

City of South Bay, Florida

Financial Statements

For the Fiscal Year ended September 30, 2020

**City of South Bay, Florida
Financial Statements and Other Financial Information
For The Fiscal Year Ended September 30, 2020**

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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, 2020, 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 Florida Retirement System (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, 2020, 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, budgetary comparison information, and schedules related to pension benefits on pages 4–11 and 50–56 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021, 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 is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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 29, 2021

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

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, 2020. 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, 2020 by \$11,229,985 of this amount \$4,745,820 may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$1,164,936 or 11.6% as a result of an increase of \$995,570 in governmental activities and an increase of \$169,366 in business-type activities.
- Governmental activities generated \$3,932,404 in revenues with \$2,936,834 in expenses.
- Business-type activities generated \$858,890 in revenues with \$689,524 in expenses.
- General fund balance increased by \$33,343, as result, the unassigned fund balance was \$1,231,874 or 89.8% total of fund balances.
- The net position in business type activities increased by \$169,366 due to increase of \$134,638 in the water and sewer fund and an increase of \$34,728 in the sanitation fund.
- At the end of the current fiscal year, the unassigned fund balance for the general fund represented 53.5% of the total general fund expenditures.

Overview of the Financial Statements

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

1 - The focus of the *government-wide financial statements* is on the overall financial position and

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

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.

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

City of South Bay, Florida
Management’s Discussion and Analysis
September 30, 2020

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

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

4- Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. 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	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 3,833,562	\$ 3,795,015	\$4,490,485	\$ 4,434,684	\$ 8,324,047	\$ 8,229,699
Capital assets	5,355,708	4,584,828	250,029	252,600	5,605,737	4,837,428
Total assets	<u>9,189,270</u>	<u>8,379,843</u>	<u>4,740,514</u>	<u>4,687,284</u>	<u>13,929,784</u>	<u>13,067,127</u>
Current and other liabilities	1,599,638	1,780,472	69,539	149,175	1,669,177	1,929,647
Long-term liabilities outstanding	123,622	128,931	907,000	943,500	1,030,622	1,072,431
Total liabilities	<u>1,723,260</u>	<u>1,909,403</u>	<u>976,539</u>	<u>1,092,675</u>	<u>2,699,799</u>	<u>3,002,078</u>
Net position:						
Invested in capital assets (net of related debt)	5,206,263	4,421,522	250,029	252,600	5,456,292	4,674,122
Restricted for prepaid items	1,027,873	836,645	-	-	1,027,873	836,645
Unrestricted	<u>1,231,874</u>	<u>1,212,273</u>	<u>3,513,946</u>	<u>3,342,009</u>	<u>4,745,820</u>	<u>4,554,282</u>
Total net position	<u>\$ 7,466,010</u>	<u>\$ 6,470,440</u>	<u>\$3,763,975</u>	<u>\$ 3,594,609</u>	<u>\$ 11,229,985</u>	<u>\$10,065,049</u>

A significant portion of the City’s net position (48.6%) reflect its investment in capital assets (e.g. lands, infrastructure, buildings and equipment) less any debt related to those assets that are still outstanding. The City uses these capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the City’s investment in its capital

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

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 (9.1%) represents resources that are subject to restriction on how they may be used.

The net position increased from \$10,065,049 to \$11,229,985 as a result of a net increase of \$169,366 in business-type and an increase of \$995,570 in the governmental activities fund groups.

Expenses and Revenues – Governmental Activities:

Net position increases or decreases over time serve as a useful indicator of the government's financial position. Net position in governmental activities increased by \$995,570 in the current year, while the net position in prior year increased by \$1,967,811. Revenues in governmental activities including transfers in, decreased by \$518,693 when the expenditures increased by \$453,548 in fiscal year 2020.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

City of South Bay, Florida Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charge for services	\$ 54,257	\$ 58,551	\$ 682,160	\$ 648,799	\$ 736,417	\$ 707,350
Operating grant and contribution	1,547,291	1,923,209	-	-	1,547,291	1,923,209
General revenues:						
Property taxes	434,246	414,656	-	-	434,246	414,656
Franchise and taxes	652,439	684,095	-	-	652,439	684,095
Other taxes	932,965	982,518	-	-	932,965	982,518
Other	<u>123,736</u>	<u>258,068</u>	<u>176,730</u>	<u>208,899</u>	<u>300,466</u>	<u>466,967</u>
Total revenues	<u>3,744,934</u>	<u>4,321,097</u>	<u>858,890</u>	<u>857,698</u>	<u>4,603,824</u>	<u>5,178,795</u>
Expenses:						
General government	1,591,625	1,314,072	-	-	1,591,625	1,314,072
Public safety	223,317	187,270	-	-	223,317	187,270
Highway and street	985,528	836,461	-	-	985,528	836,461
Culture and recreation	132,090	140,552	-	-	132,090	140,552
Water and sewer	-	-	3,600	3,571	3,600	3,571
Sanitation	-	-	494,738	474,497	494,738	474,497
Interest on long term debt	<u>4,274</u>	<u>4,931</u>	<u>3,716</u>	<u>3,383</u>	<u>7,990</u>	<u>8,314</u>
Total expenses	<u>2,936,834</u>	<u>2,483,286</u>	<u>502,054</u>	<u>481,451</u>	<u>3,438,888</u>	<u>2,964,737</u>
Increase (decrease) in net assets before transfer in (out)	808,100	1,837,811	356,836	376,247	1,164,936	2,214,058
Transfer in /(out)	<u>187,470</u>	<u>130,000</u>	<u>(187,470)</u>	<u>(130,000)</u>	<u>-</u>	<u>-</u>
Increase in net position	995,570	1,967,811	169,366	246,247	1,164,936	2,214,058
Net position at beginning 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>
Net position at end of year	<u>\$7,466,010</u>	<u>\$6,470,440</u>	<u>\$ 3,763,975</u>	<u>\$ 3,594,609</u>	<u>\$ 11,229,985</u>	<u>\$ 10,065,049</u>

