$120,679. 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	
	2019	2018	2019	2018	2019	2018
Revenues bonds	\$ -	\$ -	\$ 968,500	\$ 997,200	\$ 968,500	\$ 997,200
Accounts payable	-	-	92,823	196,747	92,823	196,747
Capital leases	85,833	85,112	-	-	85,833	85,112
Net pension liability	100,173	120,648	-	-	100,173	120,648
Compensated absences	75,537	64,313	-	-	75,537	64,313
Total	\$ 261,543	\$ 270,073	\$ 1,061,323	\$ 1,193,947	\$ 1,322,866	\$ 1,464,020

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2019

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 2018-2019 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 3.79% is projected for the fiscal year 2019-2020.

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, 2019

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 2,299,237	\$ 2,543,726	\$ 4,842,963
Accounts receivable (net of allowances for uncollectible accounts)	66,365	148,482	214,847
Due from government	664,496	-	664,496
Prepaid items	50,747	-	50,747
Due from other funds	-	749,585	749,585
Restricted assets:			
Cash and cash equivalents	115,318	24,631	139,949
Investments	-	930,863	930,863
Capital assets	4,584,828	252,600	4,837,428
Other assets	549,151	37,397	586,548
Total assets	8,330,142	4,687,284	13,017,426
Deferred outflows:			
Deferred outflows-pension	49,701	-	49,701
Total deferred outflows	49,701	-	49,701
Liabilities:			
Accounts payable	448,035	6,961	454,996
Accrued liabilities	23,133	-	23,133
Compensated absences	75,537	-	75,537
Due to other funds	749,585	-	749,585
Payable from restricted assets:			
Interest payable	-	24,391	24,391
Long-term debt:			
Due within in one year	32,439	117,823	150,262
Capital lease	53,394	-	53,394
Due in more than one year	-	943,500	943,500
Net pension liability	100,173	-	100,173
Total liabilities	1,482,296	1,092,675	2,574,971
Deferred inflows:			
Deferred inflows-revenues	400,106	-	400,106
Deferred inflows-pension	27,001	-	27,001
Total deferred inflows	427,107	-	427,107
Net Position:			
Invested in capital assets, net of related debt	4,421,522	252,600	4,674,122
Restricted for:			
Prepaid items	50,747	-	50,747
Capital projects	785,898	-	785,898
Unrestricted	1,212,273	3,342,009	4,554,282
Total net position	\$ 6,470,440	\$ 3,594,609	\$ 10,065,049

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2019

Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:					
General government	\$ 1,314,072	\$ -	\$ 72,787	\$ (1,241,285)	\$ (1,241,285)
Public safety	187,270	-	-	(187,270)	(187,270)
Highways and streets	836,461	58,551	1,013,327	235,417	235,417
Culture and recreation	140,552	-	837,095	696,543	696,543
Interest	4,931	-	-	(4,931)	(4,931)
Total governmental activities	<u>2,483,286</u>	<u>58,551</u>	<u>1,923,209</u>	<u>(501,526)</u>	<u>(501,526)</u>
Business-type activities:					
Water and sewer	6,954	-	-	(6,954)	(6,954)
Sanitation	474,497	648,799	-	174,302	174,302
Total business-type activities	<u>481,451</u>	<u>648,799</u>	<u>-</u>	<u>167,348</u>	<u>167,348</u>
Total governmental	<u>\$ 2,964,737</u>	<u>\$ 707,350</u>	<u>\$ 1,923,209</u>	<u>\$ (501,526)</u>	<u>\$ (334,178)</u>
General revenue:					
Taxes:					
Ad Valorem			414,656	-	414,656
Franchise other taxes			684,095	-	684,095
Sales taxes			506,879	-	506,879
State revenue sharing			200,079	-	200,079
Payment in lieu of taxes			275,560	-	275,560
Occupational licenses and permits			160,059	-	160,059
Investment earnings			29,284	46,873	76,157
Other			68,725	162,026	230,751
Interfund transfers			130,000	(130,000)	-
Total general revenues			<u>2,469,337</u>	<u>78,899</u>	<u>2,548,236</u>
Change in net position			1,967,811	246,247	2,214,058
Net position, beginning of year			4,502,629	3,348,362	7,850,991
Net position, end of year			<u>\$ 6,470,440</u>	<u>\$ 3,594,609</u>	<u>\$ 10,065,049</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2019

