

**City of South Daytona**  
**Office of the City Manager / Department of Finance**

1672 S. Ridgewood Avenue • South Daytona, FL 32119 • 386/322-3060



**MEMORANDUM**

**To:** James L. Gillis, Jr., City Manager

**From:** Jason E. Oliva, Finance Director

**Re:** Annual Comprehensive Financial Report for the Fiscal Year Ended September 30, 2024

**Date:** February 02, 2025

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Attached, please find the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2024. The ACFR provides a snapshot of the City's financial position at fiscal year-end. In the spirit of full disclosure and transparency, I am submitting this summary and analysis to facilitate better understanding of the contents of the report.

**Background**

The ACFR communicates the City's financial condition and activity in a transparent and organized manner and follows accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). The report presents historical and comparative information that can be useful to City staff, elected officials, and external users such as debt rating agencies, businesses, other public agencies, and the City's residents.

Financial statements are prepared by the City and audited by independent auditors. The City selected its independent auditor through a competitive procurement process that included members of the Audit Selection Committee as proposal reviewers. The City's current independent auditor, James Moore & Co. CPAs, is in its sixth year auditing the City.

The quality of the City's financial reporting and the ACFR are measured in two ways: (1) an unmodified audit report by the independent auditors; and (2) the Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officer Association (GFOA). The attainment of the latter is the highest form of recognition in governmental accounting and financial reporting.

Auditors follow audit industry standards established by the American Institute of Certified Public Accountants (AICPA). These standards require auditors to provide an opinion on specific areas of the City's financial statements based on observations, inquiries, testing of transactions, and analysis.

The City's ACFR includes the following major sections and information:

## **Introductory Section**

**Letter of Transmittal** – Prepared by management and used to communicate information on areas that may have an impact on the City’s finances now and in the future. This includes economic factors as well as budget and management factors.

## **Financial Section (the main body of the ACFR for current year information)**

- Independent Auditors’ Report – the City’s report card on the content of the ACFR.
- Management’s Discussion and Analysis (MD&A) – provides an analytical overview of the City’s financial status and results for the fiscal year.
- Basic Financial Statements – reports finances at a point in time (assets - liabilities) and throughout the year (revenues - expenditures), and cash flows from activities.
  - City-Wide Statements – overview of financial information including all the City’s operations by financial activity.
  - Fund Financial Statements – a detailed look at funds, reporting the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.
  - Notes to the Financial Statements (Notes) – a narrative explanation that accompanies the Basic Financial Statements.
- Budget to Actual Comparisons – for all governmental funds with a legally adopted budget, these reports demonstrate compliance with the approved budget.

## **Required Supplementary and Supplementary Information Sections**

- Notes to Required Supplementary Information.
- Pension Information – a schedule of changes in the proportionate share of net pension liability and related ratios; schedule of contributions by plan.
- OPEB Information – a schedule of changes in the net Other Post-Employment Benefits (OPEB) liability and related ratios; schedule of contributions.
- A breakout of individual non-major funds – for funds that were presented in a cumulative manner in the Financial Section.

## **Statistical Section (current and historical information – up to 10 years)**

- Financial Trends
- Revenue Capacity Information
- Debt Capacity Information
- Demographic and Economic Information
- Operating Information

## **Discussion**

The attached ACFR for FY 2023-24 has received an unmodified opinion by James Moore & Co. An unmodified opinion communicates that the financial statements are fairly presented, and that

the information used in the report is reliable. In their written communications to Council, the auditors note that they encountered no significant difficulties with management in performing or completing the audit.

Statement on Auditing Standards (SAS) 114 establishes standards for the auditors' communication with those charged with governance. These statements require the auditors to consider and report on internal controls, significant audit findings, and other matters as prescribed in the standards as they relate to the audit of the financial statements. The letters that satisfy the SAS requirements are attached to this report.

The following is an explanation of some key indicators reported in the ACFR.