The net position in business-type activities increased by \$169,366 in the current year, when the prior year's net position increased by \$246,247. The revenues in business-type increased by \$1,192 when the expenditures increased by \$78,073 mainly due to transfer out within the Sanitation Fund.

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

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 \$2,335,898 including a transfer in the amount of \$87,470. While expenditures totaled \$2,302,555, resulting in a \$33,343 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 \$858,890. The total expenditures totaled \$689,524 including a transfer out of \$187,470 to the General and Capital Project Funds resulting in \$169,366 increase in net position.

General Fund Budgetary Highlights

General Fund operations had a positive variance of \$33,343, when the actual revenues including other financing sources were \$116,218 less than the final budget. Actual expenditures were less than the final appropriation by \$149,561. 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, 2020, amounted to \$5,605,737 an increase of \$768,309 from the prior year. The increase was primarily due to construction progress of \$1,271,477 in road and parks improvements during 2019-2020 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, 2020

City of South Bay, Florida
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
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	3,660,919	2,389,442	-	-	3,660,919	2,389,442
Equipment and machinery	856,844	856,844	-	-	856,844	856,844
Total	16,455,995	15,184,518	341,448	341,448	16,797,443	15,525,966
Accumulated depreciation	(11,100,287)	(10,599,690)	(91,419)	(88,848)	(11,191,706)	(10,688,538)
Total capital assets, net	\$ 5,355,708	\$ 4,584,828	\$ 250,029	\$ 252,600	\$ 5,605,737	\$ 4,837,428

Long-Term Debt

At the end of the current fiscal year, the City had a total of \$1,089,946 in notes, bonds and capital leases outstanding as compared to \$1,222,693 last year, a decrease of \$132,747. 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	
	2020	2019	2020	2019	2020	2019
Revenues bonds	\$ -	\$ -	\$ 938,500	\$ 968,500	\$ 938,500	\$ 968,500
Accounts payable	-	-	-	92,823	-	92,823
Capital Leases	54,216	85,833	-	-	54,216	85,833
Compensated absences	97,230	75,537	-	-	97,230	75,537
Total	\$ 151,446	\$ 161,370	\$ 938,500	\$ 1,061,323	\$ 1,089,946	\$ 1,222,693

City of South Bay, Florida
Management's Discussion and Analysis
September 30, 2020

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 2020-2021 fiscal year.

Effective October 1, 2006, the fire rescue services was transferred to Palm Beach County Fire Rescue MSTU (municipal service tax unit). In accordance with this agreement, the City's property owners \$3.4581 mills of \$1,000 of taxable value are maintained by Palm Beach County and the City's millage rate remains at 6.3089. The property values have begun to stabilize and an increase of 4.1% is projected for the fiscal year 2020-2021.

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, 2020

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 2,610,946	\$ 2,736,258	\$ 5,347,204
Accounts receivable (net of allowances for uncollectible accounts)	61,767	113,986	175,753
Due from government	409,979	-	409,979
Prepaid items	42,796	-	42,796
Due from other funds	-	678,085	678,085
Restricted assets:			
Cash and cash equivalents	115,963	23,896	139,859
Investments	-	903,641	903,641
Capital assets	5,355,708	250,029	5,605,737
Other assets	549,151	34,619	583,770
Total assets	9,146,310	4,740,514	13,886,824
Deferred outflows of resources:			
Deferred outflows-pension	42,960	-	42,960
Total deferred outflows of resources	42,960	-	42,960
Liabilities:			
Accounts payable	343,845	14,384	358,229
Accrued liabilities	10,158	-	10,158
Compensated absences	97,230	-	97,230
Due to other funds	678,085	-	678,085
Payable from restricted assets:			
Interest payable	-	23,655	23,655
Long-term debt:			
Due within in one year	27,824	31,500	59,324
Capital lease	26,392	-	26,392
Due in more than one year	-	907,000	907,000
Net pension liability	117,078	-	117,078
Total liabilities	1,300,612	976,539	2,277,151
Deferred inflows:			
Deferred inflows-revenues	401,537	-	401,537
Deferred inflows-pension	21,111	-	21,111
Total deferred inflows of resources	422,648	-	422,648
Net Position:			
Invested in capital assets, net of related debt	5,206,263	250,029	5,456,292
Restricted for:			
Prepaid items	42,796	-	42,796
Capital projects	985,077	-	985,077
Unrestricted	1,231,874	3,513,946	4,745,820
Total net position	\$ 7,466,010	\$ 3,763,975	\$ 11,229,985