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
Assets:			
Cash and cash equivalents	\$ 1,703,193	\$ 596,044	\$ 2,299,237
Accounts receivable (net of allowances for uncollectible)	66,365	-	66,365
Due from governments	104,152	560,344	664,496
Prepaid items	50,747	-	50,747
Other assets	549,151	-	549,151
Restricted assets:			
Cash and cash equivalents	115,318	-	115,318
Total assets	\$ 2,588,926	\$ 1,156,388	\$ 3,745,314
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 77,545	\$ 370,490	\$ 448,035
Accrued liabilities	23,133	-	23,133
Due to other funds	749,585	-	749,585
Total liabilities	850,263	370,490	1,220,753
Deferred inflows	400,106	-	400,106
Fund balances:			
Non-spendable:			
Prepaid items	50,747	-	50,747
Restricted for:			
Capital projects	-	785,898	785,898
Committed to:			
Compensated absences	75,537	-	75,537
Unassigned	1,212,273	-	1,212,273
Total fund balances	1,338,557	785,898	2,124,455
Total liabilities and fund balances	\$ 2,588,926	\$ 1,156,388	\$ 3,745,314

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, 2019

Fund Balance – Total Governmental Funds	\$	2,124,455
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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		4,584,828
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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	\$	(75,537)	
Pension liabilities		(77,473)	
General obligation notes and lease payable		(85,833)	
		(238,843)	(238,843)

Total net position – Governmental Activities	\$	<u><u>6,470,440</u></u>
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See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2019

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects</u>	
Revenues:			
Taxes and franchise fees	\$ 1,098,751	\$ -	\$ 1,098,751
Licenses and permits	160,059	-	160,059
Intergovernmental	814,306	2,091,421	2,905,727
Charges for services	58,551	-	58,551
Fines and forfeitures	2,190	-	2,190
Rents	32,765	-	32,765
Investment income	17,991	11,293	29,284
Miscellaneous	33,770	-	33,770
Total revenues	<u>2,218,383</u>	<u>2,102,714</u>	<u>4,321,097</u>
Expenditures:			
Current:			
General government	1,223,995	26,475	1,250,470
Public safety	187,270	-	187,270
Highways and streets	459,213	1,167,018	1,626,231
Culture and recreation	123,984	1,123,848	1,247,832
Capital outlay	35,028	-	35,028
Debt services:			
Principal	30,311	-	30,311
Interest	4,931	-	4,931
Total expenditures	<u>2,064,732</u>	<u>2,317,341</u>	<u>4,382,073</u>
Other financing sources (uses):			
Operating transfer in	80,000	118,000	198,000
Operating transfer out	(68,000)	-	(68,000)
Capital lease	31,032	-	31,032
Total other financing sources	<u>43,032</u>	<u>118,000</u>	<u>161,032</u>
Net change in fund balance	196,683	(96,627)	100,056
Fund balances, beginning of year	<u>1,141,874</u>	<u>882,525</u>	<u>2,024,399</u>
Fund balances, end of year	<u>\$ 1,338,557</u>	<u>\$ 785,898</u>	<u>\$ 2,124,455</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, 2019

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

Net change in fund balance – total governmental funds	\$	100,056
<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		2,255,948
Current year depreciation		(356,308)
Capital lease		(31,032)
<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>		
Capital contributions		30,311
Compensated absences		(11,224)
Pension expense		(19,940)
Change in net position of governmental activities	\$	1,967,811

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2019

	<u>Major Funds</u>		Total Business-Type Activities Enterprise Funds
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 424,352	\$ 2,119,374	\$ 2,543,726
Accounts receivable, net	24,970	123,512	148,482
Due from other funds	749,585	-	749,585
Restricted assets:			
Cash and cash equivalents	24,631	-	24,631
Total current assets	<u>1,223,538</u>	<u>2,242,886</u>	<u>3,466,424</u>
Non-current assets:			
Restricted assets			
Investments	930,863	-	930,863
Capital assets			
Property, net	252,600	-	252,600
Other assets	37,397	-	37,397
Total non-current assets	<u>1,220,860</u>	<u>-</u>	<u>1,220,860</u>
Total assets	<u><u>\$ 2,444,398</u></u>	<u><u>\$ 2,242,886</u></u>	<u><u>\$ 4,687,284</u></u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Position (continued)
Proprietary Funds
September 30, 2019