### **General Fund Balance**

The most notable measure of a City's financial health is the General Fund balance. As presented in the Basic Financial Statements, as of September 30, 2024, the City's General Fund assets exceeded liabilities by \$8,110,783 (page 43, total fund balance). This represents an increase of \$1,055,228 compared to the prior year fund balance (page 45, net change in fund balance). General Fund balance is comprised of several categories, as follows, and are listed from money not available to spend at all to unassigned balances to be used as desired:

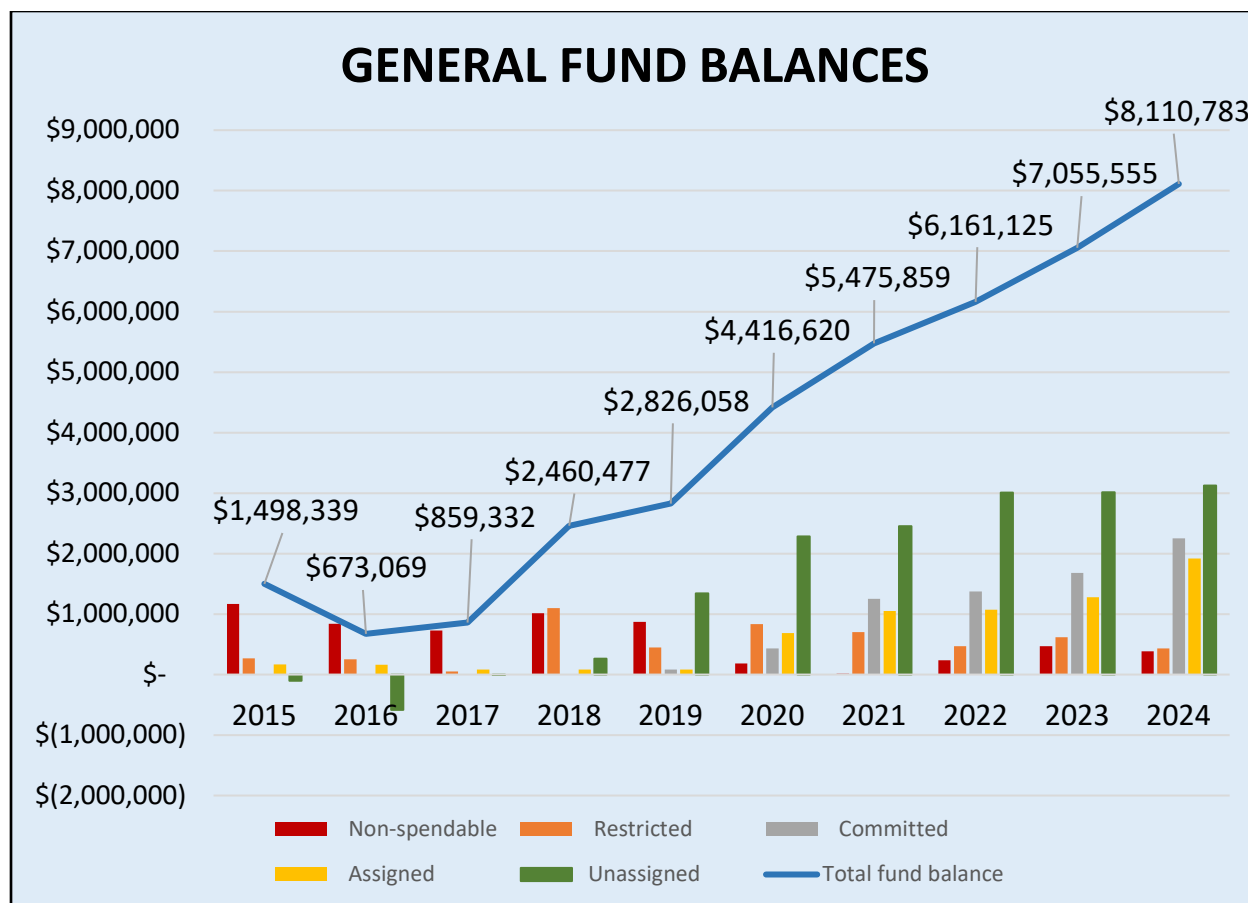
\$381,995 nonspendable fund balance includes amounts that are not in a spendable form and cannot be used to meet current obligations, such as prepaid items and advances to other funds;

\$429,333 restricted fund balance represents funds restricted for a specific purpose as stipulated by either external resource providers or enabling legislation such as debt service payments and impact fees;

\$2,254,126 committed resources represent amounts designated for a specific purpose by formal action from City Council, this balance consists solely of the disaster recovery reserve. City policy required that funds committed to disaster recovery have a balance of \$1,250,000 by 2026. The balance of the disaster recovery was increased by \$571,537 at the end of the fiscal year to achieve a balance exceeding the \$1.9 million general fund disaster recovery costs incurred in FY 2023 because of Hurricane Ian. These funds are available to use for disaster preparation, disaster recovery, and mitigating damage from future storms.

