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, 2025

Date: February 02, 2026

Attached, please find the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2025. 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

<u>Discussion</u>

The attached ACFR for FY 2024-25 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 Balances

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, 2025, the City's General Fund assets exceeded liabilities by $8,130,943 (page 43, total fund balance). This represents an increase of $20,160 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:

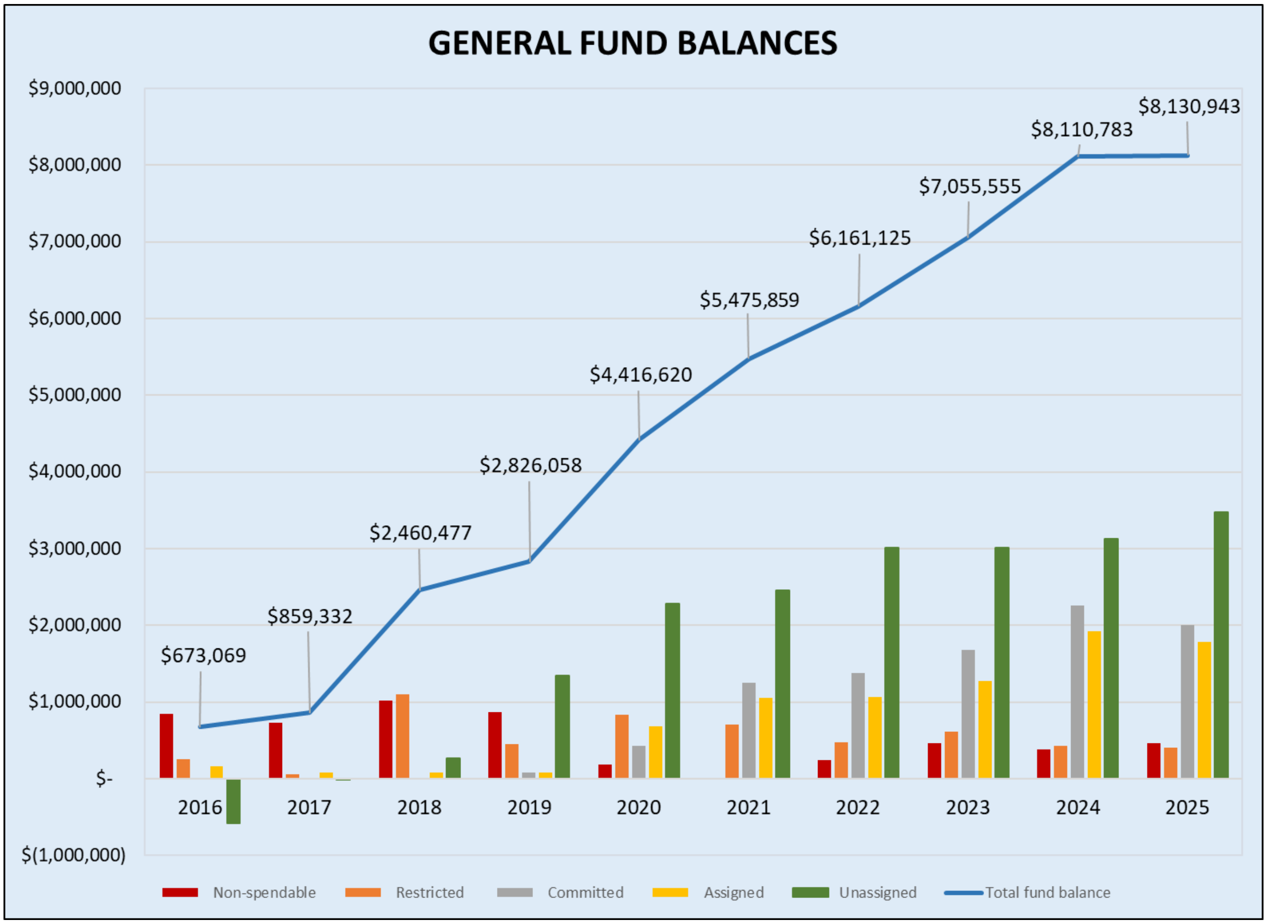
$462,884 non-spendable fund balance includes amounts that are not in a spendable form and cannot be used to meet current obligations, such as prepaid items and advances to other funds;

$410,526 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;

$2,000,000 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 minimum balance of $1,250,000 by 2026. These committed funds are used for disaster preparation, disaster recovery, and mitigating damage from future storms.