	Major Funds		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Liabilities and Net Position			
Liabilities:			
Current liabilities			
Accounts payable	\$ -	\$ 6,961	\$ 6,961
Current portion of long-term debt	87,823	-	87,823
Total current liabilities	87,823	6,961	94,784
Current liabilities payable from restricted assets:			
Interest payable	24,391	-	24,391
Current portion of bond payable	30,000	-	30,000
Total current liabilities payable from current restricted assets	54,391	-	54,391
Non-current liabilities:			
Long-term portion of accounts payable	5,000		5,000
Long-term portion of bond payable	938,500	-	938,500
Total non-current liabilities	943,500	-	943,500
Total liabilities	1,085,714	6,961	1,092,675
Net position:			
Invested in capital assets	252,600	-	252,600
Unrestricted	1,106,084	2,235,925	3,342,009
Total net position	\$ 1,358,684	\$ 2,235,925	\$ 3,594,609

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2019

	Major Funds		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 648,799	\$ 648,799
Municipal fee	162,026	-	162,026
Total operating revenues	<u>162,026</u>	<u>648,799</u>	<u>810,825</u>
Operating expenses:			
Contractual services	-	468,472	468,472
Other services and charges	3,571	6,025	9,596
Total operating expenses	<u>3,571</u>	<u>474,497</u>	<u>478,068</u>
Operating income	<u>158,455</u>	<u>174,302</u>	<u>332,757</u>
Non-operating revenues:			
Interest revenue	3,445	43,428	46,873
Interest expense	(3,383)	-	(3,383)
Total non-operating revenues	<u>62</u>	<u>43,428</u>	<u>43,490</u>
Income before transfers out	158,517	217,730	376,247
Transfers out	<u>-</u>	<u>(130,000)</u>	<u>(130,000)</u>
Change in net position	158,517	87,730	246,247
Net position, beginning of year	<u>1,200,167</u>	<u>2,148,195</u>	<u>3,348,362</u>
Net position, end of year	<u>\$ 1,358,684</u>	<u>\$ 2,235,925</u>	<u>\$ 3,594,609</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, 2019

	Major Funds		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Cash flows from operating activities:			
Receipts from customers and users	\$ 158,650	\$ 634,160	\$ 792,810
Payments to suppliers	(1,000)	(475,043)	(476,043)
Net cash provided by operating activities	<u>157,650</u>	<u>159,117</u>	<u>316,767</u>
Cash flows from capital and related financing activities:			
Interest paid	(3,383)	-	(3,383)
Principal paid	(132,624)	-	(132,624)
Net cash (used in) capital and related financing activities	<u>(136,007)</u>	<u>-</u>	<u>(136,007)</u>
Cash flows from non-capital and related financing activities:			
Advances to other fund	-	(3,390)	(3,390)
Transfers out to other funds	-	(130,000)	(130,000)
Net cash (used in) non-capital and related financing activities	<u>-</u>	<u>(133,390)</u>	<u>(133,390)</u>
Cash flows from investing activities:			
Interest received	3,445	43,428	46,873
Decrease in investment	28,699	-	28,699
Net cash provided by investing activities	<u>32,144</u>	<u>43,428</u>	<u>75,572</u>
Net increase in cash	53,787	69,155	122,942
Cash and cash equivalents at beginning of year	370,565	2,050,219	2,420,784
Cash and cash equivalents at end of year	<u>\$ 424,352</u>	<u>\$ 2,119,374</u>	<u>\$ 2,543,726</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 158,455	\$ 174,302	\$ 332,757
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,571	-	2,571
Changes in assets and liabilities:			
(Increase) in accounts receivable	(3,376)	(14,639)	(18,015)
(Decrease) in accounts payable	-	(546)	(546)
Total adjustments	<u>(805)</u>	<u>(15,185)</u>	<u>(15,990)</u>
Net cash provided by operating activities	<u>\$ 157,650</u>	<u>\$ 159,117</u>	<u>\$ 316,767</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2019

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, 2019

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, 2019, 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.

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

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

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 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*.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

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

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

The *Capital Projects Fund* accounts for the activities related to funding various capital assets projects for the City.

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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

(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.

(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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

(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.

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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

(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.

(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-wide level arise only when the City receives resources before it has a legal claim to them.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

(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 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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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

(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.

(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, 2019 was \$1,832,195 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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 3 – INVESTMENTS:

GASB 72 requires governments to disclose the fair value hierarchy for each type of asset or liability measured at fair value in the notes to the financial statements. The standard also required that the City disclose a description of the valuation techniques used in the fair value measurement and any significant changes in valuation techniques. GASB 72 establishes a three-tier hierarchy:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means.