\$1,920,331 assigned funds set aside for specific purposes based on budget priorities (i.e., prior year reappropriations; and capital); and

\$3,124,998 in unassigned funds. City policy requires the unassigned fund balance for the General Fund to be between 15-20 percent of the following year's operating budget expenditures. At the fiscal year-end, unassigned fund balance represents 25.4% of the 2025 original budget. City policy allows unassigned fund balance over 20% to be committed for the disaster recovery reserve or for future capital outlay.



### Citywide Net Position

The Statement of Net Position, like a balance sheet, reports total assets and liabilities of the City as of September 30, 2024. The total net position of the City for all activities was \$43,723,634 (page 41, total net position). The City's total net position increased \$1,549,837 primarily due to \$1,187,900 being carried forward to the subsequent budget for projects and capital that were budgeted but not completed during the fiscal year. Delays in major purchases allowed the funds to be under budget for the current fiscal year but will be spent in the subsequent year.

Net position is comprised of three categories: capital, restricted, and unrestricted.

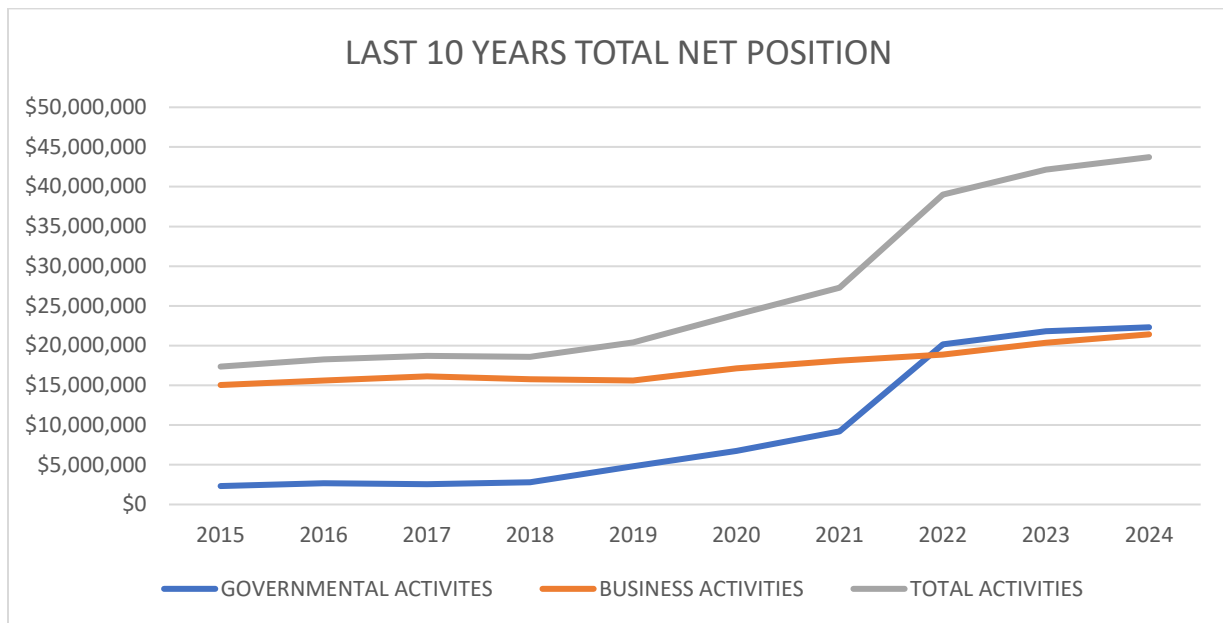
Net Investment in Capital Assets (\$36,222,868) includes land, buildings, improvements, infrastructure and utility systems, and construction in progress net of depreciation/amortization and related debt.