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2020

	Expenses	Charges for Services	Operating/Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 1,591,625	\$ -	\$ 380,189	\$ (1,211,436)	\$ -	\$ (1,211,436)
Public safety	223,317	-	-	(223,317)	-	(223,317)
Highways and streets	985,528	54,257	834,968	\$ (96,303)	-	(96,303)
Culture and recreation	132,090	-	332,134	200,044	-	200,044
Interest	4,274	-	-	(4,274)	-	(4,274)
Total governmental activities	<u>2,936,834</u>	<u>54,257</u>	<u>1,547,291</u>	<u>(1,335,286)</u>	<u>-</u>	<u>(1,335,286)</u>
Business-type activities:						
Water and sewer	7,316	-	-	-	(7,316)	(7,316)
Sanitation	494,738	682,160	-	-	187,422	187,422
Total business-type activities	<u>502,054</u>	<u>682,160</u>	<u>-</u>	<u>-</u>	<u>180,106</u>	<u>180,106</u>
Total governmental	<u>\$ 3,438,888</u>	<u>\$ 736,417</u>	<u>\$ 1,547,291</u>	<u>(1,335,286)</u>	<u>180,106</u>	<u>(1,155,180)</u>
General revenue:						
Taxes:						
Ad Valorem				434,246	-	434,246
Franchise other taxes				652,439	-	652,439
Sales taxes				473,302	-	473,302
State revenue sharing				184,103	-	184,103
Payment in lieu of taxes				275,560	-	275,560
Occupational licenses and permits				64,210	-	64,210
Investment earnings				13,404	23,270	36,674
Other				46,122	153,460	199,582
Interfund transfers				187,470	(187,470)	-
Total general revenues				<u>2,330,856</u>	<u>(10,740)</u>	<u>2,320,116</u>
Change in net position				995,570	169,366	1,164,936
Net position, beginning of year				6,470,440	3,594,609	10,065,049
Net position, end of year				<u>\$ 7,466,010</u>	<u>\$ 3,763,975</u>	<u>\$ 11,229,985</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Balance Sheet
Governmental Funds
September 30, 2020

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor Fund</u> <u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 1,651,157	\$ 959,789	\$ 2,610,946
Accounts receivable (net of allowances for uncollectible)	61,767	-	61,767
Due from government	111,489	298,490	409,979
Prepaid items	42,796	-	42,796
Other assets	549,151	-	549,151
Restricted assets:			
Cash and cash equivalents	115,963	-	115,963
Total assets	\$ 2,532,323	\$ 1,258,279	\$ 3,790,602
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 70,643	\$ 273,202	\$ 343,845
Accrued liabilities	10,158	-	10,158
Due to other funds	678,085	-	678,085
Total liabilities	758,886	273,202	1,032,088
Deferred inflows	401,537	-	401,537
Fund balances:			
Non-spendable:			
Prepaid items	42,796	-	42,796
Restricted for:			
Capital projects	-	985,077	985,077
Committed to:			
Compensated absences	97,230	-	97,230
Unassigned	1,231,874	-	1,231,874
Total fund Balances	1,371,900	985,077	2,356,977
Total liabilities and fund balances	\$ 2,532,323	\$ 1,258,279	\$ 3,790,602

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, 2020

Fund Balance – Total Governmental Funds	\$	2,356,977
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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

5,355,708

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	\$	(97,230)
Pension liabilities		(95,229)
General obligation notes and lease payable		(54,216)

(246,675)

Total net position – Governmental Activities

\$ 7,466,010

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, 2020

	<u>Major Fund</u>	<u>Nonmajor</u>	<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Projects</u>	<u>Funds</u>
Revenues:			
Taxes and franchise fees	\$ 1,086,685	\$ -	\$ 1,086,685
Licenses and permits	64,210	-	64,210
Intergovernmental	989,328	1,490,928	2,480,256
Charges for services	54,257	-	54,257
Fines and forfeitures	1,998	-	1,998
Rents	26,325	-	26,325
Investment income	7,826	5,578	13,404
Miscellaneous revenues	17,799	-	17,799
Total revenues	<u>2,248,428</u>	<u>1,496,506</u>	<u>3,744,934</u>
Expenditures:			
Current:			
General government	1,421,466	95,064	1,516,530
Public safety	223,317	-	223,317
Highways and streets	505,349	1,050,637	1,555,986
Culture and recreation	116,537	251,626	368,163
Debt services:			
Principal	31,612	-	31,612
Interest	4,274	-	4,274
Total expenditures	<u>2,302,555</u>	<u>1,397,327</u>	<u>3,699,882</u>
Other financing sources:			
Operating transfer in	87,470	100,000	187,470
Total other financing sources:	<u>87,470</u>	<u>100,000</u>	<u>187,470</u>
Net change in fund balance	33,343	199,179	232,522
Fund balances, beginning of year	<u>1,338,557</u>	<u>785,898</u>	<u>2,124,455</u>
Fund balances, end of year	<u>\$ 1,371,900</u>	<u>\$ 985,077</u>	<u>\$ 2,356,977</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, 2020