Level 3 Inputs – unobservable inputs used only when relevant Level 1 and Level 2 inputs are unavailable.

As of September 30, 2019, all of the City’s investment are categorized at Level 1.

Investments consist of U.S. Government time deposit securities. The table below summarizes the scheduled maturities of the investments at September 30, 2019:

	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	<u>\$ 27,222</u>	<u>\$ 160,095</u>	<u>\$ 207,220</u>	<u>\$ 536,326</u>	<u>\$ 930,863</u>

On December 12, 1998, the City issued Second Subordinate Water Revenue Bonds Series 1998 for \$1,339,000 with interest of 4.75% to the U.S Department of Agriculture, Rural Utilities Service in connection with providing water and sewer services at the correctional facility in the City known as the Off-Site Improvements. Prior to the issuance of the bonds, \$1,338,760 was placed with the U.S. Treasury in time deposit securities to service the bond debt under an agreement for the water and sewer services. The interest rates on the securities range from 3.782% to 5.400%. The annual payments on the bonds are payable from the maturities of these investments.

Credit Risk – The Second Subordinate Water Revenue Bond Series 1998 limits the investments to United States Government or United States Treasury Bonds, certificates, notes, bills, or interest-bearing time deposits with the depositories of the City. The interest derived from such investments or deposits shall accrue as revenue to the general fund of the City, except in the case of special funds for which the City is required by agreement or by law to credit such special funds with interest on the invested balances.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 3 – INVESTMENTS (Continued):

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

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

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

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 4 – CAPITAL ASSETS:

Changes in capital assets of the City for the fiscal year ended September 30, 2019, are shown below:

	<u>Balance 9/30/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2019</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 238,823	\$ -	\$ -	\$ 238,823
Total capital assets not being depreciated	<u>238,823</u>	<u>-</u>	<u>-</u>	<u>238,823</u>
Capital assets, being depreciated				
Buildings and improvements	843,715	-	-	843,715
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	10,673,775	-	-	10,673,775
Equipment and machinery	825,318	35,028	3,502	856,844
Construction in progress	168,522	2,220,920	-	2,389,442
Total capital assets being depreciated	<u>12,693,249</u>	<u>2,255,948</u>	<u>3,502</u>	<u>14,945,695</u>
Less accumulated depreciation for:				
Buildings and improvements	648,306	20,924		669,230
Improvement other than buildings and roads	181,918	-		181,918
Infrastructure	8,732,562	298,228		9,030,790
Equipment and machinery	684,098	37,156	3,502	717,752
Total accumulated depreciation	<u>10,246,884</u>	<u>356,308</u>	<u>3,502</u>	<u>10,599,690</u>
Total capital assets being depreciated, net	<u>2,446,365</u>	<u>1,899,640</u>	<u>-</u>	<u>4,346,005</u>
Governmental activities capital assets, net	<u>\$ 2,685,188</u>	<u>\$ 1,899,640</u>	<u>\$ -</u>	<u>\$ 4,584,828</u>
	<u>Balance 9/30/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2019</u>
<u>Business-Type Activities:</u>				
Capital assets not being depreciated				
Land	\$ 212,927	\$ -	\$ -	\$ 212,927
Total capital assets not being depreciated	<u>212,927</u>	<u>-</u>	<u>-</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>86,277</u>	<u>2,571</u>	<u>-</u>	<u>88,848</u>
Total capital assets being depreciated	<u>42,244</u>	<u>(2,571)</u>	<u>-</u>	<u>39,673</u>
Business-type activities capital assets, net	<u>\$ 255,171</u>	<u>\$ (2,571)</u>	<u>\$ -</u>	<u>\$ 252,600</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 4 – CAPITAL ASSETS (Continued):

Depreciation expense for the year ended September 30, 2019 was charged to functions of the government as follows:

<u>Governmental activities</u>	
General government	\$ 32,438
Highway and streets	307,392
Culture and recreation	<u>16,478</u>
 Total depreciation expense – governmental activities	 <u>\$ 356,308</u>

NOTE 5 – LONG-TERM DEBT:

Long-term debt activities for the fiscal year ended September 30, 2019, are shown below:

	<u>Balance</u> <u>9/30/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/2019</u>
<u>Governmental activities:</u>				
Capital lease obligation	\$ 85,112	\$ 31,032	\$ 30,311	\$ 85,833
Net pension liability	120,648	-	20,475	100,173
Compensated absences	<u>64,313</u>	<u>11,224</u>	<u>-</u>	<u>75,537</u>
Total governmental activities	<u>270,073</u>	<u>42,256</u>	<u>50,786</u>	<u>261,543</u>
<u>Business-type activities:</u>				
Bond payable	997,200	-	28,700	968,500
Account payable	<u>196,747</u>	<u>-</u>	<u>103,924</u>	<u>92,823</u>
Total business-type activities	<u>1,193,947</u>	<u>-</u>	<u>132,624</u>	<u>1,061,323</u>
Total long-term debt	<u>\$ 1,464,020</u>	<u>\$ 42,256</u>	<u>\$ 183,410</u>	<u>\$ 1,322,866</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, 2019

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>
2020	\$ 30,000	\$ 46,004	\$ 76,004
2021	31,500	44,579	76,079
2022	33,000	43,083	76,083
2023	34,500	41,515	76,015
2024	36,200	39,876	76,076
2025 - 2029	208,300	171,907	380,207
2030 - 2034	262,700	117,506	380,206
2035 - 2039	332,300	48,901	381,201
Total	<u>\$ 968,500</u>	<u>\$ 553,371</u>	<u>\$ 1,521,871</u>

Change during fiscal year:

Outstanding October 1, 2018	\$ 997,200
Retired	<u>(28,700)</u>
Outstanding September 30, 2019	<u>\$ 968,500</u>
Due within one year	\$ 30,000
Due in more than one year	<u>938,500</u>
	<u>\$ 968,500</u>

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

Settlement Agreement:

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

	<u>September 30,</u>	
	2020	\$ 28,423
Total payment		28,423
Less amount that represents interest payment		<u>(600)</u>
Net payment		<u>\$ 27,823</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 5 – LONG-TERM DEBT (Continued):

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

	<u>September 30,</u>	
	2020	\$ 60,000
	2021	5,000
Total payment		\$ 65,000

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, 2018	\$ 64,313
Increase	11,224
Balance at September 30, 2019	\$ 75,537

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 7 – CAPITAL LEASES:

- 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 these capital leases and the present value of net minimum lease payments at September 30, 2019 are as follows:

<u>Year Ending</u>	
2020	\$ 29,927
2021	29,926
2022	23,661
2023	<u>3,628</u>
Total minimum lease payments	87,142
Less: amount representing interest	<u>(7,765)</u>
Present value of future payments	<u>\$ 79,377</u>

- 2- The City purchased three lawn mowers under a capital lease from a third party and recorded the transaction in *Governmental Activities* at \$23,838. The future minimum lease payment under this capital lease and the present value of net minimum lease payment at September 30, 2019 are as follows:

<u>Year Ending</u>	
2020	\$ 5,960
2021	<u>496</u>
Total minimum lease payment	<u>\$ 6,456</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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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 website: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

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

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

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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 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 2018-19 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer</u>
Regular	3.00%	6.54%
Special Risk	3.00%	22.78%
Special Risk, Administrative Support	3.00%	33.26%
Senior Management Service	3.00%	22.34%
Elected Officers	3.00%	46.98%

The City's contributions, including employee contributions, to the Pension Plan totaled \$10,277 for the fiscal year ended September 30, 2019.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2019, the City reported a liability of \$91,308 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportionate share of the net pension liability was based on the City's 2017-2018 fiscal year contributions relative to the 2017-2018 fiscal year contributions of all participating members. At June 30, 2019, the City's proportionate share was .0002651311 percent, which was a decrease of .000100050 percent from its proportionate share measured as of June 30, 2018.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$27,762. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 5,418	\$ 57
Change in assumptions	23,452	-
Net difference between projected and actual earnings on pension plan investments	-	5,052
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	17,186	18,847
City pension plan contributions Subsequent to the measurement date	<u>2,065</u>	<u>-</u>
Total	<u>\$ 48,121</u>	<u>\$ 23,956</u>

The deferred outflows of resources related to the Pension Plan, totaling \$2,065 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, 2019. 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>
2020	\$ 5,408
2021	3,658
2022	(115)
2023	(1,045)
2024	(734)
Thereafter	<u>14,928</u>
Total	<u>\$ 22,100</u>