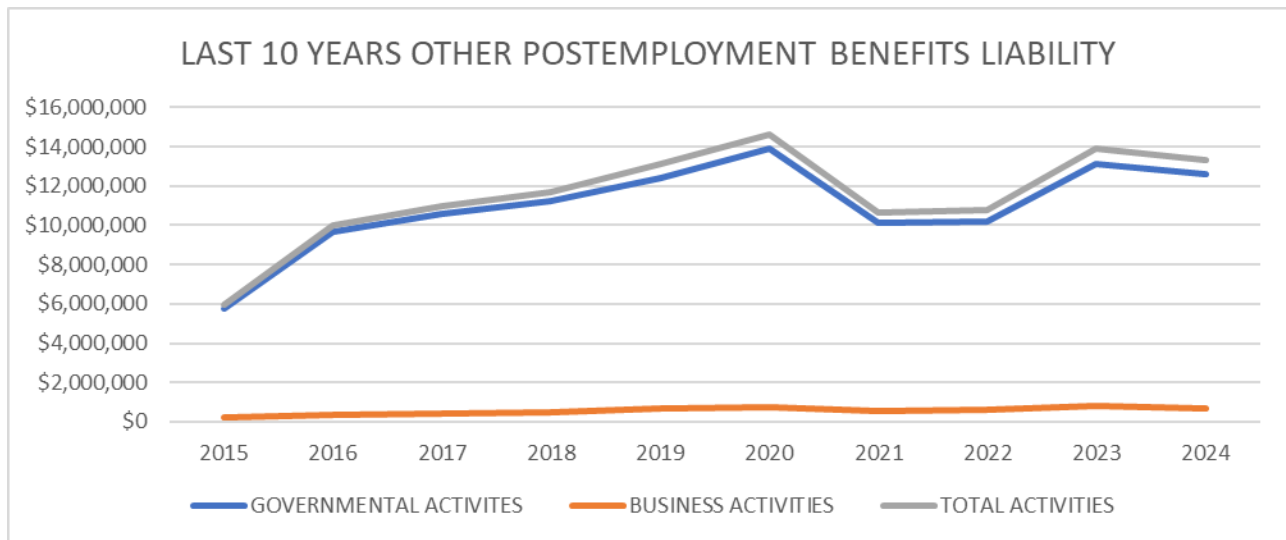
Restricted Net Position (\$3,749,123) is subject to external restrictions on how they can be used. They are imposed by either creditors or laws and regulations of other governments and typically represent required debt service reserves, impact fees, or restricted balances from special revenues.

Unrestricted Net Position (positive balance of \$3,751,643) represents the balance of net position that is neither part of capital assets nor restricted. A main component of unrestricted net position is the \$12,052,985 in liabilities recorded for postemployment benefits. Postemployment liabilities reported are for the City's portion of the unfunded liability of the FRS pension plan (\$12,609,046 liability), the net effect of deferred inflows and outflows (\$1,239,619 asset) and the other postemployment benefits (OPEB, \$683,558 liability) for retiree healthcare. The unfunded liability in the pension plan represents the amount the City would have to contribute for its employees in the plan in the hypothetical situation that FRS stopped existing, and payments were made to all retirees. OPEB recognizes the liability incurred by the City for providing health care coverage to employees after they retire. Even though the retirees pay the full amount of their own premium, the liability is recorded because the higher rate to cover retirees is blended with the rate to cover active employees. These liabilities are recorded per Governmental Accounting Standard Board reporting requirements even though the City does not have an obligation to fund or budget for these liabilities for general government activities. If the City was not required by GASB to record these liabilities, the City's Unrestricted Net Position would be a surplus balance of \$15,804,628.

GASB 68, accounting for pensions, was implemented in 2015 and the pronouncements impact on unrestricted net position can be seen in the following graphs.

The ARPA Capital Project Fund and Cellular Tower Capital Project Fund have combined cash balances of \$6,033,185 at the end of the fiscal year (page 43, Capital Projects Fund Balance Sheet). When these funds are spent on council approved projects over the next couple of fiscal years, the unrestricted net position will decrease accordingly.