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

Net change in fund balance – total governmental funds	\$	232,522
<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		1,271,477
Current year depreciation		(500,597)
Capital lease		-
<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>		
		31,617
Compensated absences		(21,693)
Pension expense		(17,756)
		995,570
Change in net position of governmental activities	\$	995,570

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2020

	<u>Major Fund</u>		Total Business-Type Activities Enterprise Funds
	<u>Water and Sewer</u>	<u>Sanitation</u>	
Assets			
Current assets:			
Cash and cash equivalents	\$ 548,370	\$ 2,187,888	\$ 2,736,258
Accounts receivable, net	21,837	92,149	113,986
Due from other funds	678,085	-	678,085
Restricted assets			
Cash and cash equivalents	23,896	-	23,896
Total current assets	<u>1,272,188</u>	<u>2,280,037</u>	<u>3,552,225</u>
Non-current assets:			
Restricted assets			
Investments	903,641	-	903,641
Capital assets			
Property, net	250,029	-	250,029
Other assets	34,619	-	34,619
Total non-current assets	<u>1,188,289</u>	<u>-</u>	<u>1,188,289</u>
Total assets	<u>\$ 2,460,477</u>	<u>\$ 2,280,037</u>	<u>\$ 4,740,514</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Statement of Net Position
Proprietary Funds
September 30, 2020

	<u>Major Fund</u>		Total Business-Type Activities Enterprise Funds
	<u>Water and Sewer</u>	<u>Sanitation</u>	
Liabilities and net assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ 5,000	\$ 9,384	\$ 14,384
Current portion of long-term debt	-	-	-
Total current liabilities	<u>5,000</u>	<u>9,384</u>	<u>14,384</u>
Current liabilities payable from restricted assets:			
Interest payable	23,655	-	23,655
Current portion of bond payable	<u>31,500</u>	<u>-</u>	<u>31,500</u>
Total current liabilities payable from current restricted assets	<u>55,155</u>	<u>-</u>	<u>55,155</u>
Non-current liabilities:			
Long-term portion of bond payable	<u>907,000</u>	<u>-</u>	<u>907,000</u>
Total non-current liabilities	<u>907,000</u>	<u>-</u>	<u>907,000</u>
Total liabilities	<u>967,155</u>	<u>9,384</u>	<u>976,539</u>
Net position:			
Invested in capital assets	250,029	-	250,029
Unrestricted	<u>1,243,293</u>	<u>2,270,653</u>	<u>3,513,946</u>
Total net position	<u>\$ 1,493,322</u>	<u>\$ 2,270,653</u>	<u>\$ 3,763,975</u>

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, 2020

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Operating revenues:			
Charges for services	\$ -	\$ 682,160	\$ 682,160
Municipal fee	153,460	-	153,460
Total operating revenues	<u>153,460</u>	<u>682,160</u>	<u>835,620</u>
Operating expenses:			
Contractual services	-	487,446	487,446
Other services and charges	3,600	7,292	10,892
Total operating expenses	<u>3,600</u>	<u>494,738</u>	<u>498,338</u>
Operating income	<u>149,860</u>	<u>187,422</u>	<u>337,282</u>
Non-operating revenues:			
Interest revenue	1,714	21,556	23,270
Interest expense	(3,716)	-	(3,716)
Total non-operating revenues	<u>(2,002)</u>	<u>21,556</u>	<u>19,554</u>
Income before transfers out	147,858	208,978	356,836
Transfers out	<u>(13,220)</u>	<u>(174,250)</u>	<u>(187,470)</u>
Change in net position	134,638	34,728	169,366
Net position, beginning of year	<u>1,358,684</u>	<u>2,235,925</u>	<u>3,594,609</u>
Net position, end of year	<u>\$ 1,493,322</u>	<u>\$ 2,270,653</u>	<u>\$ 3,763,975</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, 2020

	Major Fund		Total Business-Type Activities Enterprise Funds
	Water and Sewer	Sanitation	
Cash flows from operating activities:			
Receipts from customers and users	\$ 156,593	\$ 713,523	\$ 870,116
Payments to suppliers	(1,030)	(492,315)	(493,345)
Net cash provided by operating activities	<u>155,563</u>	<u>221,208</u>	<u>376,771</u>
Cash flows from capital and related financing activities:			
Interest paid	(3,716)	-	(3,716)
Principal paid	(117,823)	-	(117,823)
Net cash (used in) capital and related financing activities	<u>(121,539)</u>	<u>-</u>	<u>(121,539)</u>
Cash flows from non-capital and related financing activities:			
Advances received from other fund	71,500	-	71,500
Transfers out to other funds	(13,220)	(174,250)	(187,470)
Net cash (used in) non-capital and related financing activities	<u>58,280</u>	<u>(174,250)</u>	<u>(115,970)</u>
Cash flows from investing activities:			
Interest received	1,714	21,556	23,270
Decrease in investment	30,000	-	30,000
Net cash provided by investing activities	<u>31,714</u>	<u>21,556</u>	<u>53,270</u>
Net increase in cash	124,018	68,514	192,532
Cash and cash equivalents at beginning of year	424,352	2,119,374	2,543,726
Cash and cash equivalents at end of year	<u>\$ 548,370</u>	<u>\$ 2,187,888</u>	<u>\$ 2,736,258</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 149,860	\$ 187,422	\$ 337,282
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,571	-	2,571
Changes in assets and liabilities:			
Decrease in accounts receivable	3,132	31,363	34,495
Increase in accounts payable	-	2,423	2,423
Total adjustments	<u>5,703</u>	<u>33,786</u>	<u>39,489</u>
Net cash provided by operating activities	<u>\$ 155,563</u>	<u>\$ 221,208</u>	<u>\$ 376,771</u>

See accompanying notes to financial statements.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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
September 30, 2020

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, 2020, there are no remaining governmental funds to be aggregated and reported as non-major funds.