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

Actuarial Assumptions – The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions. The assumptions were applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	6.90%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2018, 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%	3.3%	3.3%	1.2%
Fixed Income	18.0%	4.1%	4.1%	3.5%
Global Equity	54.0%	8.0%	6.8%	16.5%
Real Estate	10.0%	6.7%	6.1%	11.7%
Private Equity	11.0%	11.2%	8.4%	25.8%
Strategic Investments	6.0%	5.9%	5.7%	6.7%
Total	100.00%			

Assumed Inflation - Mean	2.60%	1.70%
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Discount Rate - The discount rate used to measure the total pension liability was 6.90%. 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 the calculation of the total pension liability is equal to the long-term expected rate of return.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 6.90%, 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 (5.90%) or one percentage point higher (7.90%) than the current rate:

	1% Decrease (5.9%)	Current Discount Rate (6.9%)	1% Increase 7.9%
City's proportionate share of the net pension liability	\$ 157,840	\$ 91,308	\$ 35,741

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, 2019, the City reported a payable in the amount of \$91,308 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2019.

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, 2019, 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.

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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, 2019, the HIS contribution for the period October 1, 2018 through June 30, 2019 and from July 1, 2019 through September 30, 2019 was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City’s contributions to the HIS Plan totaled \$440 for the fiscal year ended September 30, 2019.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Related to Pensions – At September 30, 2019, City reported a liability of \$8,866 for its proportionate share of the HIS Plan’s net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City’s proportionate share of the net pension liability was based on the City’s 2017-18 fiscal year contributions relative to the 2017-18 fiscal year contributions of all participating members. At June 30, 2019, the City's proportionate share was .000079240 percent, which was a decrease of .000021420 percent from its proportionate share measured as of June 30, 2018.

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$839. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 108	\$ 11
Change in assumptions	1,027	725
Net difference between projected and actual earnings on pension plan investments	6	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	2,508	2310
City pension plan contributions Subsequent to the measurement date	110	-
Total	\$ 3,759	\$ 3,046

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources, related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2020	\$ 159
2021	159
2022	226
2023	21
2024	40
Thereafter	<u>(2)</u>
Total	<u>\$ 603</u>

Actuarial Assumptions – The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.50%

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

The actuarial assumptions used in the July 1, 2018, 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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

Sensitivity of the City’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City’s proportionate share of the net pension liability that was calculated using the discount rate of 3.50%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1% Decrease (2.5%)	Current Discount Rate 3.5%	1% Increase 4.5%
City's proportionate share of the net pension liability	\$ 10,121	\$ 8,866	\$ 7,821

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, 2019, the City reported a payable in the amount of \$8,866 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2019.

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

Investment Plan

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts. The individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2017-18 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, Senior Management Service class 7.67% and City Elected Officers class 11.34%.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the pension plan is transferred to the Investment Plan. The member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a *suspense account* for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2019, 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 \$9,482 for the fiscal year ended September 30, 2019.

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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 9 – EMPLOYEE MONEY PURCHASE PENSION PLAN (Continued):

The pension expense under this plan for the year ended September 30, 2019, was as follows:

	<u>Governmental Activities</u>
General Fund	<u>\$ 30,126</u>

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2019 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ -	\$ 749,585	\$ 3,390	\$ -
Sanitation fund – major enterprise	-	-	-	3,390
Water & sewer fund – major enterprise	749,585	-	-	-
	<u>\$ 749,585</u>	<u>\$ 749,585</u>	<u>\$ 3,390</u>	<u>\$ 3,390</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 position 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, 2019.

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.

City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

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.

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, 2019, the City paid \$6,025 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 fiscal year ended September 30, 2019, the City received \$162,026 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.

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City of South Bay, Florida
Notes to Financial Statements - Continued
September 30, 2019

NOTE 15 – MANAGEMENT’S REVIEW:

Management has evaluated subsequent events to determine if events or transactions occurring through June 30, 2020, the date the financial statements available to be issued, require potential adjustment to or disclosure in the financial statements.

The City evaluated its September 30, 2019 financial statements for subsequent events through the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen and will likely have a negative impact to financial operations; although such potential impact is unknown at this time.