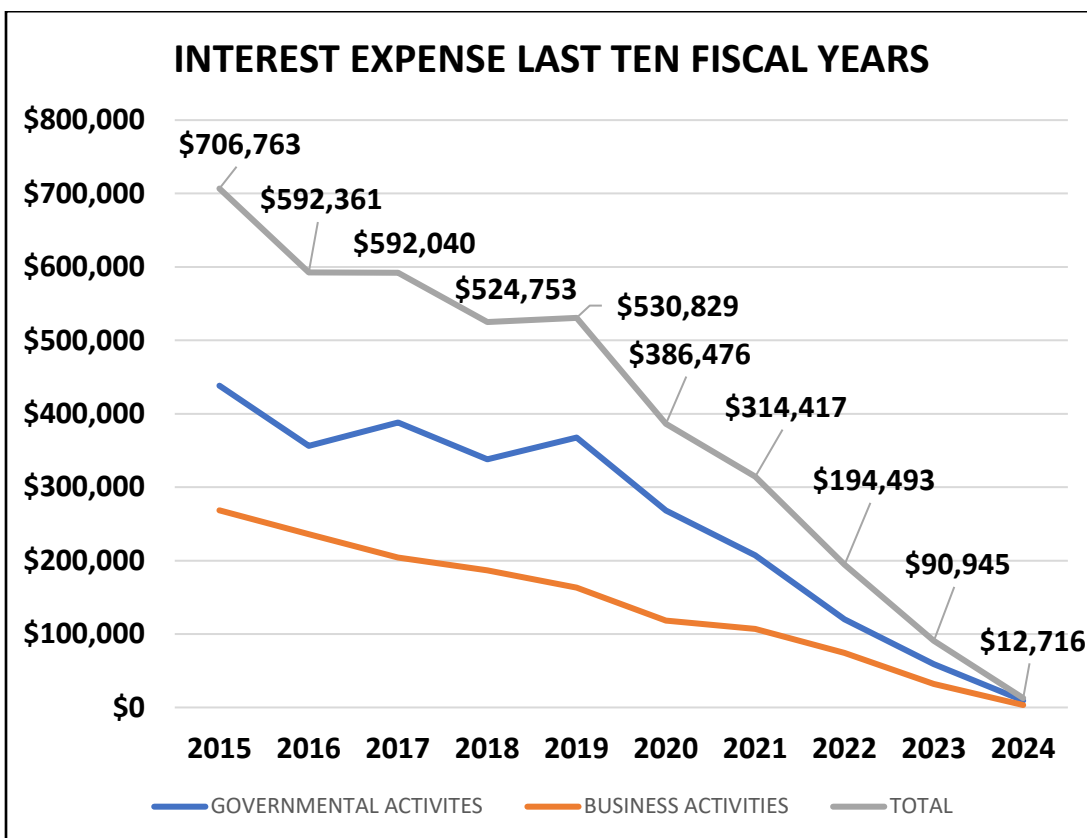
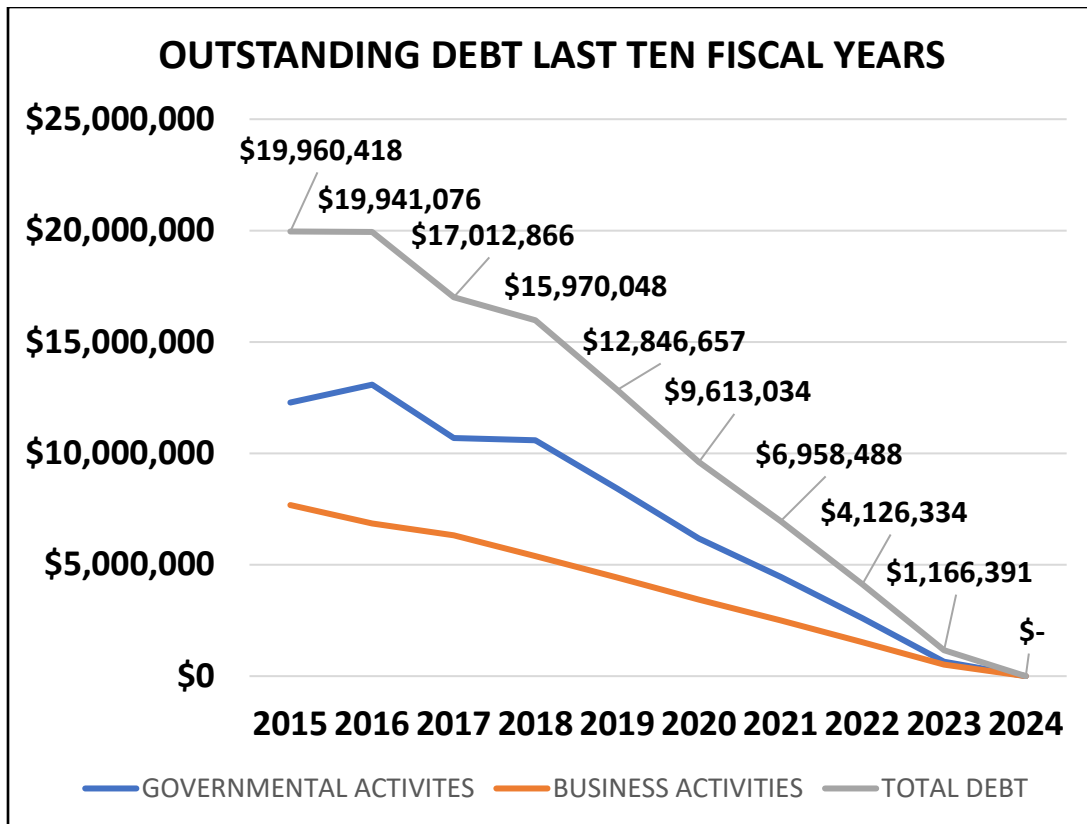