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

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

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

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

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

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

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

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

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

Major Funds and Basis Presentation

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

The City reports the following major governmental funds:

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

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

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

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

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

(1) Cash and Cash Equivalents

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

(2) Unbilled Accounts Receivable

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

(3) Accounts Receivable

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

(4) Allowances for Doubtful Accounts

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

(5) Investments

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

(6) Restricted Assets and Reserves

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

(7) Grants from Government Agencies

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

(8) Capital Assets

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

Infrastructure assets (bridges, curbs and gutters, streets, lighting and drainage systems and similar assets that are immovable and of value only to the City) are capitalized and reported in the infrastructure category.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

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

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

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

(9) Compensated Absences

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

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

(10) Deferred and Unearned Revenues

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

(11) Long-Term Obligations

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

(12) Concentration of Credit Risk

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

(13) Property Tax Calendar

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

(14) Deferred inflows and outflows of Resources

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

(15) Use of Estimates

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

(16) Fund Balance

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

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

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

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

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

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

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

(17) Net Position

Net assets of the government-wide and proprietary funds are categorized as *invested in capital assets*, net of related debt, restricted or unrestricted. *Invested in capital assets*, net of related debt is that portion of net assets that relates to the City's capital assets reduced by the portion of the assets that has been acquired through the use of long-term debt. This amount is offset by any unspent proceeds that are outstanding at fiscal year-end. Restricted net assets is that portion of net assets that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

(18) Budget and Budgetary Accounting

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

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

NOTE 2 – Deposits

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

The uninsured balance at September 30, 2020 was \$2,259,929 on bank statements balance less FDIC insurance at that time.

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

NOTE 3 – INVESTMENTS:

Investments consist of U.S Government time deposit securities. The table below summarizes the scheduled maturities of the investments at September 30, 2020:

	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	\$ 28,768	\$ 168,653	\$ 218,097	\$ 488,123	\$ 903,641

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 3 – INVESTMENTS (Continued):

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

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

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

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

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 4 – CAPITAL ASSETS:

Changes in capital assets of the City as of September 30, 2020, are shown below:

	Balance 9/30/2019	Increases	Decreases	Balance 9/30/2020
<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	856,844	-	-	856,844
Construction in progress	2,389,442	1,271,477	-	3,660,919
Total capital assets being depreciated	<u>14,945,695</u>	<u>1,271,477</u>	<u>-</u>	<u>16,217,172</u>
Less accumulated depreciation for:				
Buildings and improvements	669,230	19,999	-	689,229
Improvement other than buildings and roads	181,919	-	-	181,919
Infrastructure	9,030,790	440,230	-	9,471,020
Equipment and machinery	717,751	40,368	-	758,119
Total accumulated depreciation	<u>10,599,690</u>	<u>500,597</u>	<u>-</u>	<u>11,100,287</u>
Total capital assets being depreciated, net	<u>4,346,005</u>	<u>770,880</u>	<u>-</u>	<u>5,116,885</u>
Governmental activities capital assets, net	<u>\$ 4,584,828</u>	<u>\$ 770,880</u>	<u>\$ -</u>	<u>\$ 5,355,708</u>
	Balance 9/30/2019	Increases	Decreases	Balance 9/30/2020
<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>88,848</u>	<u>2,571</u>	<u>-</u>	<u>91,419</u>
Total capital assets being depreciated	<u>39,673</u>	<u>(2,571)</u>	<u>-</u>	<u>37,102</u>
Business-type activities capital assets, net	<u>\$ 252,600</u>	<u>\$ (2,571)</u>	<u>\$ -</u>	<u>\$ 250,029</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 4 – CAPITAL ASSETS (Continued):

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

Governmental activities

General government	\$ 15,553
Highway and streets	449,393
Culture and recreation	<u>35,651</u>

Total depreciation expense – governmental activities \$ 500,597

NOTE 5 – LONG TERM DEBT:

Long-term debt activities for the year ended September 30, 2020, are shown below:

	<u>Balance</u> <u>9/30/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/2020</u>
<u>Governmental activities:</u>				
Capital lease obligation	\$ 85,833	\$ -	\$ 31,617	\$ 54,216
Compensated absences	<u>75,537</u>	<u>21,693</u>	<u>-</u>	<u>97,230</u>
Total governmental activities	<u>\$ 161,370</u>	<u>\$ 21,693</u>	<u>\$ 31,617</u>	<u>\$ 151,446</u>
<u>Business-type activities:</u>				
Bond payable	\$ 968,500	\$ -	\$ 30,000	\$ 938,500
Total business-type activities	<u>968,500</u>	<u>-</u>	<u>30,000</u>	<u>938,500</u>
Total long-term debt	<u>\$ 1,129,870</u>	<u>\$ 21,693</u>	<u>\$ 61,617</u>	<u>\$ 1,089,946</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
September 30, 2020