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, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes and franchise fees	\$ 1,079,548	\$ 1,079,548	\$ 1,098,751	\$ 19,203
Licenses and permits	87,615	152,888	160,059	7,171
Intergovernmental	808,854	843,854	814,306	(29,548)
Charges for services	56,061	56,061	58,551	2,490
Fines and forfeitures	4,500	4,500	2,190	(2,310)
Rents	30,300	30,300	32,765	2,465
Investment income	10,175	16,175	17,991	1,816
Miscellaneous	27,283	37,283	33,770	(3,513)
Total revenues	<u>2,104,336</u>	<u>2,220,609</u>	<u>2,218,383</u>	<u>(2,226)</u>
Expenditures:				
Current:				
General government	1,249,033	1,333,576	1,223,995	109,581
Public safety	189,855	189,855	187,270	2,585
Highways and streets	513,285	517,285	459,213	58,072
Culture and recreation	120,879	134,029	123,984	10,045
Capital outlay	7,000	16,500	35,028	(18,528)
Debt services:				
Principal	32,184	36,364	30,311	6,053
Interest	4,100	5,000	4,931	69
Total expenditures	<u>2,116,336</u>	<u>2,232,609</u>	<u>2,064,732</u>	<u>167,877</u>
Excess of revenues over expenditures	<u>(12,000)</u>	<u>(12,000)</u>	<u>153,651</u>	<u>165,651</u>
Other financing sources (uses):				
Operating transfer in	80,000	80,000	80,000	-
Operating transfer out	(68,000)	(68,000)	(68,000)	-
Capital lease	-	-	31,032	31,032
Total other financing sources (uses):	<u>12,000</u>	<u>12,000</u>	<u>43,032</u>	<u>31,032</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>196,683</u>	<u>\$ 196,683</u>
Fund balance, beginning of year			<u>1,141,874</u>	
Fund balance, end of year			<u>\$ 1,338,557</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, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 2,483,500	\$ 2,716,776	\$ 2,091,421	\$ (625,355)
Investment income	3,250	3,250	11,293	11,293
Total revenues	<u>2,486,750</u>	<u>2,720,026</u>	<u>2,102,714</u>	<u>(614,062)</u>
Expenditures:				
Current:				
General government	-	-	26,475	(26,475)
Highways and streets	1,694,750	1,694,750	1,167,018	527,732
Culture and recreation	910,000	1,143,276	1,123,848	19,428
Total expenditures	<u>2,604,750</u>	<u>2,838,026</u>	<u>2,317,341</u>	<u>520,685</u>
Excess (deficiency) of revenues over expenditures	<u>(118,000)</u>	<u>(118,000)</u>	<u>(214,627)</u>	<u>(93,377)</u>
Other financing sources:				
Operating transfers in	118,000	118,000	118,000	-
Total other financing sources:	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(96,627)</u>	<u>\$ (93,377)</u>
Fund balance, beginning of year			<u>882,525</u>	
Fund balance, end of year			<u>\$ 785,898</u>	

City of South Bay, Florida
Notes to Budgetary Comparison Schedule
Budget and Actual
For the Fiscal Year Ended September 30, 2019

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 \$116,273, the revenue increased primarily due to additional revenues from permits and a grant from State, 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 under appropriations by \$2,226, when the actual general fund expenditures were under the appropriation by \$167,877.

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, 2019, the City did not have any commitments related to unperformed contracts.

NOTE 2 – BUDGET AND ACTUAL COMPARISON

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

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

	<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)	0.000265%	0.000365%	0.000277%	0.000281%	0.000309%	0.000483%
City's proportion share of the net pension liability (asset)	\$ 91,308	\$ 109,994	\$ 81,906	\$ 71,077	\$ 39,933	\$ 8,224
City's covered-employee payroll	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	344.56%	327.52%	341.28%	309.03%	173.62%	55.13%
Plan fiduciary net position as a percentage of the total pension liability	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
Schedules of Contributions
Florida Retirement System
Last 10 Fiscal Years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014**</u>
Contractually required contribution	\$ 10,277	\$ 11,923	\$ 10,215	\$ 9,148	\$ 8,035	\$ 6,196
Contribution in relation to the contractually required contribution	10,277	11,923	10,215	9,148	8,035	6,196
City's covered-employee payroll	26,500	31,454	27,000	23,000	23,000	16,833
Contribution as a percentage of covered-employee payroll	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
Schedules of Proportionate Share of Net Pension Liability
Health Insurance Subsidy Plan
Last 10 Fiscal Years*

	<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)	0.000079%	0.000100%	0.000075%	0.000075%	0.000082%	0.000104%
City's proportion share of the net pension liability (asset)	\$ 8,866	\$ 10,654	\$ 8,052	\$ 8,684	\$ 8,325	\$ 5,569
City's covered-employee payroll	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	33.46%	31.72%	33.55%	37.76%	36.20%	37.33%
Plan fiduciary net position as a percentage of the total pension liability	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
Schedules of Contributions
Health Insurance Subsidy Plan
Last 10 Fiscal Years*