## Debt

One of the main reasons for the upward trend in Net Position is the continued commitment by the City to eliminate debt. During the current fiscal year, the City reduced outstanding debt by \$1,166,391. The City made a commitment to reduce debt via a combination of making additional principal payments and not taking out any additional debt. A narrative summary of the City's debt can be found on pages 36 & 37 in the MD&A section of the ACFR. More detailed information such as amortization schedules about the City's long-term debt can be found in notes to the financial statements section Notes 10 and 11 on pages 69-72 of the ACFR. The City implemented a plan to use proceeds from an additional .4 mills dedicated for debt to make additional principal payments. This plan not only retired the debt early, the City became debt free in December 2023, but created savings by reducing the outstanding balances prior to the scheduled due date which decreased interest expense each year.

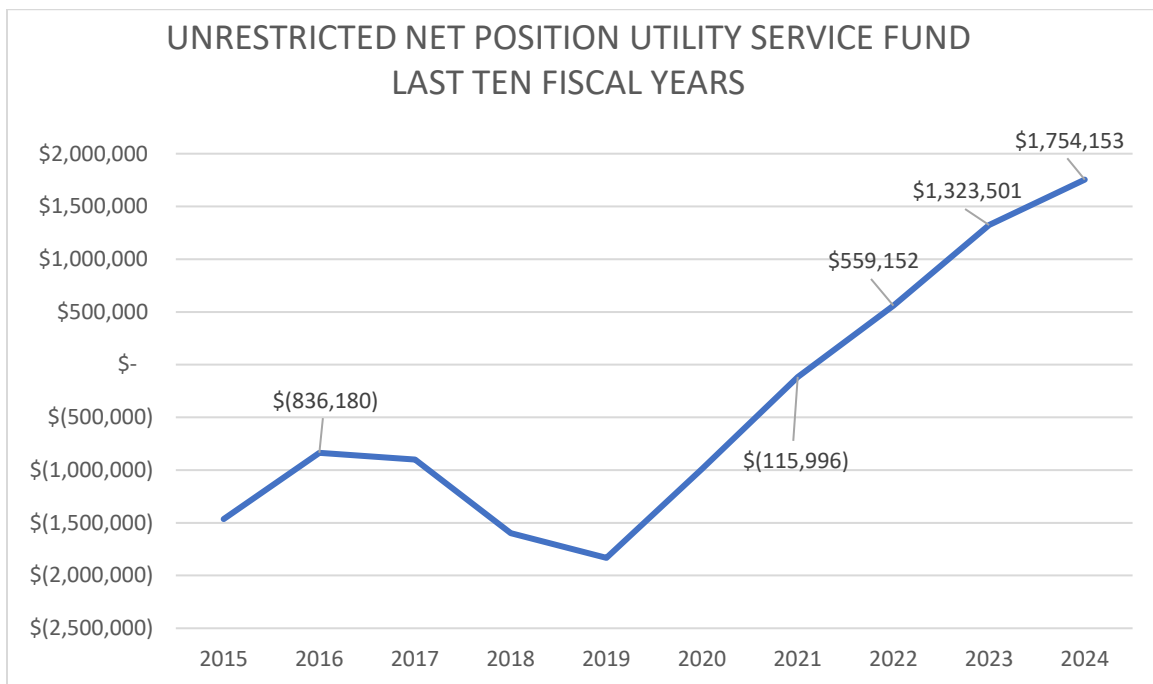
The City paid a total of \$12,716 in interest in the current fiscal year. Governmental funds paid \$9,413 (page 45, total governmental funds interest) and the Utility Service paid \$3,303 (page 52, interest paid). Interest paid in the current year was \$78,229 less than the \$90,945 paid in the prior year. As seen in the following graph, the **City has expended approximately \$3.9 million in interest payments over the past ten years.**

The City was able to invest cash into a local government investment pool, the Florida Short Term Asset Reserve (FLSTAR). Since the short-term interest rates were favorable and the City had a large amount of cash available to invest from both Capital Project Funds, the City earned \$928,180 in interest during the fiscal year. This is the second consecutive year the City generated more investment revenue from cash invested during the fiscal year than it had to pay banks in interest expense for cash borrowed, \$12,716.