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>
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	37,900	38,157	76,057
2026 - 2030	218,200	162,013	380,213
2031 - 2035	275,200	105,027	380,227
2036 - 2039	272,000	33,117	305,117
Total	<u>\$ 938,500</u>	<u>\$ 507,367</u>	<u>\$ 1,445,867</u>

Change during fiscal year:

Outstanding October 1, 2019	\$ 968,500
Retired	<u>(30,000)</u>
Outstanding September 30, 2020	<u>\$ 938,500</u>
Due within one year	\$ 31,500
Due in more than one year	<u>907,000</u>
	<u>\$ 938,500</u>

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

NOTE 6 – COMPENSATED ABSENCES

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

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

	<u>Governmental Activities</u>
Balances at October 1, 2019	\$ 75,537
Increase	21,693
Balance at September 30, 2020	<u>\$ 97,230</u>

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 7 – CAPITAL LEASE:

- 1- The City purchased various autos under capital leases from third parties and recorded the transactions in *Governmental Activities*. The future minimum lease payments under this capital leases and the present value of net minimum lease payments at September 30, 2020 are as follows:

<u>Year Ending</u>	
2021	\$ 29,926
2022	23,690
2023	<u>3,628</u>
Total minimum lease payments	57,244
Less: amount representing interest	<u>(3,524)</u>
Present value of future payments	<u>\$ 53,720</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, 2020 are as follows:

<u>Year Ending</u>	
2021	\$ <u>496</u>
Total minimum lease payment	<u>\$ 496</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
September 30, 2020

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 Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

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

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
September 30, 2020

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 2019-2020 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer</u>
Regular	3.00%	6.75%
Special Risk	3.00%	23.76%
Special Risk, Administrative Support	3.00%	36.87%
Senior Management Service	3.00%	23.69%
Elected Officers	3.00%	47.10%

The City's contributions, including employee contributions, to the Pension Plan totaled \$10,351 for the fiscal year ended September 30, 2020.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2020, the City reported a liability of \$107,755 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The City's proportionate share of the net pension liability was based on the City's 2018-2019 fiscal year contributions relative to the 2018-2019 fiscal year contributions of all participating members. At June 30, 2020, the City's proportionate share was .000248618 percent, which was a decrease of .000016513 percent from its proportionate share measured as of June 30, 2019.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

For the fiscal year ended September 30, 2020, the City recognized pension expense of \$25,574. 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	\$ 4,124	\$ -
Change in assumptions	19,507	-
Net difference between projected and actual earnings on pension plan investments	6,416	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	9,658	18,471
City pension plan contributions subsequent to the measurement date	2,114	-
Total	\$ 41,819	\$ 18,471

The deferred outflows of resources related to the Pension Plan, totaling \$2,114 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, 2020. 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>
2021	\$ 2,945
2022	(828)
2023	(1,758)
2024	1,447
2025	(2,879)
Thereafter	22,307
Total	\$ 21,234

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions. The assumptions were applied to all periods included in the measurement:

Inflation	2.40 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.00%, 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, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	2.2%	2.2%	1.2%
Fixed Income	19.0%	3.0%	2.9%	3.5%
Global Equity	54.2%	8.0%	6.7%	17.1%
Real Estate	10.3%	6.4%	5.8%	11.7%
Private Equity	11.1%	10.8%	8.1%	25.7%
Strategic Investments	4.4%	5.5%	5.3%	6.9%
Total	100.00%			

Assumed Inflation - Mean 2.40% 1.70%

Discount Rate - The discount rate used to measure the total pension liability was 6.80%. The Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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 6.80%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.80%) or one percentage point higher (7.80%) than the current rate:

	1% Decrease (5.8%)	Current Discount Rate (6.8%)	1% Increase 7.8%
City's proportionate share of the net pension liability	\$ 172,066	\$ 107,755	\$ 54,042

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, 2020, the City reported a payable in the amount of \$107,755 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2020.

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, 2020, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered, retirement system must provide proof of health insurance coverage, which may include medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2020, the HIS contribution for the period October 1, 2019 through June 30, 2020 and from July 1, 2020 through September 30, 2020 was 1.66% respectively. The City contributed 100% of its

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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, 2020.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources, Related to Pensions – At September 30, 2020, City reported a liability of \$9,323 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The City's proportionate share of the net pension liability was based on the City's 2018-2019 fiscal year contributions relative to the 2018-19 fiscal year contributions of all participating members. At June 30, 2020, the City's proportionate share was .000076357 percent, which was a decrease of .000002883 percent from its proportionate share measured as of June 30, 2019.