	<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	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%

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

** Information prior to 2014 is not available.

EQO RNICPEG SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the 'City'), as of and for the year ended September 30, 2019, 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 30, 2020. Our report includes a reference to other auditors who audited the financial statements of the Fiduciary Funds, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 30, 2020

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

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

Report on Compliance for Each Major Federal Program and State Project

We have audited the City of South Bay, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs and state projects for the fiscal year ended September 30, 2019. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and state projects based our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, *Rules of the Florida Auditor General*. Those standards, the Uniform Guidance, and Chapter 10.550 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the fiscal year ended September 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida
June 30, 2020

City of South Bay, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Fiscal Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Contract Number	Program Award Amount	Reimbursable/ Disbursements Expense
United State Department of Housing and Urban Development Community Development Block Grant CDBG Passed thru PB County - Code Enforcement Payroll	14.218	B-17-UC-12-0004	\$ 80,402	\$ 37,784
Community Development Block Grant CDBG Passed thru PBC Cox & Tanner park Improvement	14.218	B-10-UC-12-0004 B-12-UC-12-0004	456,101 447,500	- 752,420
Total Expenditures of Federal Awards			<u>984,003</u>	<u>790,204</u>
State Grantor/Pass-Through Grantor/Program Title	CSFA Number	Contract Number	Program Award Amount	Reimbursable/ Disbursements Expense
State of Florida Executive Office of the Governor FL Division Emergency Management Hurricane Loss Mitigation Program	31.066	18SR-3C-10-60-02-087	337,500	84,675
State of Florida Department of Environmental Protection Statewide Surface Water Restoration and Wastewater Projects Flood Control	37.039	LP50102	550,000	35,003
State of Florida Department of Transportation Economic Development Transportation Project	55.009	G-0G29	170,000	30,000
Small County Outreach Program	55.009	G-0J22	1,874,538	966,661
Total State of Florida Department of Transportation			<u>2,044,538</u>	<u>996,661</u>
Total Expenditures of State Financial Assistance			<u>2,932,038</u>	<u>1,116,339</u>
Total Expenditures of Federal Awards and State Financial Assistance			<u>\$ 3,916,041</u>	<u>\$ 1,906,543</u>

See accompanying notes to the schedule of expenditures of federal awards and state financial assistance

City of South Bay, Florida
Notes to the Schedule of Expenditures of Federal Awards and
State Financial Assistance
For the Fiscal Year Ended September 30, 2019

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the “Schedule”) represents all of the Federal Awards and State Financial Assistance of the City during the fiscal year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirement of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) and Chapter 10.550, Rules of the Auditor General. Therefore, the Schedule presents only a selected portion of the operations of the City; it is not intended to, and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources.

NOTE 3 – INDIRECT COST RATE

The City has elected not to use the 10% de Minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 – CONTINGENCY

The grant revenue amounts received are subject to audit and adjustment. If any expenditure is disallowed by a grantor agency as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the City. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreement and applicable federal laws and regulations.

City of South Bay, Florida
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2019

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

Federal Awards

Internal control over financial reporting:

- Material weakness(es) identified? ___yes X no
- Significant deficiency(ies) identified? ___yes X none reported

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? ___yes X no

Identification of major programs:

CFDA Number(s) and Name of Federal Program:

14.218 – CDBG Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? ___yes X no

City of South Bay, Florida
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended September 30, 2019

State Financial Assistance

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with state projects Pursuant to Chapter 10.550, Rules of the Auditor General? yes no

Identification of major programs:

CSFA Number(s) and Name of Federal Program:

55.009 – Small County Outreach Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

**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 examined the City of South Bay, Florida’s (the “City”) compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the year ended September 30, 2019. 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, 2019. This report is intended solely for the information and use of Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representative, the Florida Auditor General, management, and the City Council 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 30, 2020

**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 Council
City of South Bay, Florida.

Report on the Financial Statements

We have audited the financial statements of the City of South Bay, Florida (the ‘City’), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated June 30, 2020.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor’s Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 30, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

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

Financial Condition and Management

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

Pursuant to Sections 10.554(1)(i)5.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, 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 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 which 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 and City Council Members, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 30, 2020