## Utility Service Fund

The Utility Service Fund is reported with both a long-term and short-term focus. The City will need to increase revenues and decrease debt to continue the improvement of the unrestricted net position of \$1,754,153 (page 50, unrestricted). The impact of the council approved rate changes implemented by the City in 2019 are seen in the below graph. At fiscal year-end 2024, unrestricted net position increased by \$430,652. The amount reported as restricted for capital contains \$847,208 for capital expenses budgeted but not incurred in the fiscal year 2023-2024 that will be expensed in fiscal year 2024-2025. City policy requires that unrestricted net position in the utility service fund be between 12-20 percent of the following year's operating expenses. At fiscal year-end the unrestricted amount is \$414,702 above the 12% minimum required.



While the unrestricted portion of net position in the utility service meets the policy goal at the end of the current fiscal year, the City must remain diligent in reducing expenditures and implement the recommended rate changes of the upcoming rate study to be able to assign unrestricted funds more than 12% for much needed renewal and replacement of the utility infrastructure in future budgets. **It is imperative that any rate increases in the new contract with the City of Daytona Beach for wholesale water and sewer services be carefully analyzed each year to make sure that the City of South Daytona rates for services will still generate an increase to net position.**

Since the Utility Service Fund is barely over the 12% policy amount, the City was not able to restrict any cash for future renewal and replacement at the end of the current fiscal year. Currently the fund does not have any cash restricted for renewal and replacement (page 50).



## General Fund Budget Highlights

Evaluating the City's financial performance relative to the adopted budget is an essential input in demonstrating accountability and transparency. The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual for the General Fund can be found on page 47.

**Original budget compared to final budget.** During the year, amendments were made to adjust the original estimated revenues or budget appropriations. The final budget for the General Fund was \$693,946 more than the original budget. A roll-forward budgeted adjustment from the previous year increased the budget by \$363,946. The mid-year amendment to the budget was increased \$330,000 to adjust for revenue projections, to budget for needed maintenance, and to budget a transfer to reserves.

The significant variances between the original budget and final amended budget are as follows:

- Budgeted franchise taxes and utility taxes were increased by \$98,000 to reflect additional revenues resulting from increases in Florida Power and Light (FPL) rates.
- Grants increased \$18,000 for a grant received in the Fire Department for safety equipment (\$8,000) and disaster recovery grants (\$10,000) for grant monitoring reimbursement.
- Miscellaneous revenues were increased by \$167,000. This adjustment recognizes a gain on disposals of old fixed assets (\$13,000) and an increase in investment earnings (\$154,000).

Generally, other movements of the appropriations between departments were not significant.

**Final budget compared to actual results.** Revenues reported an overall negative variance in the General Fund with actual revenues lower than the final FY 2024 Budget by \$263,731. Most of this variance is primarily due to not receiving federal grant reimbursement on the City Hall generator (\$400,556) and a budgeted transfer from reserves of (\$435,946). It is anticipated that the revenue from the federal grant will be received in Fiscal Year 2024-2025. Other significant variances between the final budget and actual results are as follows:

- Property taxes were \$99,131 higher than budgeted due to delinquent property taxes received during the fiscal year.
- Utility taxes were \$112,853 higher than budgeted due to increases in Florida Power and Light rates.
- Communication service tax was \$51,852 lower than budgeted and will have to be monitored closely as this revenue source continues to diminish.
- Fines and forfeitures were \$208,008 higher than budgeted due to large code enforcement fines collected late in the fiscal year after the mid-year budget was completed.
- Miscellaneous revenues were \$175,084 higher than budgeted due to interest earnings being higher than anticipated.

Expenditures reported an overall positive variance in the General Fund with actual expenditures lower than the final FY 2024 Budget by \$1,318,959. This variance is attributed to a continued focus on cost containment efforts, salary attrition due to vacancies across the community development, public safety, and parks departments, and not needing to spend budgeted contingency money.

Capital outlay was \$351,324 under budget due to the City Hall generator being less than budgeted, vehicle and equipment purchases were made at less than the anticipated costs, and the budgeted \$50,000 that is being set aside for a new fire truck.