For the fiscal year ended September 30, 2020, the City recognized pension expense of \$884. In additions 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	\$ 381	\$ 7
Change in assumptions	1,002	542
Net difference between projected and actual earnings on pension plan investments	7	-
Change in proportion and differences between City pension plan contributions and proportionate share of contributions	1,865	2091
City pension plan contributions Subsequent to the measurement date	110	-
Total	\$ 3,365	\$ 2,640

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

reduction of the net pension liability in the fiscal year ended September 30, 2020. 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
2021	\$ 117
2022	183
2023	(21)
2024	(2)
2025	9
Thereafter	329
Total	\$ 615

Actuarial Assumptions – The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.21%

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

The actuarial assumptions used in the July 1, 2019, valuation was based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 3.50%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

liability was calculated using the discount rate of 2.21% as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate 2.21%	1% Increase 3.21%
City's proportionate share of the net pension liability	\$ 10,777	\$ 9,323	\$ 8,133

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, 2020, the City reported a payable in the amount of \$9,323 for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2020.

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 2018-2019 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 8 - FLORIDA RETIREMENT SYSTEM (Continued):

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

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the pension plan is transferred to the Investment Plan. The member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a *suspense account* for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2020, 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 \$9,556 for the fiscal year ended September 30, 2020.

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.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

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

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

The pension expense under this plan for the year ended September 30, 2020, was as follows:

	<u>Governmental Activities</u>
General Fund	\$ <u>36,924</u>

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at September 30, 2020 were:

	Interfund Receivables	Interfund Payables	Transfer In	Transfer Out
General fund – major	\$ -	\$ 678,085	\$ -	\$ 71,500
Sanitation fund – major enterprise	-	-	-	
Water & sewer fund – major enterprise	678,085	-	71,500	-
	\$ 678,085	\$ 678,085	\$ 71,500	\$ 71,500

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

NOTE 11 – CONTINGENCIES AND COMMITMENTS:

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and revenues sharing programs. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims, resulting from such audits, could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims would not have a material effect on the overall financial position of the City as of September 30, 2020.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 11 – CONTINGENCIES AND COMMITMENTS (Continued):

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The pandemic led to certain restrictions required by the Governor of Florida, as well as local governments, which may affect revenue sources and also caused subsequent stock market volatility. The duration of the pandemic and the impact of COVID-19 on the City's operational and financial performance is uncertain at this time.

NOTE 12 – RISK MANAGEMENT:

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

NOTE 13 – UTILITY CONTRACT:

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

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

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, 2020, the City paid \$7,292 for the collection fees.

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

Under the agreement, both Authority and PBCWUD are required to pay the City an annual entity transfer fee equal to seven percent based on annual gross revenues. For the year ended September 30, 2020, the City received \$153,460 for entity transfer fee.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 14 – OTHER POST EMPLOYMENT BENEFITS:

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

NOTE 15 – RELATED PARTY TRANSACTIONS:

In April of 2020, the City made a payment to a vendor of \$23,000 for funeral expenses of a former employee. The family of the formal employee reimbursed the City in May of 2020. The vendor appears to be affiliated with a person in management. However, no one in management has any ownership or stake within the company.

NOTE 16 – FUTURE ACCOUNTING PRONOUNCEMENTS:

A brief description of new accounting pronouncements that might have a significant impact on the City’s financial statements is presented below. Management is currently evaluating the impact of the adoption of these pronouncements on the City’s financial statements.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This Statement will improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for the fiscal year ending September 30, 2021.

In May 2017, the GASB issued Statement No. 87, Leases. This Statement will increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting that is based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for the fiscal year ending September 30, 2022.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for the fiscal year ending September 30, 2022.

In August 2018, the GASB issued Statement No. 90, Major Equity Interests. This Statement will improve consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for the fiscal year ending September 30, 2021.

City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 16 – FUTURE ACCOUNTING PRONOUCEMENTS (Continued):

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. This Statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for the fiscal year ending September 30, 2023.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The requirements related to (1) intra-entity transfers of assets and those related to the applicability of Statements 73 and 74; (2) application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities; and (3) the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. This Statement is designed to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement is effective for the fiscal year ending September 30, 2021. Additionally, in March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This Statement is designed to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement is effective for the fiscal year ending September 30, 2022.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement is effective for the fiscal year ending September 30, 2022.

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City of South Bay, Florida
Notes to Financial Statements
September 30, 2020

NOTE 16 – FUTURE ACCOUNTING PRONUCEMENTS (Continued):

In May 2020, the GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement provides guidance on to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement is effective for the fiscal year ending September 30, 2021.

NOTE 16 – MANAGEMENT’S REVIEW:

Management has evaluated subsequent event through June 29, 2021, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of South Bay, Florida
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes and franchise fees	\$ 1,086,999	\$ 1,086,999	\$ 1,086,685	\$ (314)
Licenses and permits	116,400	116,400	64,210	(52,190)
Intergovernmental	787,423	1,030,728	989,328	(41,400)
Charges for services	55,599	55,599	54,257	(1,342)
Fines and forfeitures	3,250	3,250	1,998	(1,252)
Rents	31,550	31,550	26,325	(5,225)
Investment income	15,675	15,675	7,826	(7,849)
Miscellaneous	17,970	24,445	17,799	(6,646)
Total revenues	<u>2,114,866</u>	<u>2,364,646</u>	<u>2,248,428</u>	<u>(116,218)</u>
Expenditures:				
Current:				
General government	1,281,779	1,536,579	1,421,466	115,113
Public safety	190,650	223,900	223,317	583
Highways and streets	518,157	515,547	505,349	10,198
Culture and recreation	123,360	140,170	116,537	23,633
Debt services:				
Principal	31,620	31,620	31,612	8
Interest	4,300	4,300	4,274	26
Total expenditures	<u>2,149,866</u>	<u>2,452,116</u>	<u>2,302,555</u>	<u>149,561</u>
Excess of revenues over (under) expenditures	<u>(35,000)</u>	<u>(87,470)</u>	<u>(54,127)</u>	<u>33,343</u>
Other financing sources:				
Operating transfer in	<u>35,000</u>	<u>87,470</u>	<u>87,470</u>	<u>-</u>
Total other financing sources:	<u>35,000</u>	<u>87,470</u>	<u>87,470</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	33,343	<u>\$ 33,343</u>
Fund balance, beginning of year			1,338,557	
Fund balance, end of year			<u>\$ 1,371,900</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, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental	\$ 2,804,729	\$ 2,804,729	\$ 1,490,928	\$ (1,313,801)
Interest income	8,750	8,750	5,578	(3,172)
Total revenues	<u>2,813,479</u>	<u>2,813,479</u>	<u>1,496,506</u>	<u>(1,316,973)</u>
Expenditures:				
Current:				
General government	174,416	174,416	95,064	79,352
Highways and streets	2,217,813	2,217,813	1,050,637	1,167,176
Culture and recreation	307,500	307,500	251,626	55,874
Total expenditures	<u>2,699,729</u>	<u>2,699,729</u>	<u>1,397,327</u>	<u>1,302,402</u>
Excess (deficiency) of revenues over expenditures	<u>113,750</u>	<u>113,750</u>	<u>99,179</u>	<u>(14,571)</u>
Other financing sources:				
Operating transfers in	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total other financing sources:	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Net change in fund balance	<u>\$ 213,750</u>	<u>\$ 213,750</u>	199,179	<u>\$ (14,571)</u>
Fund balance, beginning of year			<u>785,898</u>	
Fund balance, end of year			<u>\$ 985,077</u>	

City of South Bay, Florida
Note to Budgetary Comparison Schedule
Budget and Actual – General Fund
For the Fiscal Year Ended September 30, 2020

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 \$302,250, 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 \$116,218, when the actual general fund expenditures were under the appropriation by \$149,561.

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, 2020, 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
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System
Last 10 Fiscal Years*

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

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

** Information prior to 2014 is not available.

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

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

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

** Information prior to 2014 is not available.

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

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

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

** Information prior to 2014 is not available.

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

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

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

** Information prior to 2014 is not available.

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund information of the City of South Bay, Florida (the ‘City’), as of and for the year ended September 30, 2020, 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 29, 2021. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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*.

City of South Bay, Florida's Response to Findings

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

Purpose of this Report

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

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 29, 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, 2020. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program 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, 2020.

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 29, 2021

City of South Bay
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Contract Number	Program Award Amount	Reimbursable/ Disbursements Expense
HUD Community Development Block Grant CDBG Passed thru PB County - Code Enforcement Payroll	14.218	B-19-UC-12-0004	\$ 32,823	\$ 29,720
FEMA Hazard Mitigation Grant Passed through FL Division Emergency Management	97.039	H0198	124,416	76,000
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	3,800
Total			<u>\$ 1,060,840</u>	<u>\$ 109,520</u>

State Agency/Pass-Through Grantor/Program Title	State CSFA #	Contract Number	Program Award Amount	Reimbursable/ Disbursements Expense
FL Dept. of EPA Flood Control	37.039	LP50102	\$ 700,000	\$ 21,125
FL Division Emergency Management	31.066	18SR-3C-10-60-02-087	337,500	247,826
FDOT State Legislative Earmark	55.039	G-0Z83	320,000	474,863
FDOT Small County Outreach Program	55.009	G-0J22	1,874,538	423,279
FDOT Small County Outreach Program	55.009	G-1599	1,307,813	105,300
Total			<u>\$ 4,539,851</u>	<u>\$ 1,272,393</u>

See the 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, 2020

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, 2020**

I. Summary of Independent Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? ___yes ___no
- Significant deficiency(ies) identified? ___yes X none reported

Noncompliance material to financial statements noted? ___yes X no

State Financial Assistance

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 state projects pursuant to Chapter 10.550, rules of the Auditor General? ___Yes X no

Identification of major programs:

CSFA Number(s) and Name of Federal Program:

55.039 – Small County Outreach Program

Dollar threshold used to distinguish between type A and type B programs: \$ 381,718

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

II. Prior Year Findings

None

III. Financial Statement Findings

2020-001 – Missing supporting documentation

Finding Type: Internal Control and Significant Deficiency

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Views of responsible officials and planned corrective actions: Management concurs and will work to provide all documents prospectively.

IV. Federal Award Findings and Questioned Costs

None Noted

V. State Award Findings and Questioned Costs

None Noted

**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, 2020. 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, 2020. 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 29, 2021

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

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

Report on the Financial Statements

We have audited the financial statements of the City of South Bay, Florida (the ‘City’), as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated June 29, 2021.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 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 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 29, 2021, 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 such findings and recommendations made in the preceding annual financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. There were no component units associated with the City.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and 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 Statutes.

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

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

Special District Component Units

Sections 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district 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, Members of the City Council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

HCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida

June 29, 2021