Budgeted transfer to reserves represents \$281,500 of the amount under budget for expenditures. Transfers to reserves are made to increase fund balance to allow for projects and improvements to be made in future budgets.

### **Other Fund Highlights**

The fund balance of the City's Redevelopment Trust Fund increased by \$262,213 during the current fiscal year. This increase is a result of expenditures for economic development being \$130,000 under budget. This money will remain the Redevelopment Trust Fund to help attract new development in the future.

The Transportation Fund balance increased by \$123,127. Budget to actual variances in the Transportation Fund are the result of delays in multiple Florida Department of Transportation grant funded projects. The fund balance that remains in the transportation fund will be used to fund street resurfacing in future years.

The City created two separate capital project funds to account for the proceeds from the Coronavirus Local Fiscal Recovery Fund (CLFRF) as provided for by the American Rescue Plan Act (ARPA) and the sale of cell tower capital asset. All money in the Capital Project Funds will only be used for council approved projects. Below is a recap of the activities in the Capital Project Funds:

### Capital Projects

Cell Tower			
<b>Balance 10/01/2022</b>	<b>\$ 2,725,000</b>	<b>Balance 10/01/2023</b>	<b>\$ 2,539,383</b>
<b>Revenues</b>		<b>Revenues</b>	
Grant - Magnolia Park	\$ 119,676	Grant - Magnolia Park	\$ 124,074
Grant - Splash Pad	51,790	Grant - Splash Pad	101,033
Interest Income	79,330	Interest Income	92,745
	<u>250,795</u>		<u>317,852</u>
<b>Expenditures</b>		<b>Expenditures</b>	
Magnolia Park	269,409	Magnolia Park	226,385
Splash Pad	167,004	Splash Pad	98,071
	<u>436,413</u>		<u>324,456</u>
<b>Balance 09/30/23</b>	<b>\$ 2,539,383</b>	<b>Balance 09/30/24</b>	<b>\$ 2,532,779</b>

ARPA			
<b>Balance 10/01/2022</b>	<b>\$ 6,499,091</b>	<b>Balance 10/01/2023</b>	<b>\$ 5,612,777</b>
<b>Revenues</b>		<b>Revenues</b>	
Grant Sewer Lining	\$ -		\$ 750,000
Interest Income	138,827	Interest Income	150,381
	<u>138,827</u>		<u>900,381</u>
<b>Expenditures</b>		<b>Expenditures</b>	
Lift Station #1	68,060	Lift Station #1	-
Sewer Lining	862,914	Sewer Lining	1,596,650
AMI Meter Project	73,147	AMI Meter Project	1,385,108
Lift Station #5	21,020	Lift Station #5	37,080
	<u>1,025,141</u>		<u>3,018,838</u>
<b>Balance 09/30/23</b>	<b>\$ 5,612,777</b>	<b>Balance 09/30/24</b>	<b>\$ 3,494,320</b>

Total Capital Projects Combined			
<b>Balance 09/30/23</b>	<b>\$ 8,152,160</b>	<b>Balance 09/30/24</b>	<b>\$ 6,027,099</b>

### Conclusion

Overall, the City is trending in a positive direction, but the City needs to stay on the course to achieve the desired financial stability adopted by the financial policies as listed in Resolution No. 2020-34. The Utility Service Fund completed a new rate study and needs to continue to adjust the rates accordingly to reflect potential changes in the contract with Daytona Beach for

wholesale purchases. One of the requirements of the wholesale purchase agreement with the City of Daytona Beach is that South Daytona will expend no less than \$250,000 each fiscal year to reduce the inflow and infiltration of groundwater into the wastewater sent back to Daytona Beach. After the first quarter of Fiscal Year 2025, the City has sent approximately 63 more million gallons for sewer treatment than water purchased. The cost for the first quarter of treating groundwater is approximately \$258,655. The General Fund will need to maintain its current millage rate to fund capital replacement (specifically street resurfacing), offset the increased cost of products used for maintenance due to the continued increase in the consumer price index, and the ongoing increases in wages and FRS.

The biggest challenge that the City currently faces is paying for the multiple stormwater projects that have been applied for. The much-needed projects could potentially require the City to match a portion of the grant funding. The Utility Service Fund currently is meeting the financial policy goals, but if resources are needed from the City to help pay for these projects, the unrestricted fund balance in the Utility Fund may drop below the required amount. The City would need to consider using some of the money in the Capital Projects Funds to help allow these projects to be completed.