$1,781,731 assigned funds represent money set aside for specific purposes based on budget priorities (i.e., prior year reappropriations; and capital); and

$3,475,802 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 29.4% of the original 2026 budget. City policy allows unassigned fund balance over 20% to be committed for the disaster recovery reserve or for future capital outlay.



Changes in General Fund Balances

Overall, the total General Fund Balance increased by $20,160.

Funds committed for disaster recovery decreased by $254,126. The final 2025 budget included using $1,311,491 of committed disaster recovery funds. The use of committed disaster recovery funds included a $50,000 sandbag filling machine and a $1,261,491 transfer to the stormwater fund to enhance the stormwater system to better manage flooding events. At fiscal year-end, a portion of unassigned fund balance exceeding the 20% minimum requirement were committed to disaster recovery to increase the total committed to disaster recovery to $2,000,000.

Funds assigned for capital decreased by $138,000. The final 2025 budget included using $705,000 of funds assigned for capital. The use of assigned funds included a new street sweeper, a new bucket truck, a new backhoe, and for the replacement of the roof at the City municipal complex. At fiscal year-end, a portion of unassigned fund balance exceeding the 20% minimum requirement were assigned for capital to increase the assigned balance to $1,781,731.

Unassigned fund balance increased by $350,804. At council discretion, additional unassigned fund balance over the 20% requirement can be committed for disaster recovery 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, 2025. The total net position of the City for all activities was $50,085,303 (page 41, total net position). The City's total net position increased $6,361,669 primarily due to $2,869,519 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. Another reason for the increase to total net position is due to the pension liability that the City recognizes for participating in the Florida Retirement System decreased by $2,734,469.

Net position is comprised of three categories: net investment in capital, amounts that are restricted on how they can be used, and unrestricted balances.

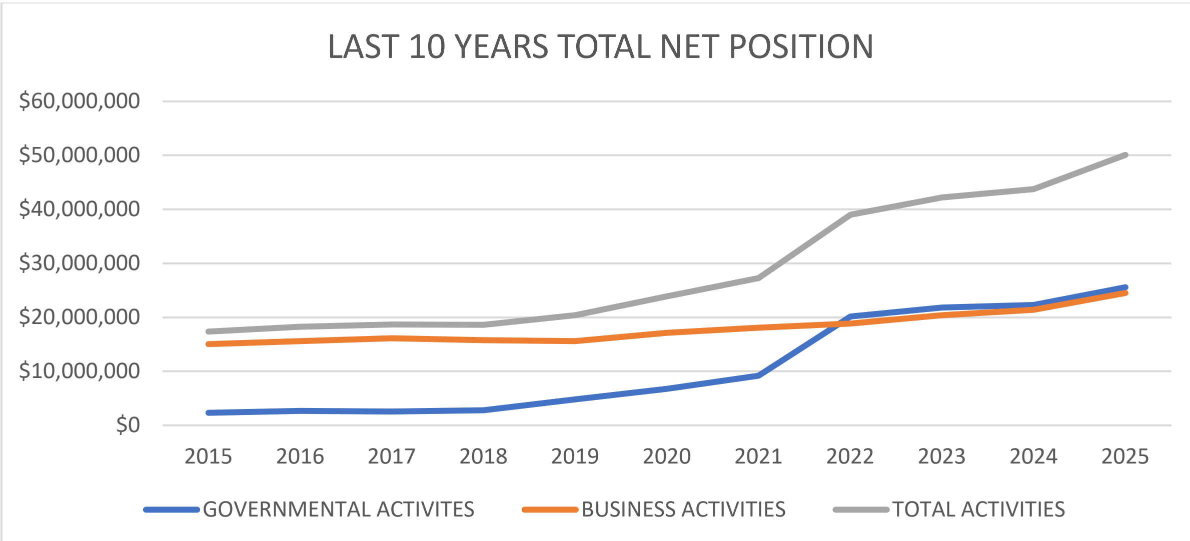
Net Investment in Capital Assets ($36,751,040) includes land, buildings, improvements, infrastructure and utility systems, and construction in progress net of depreciation/amortization and related debt.

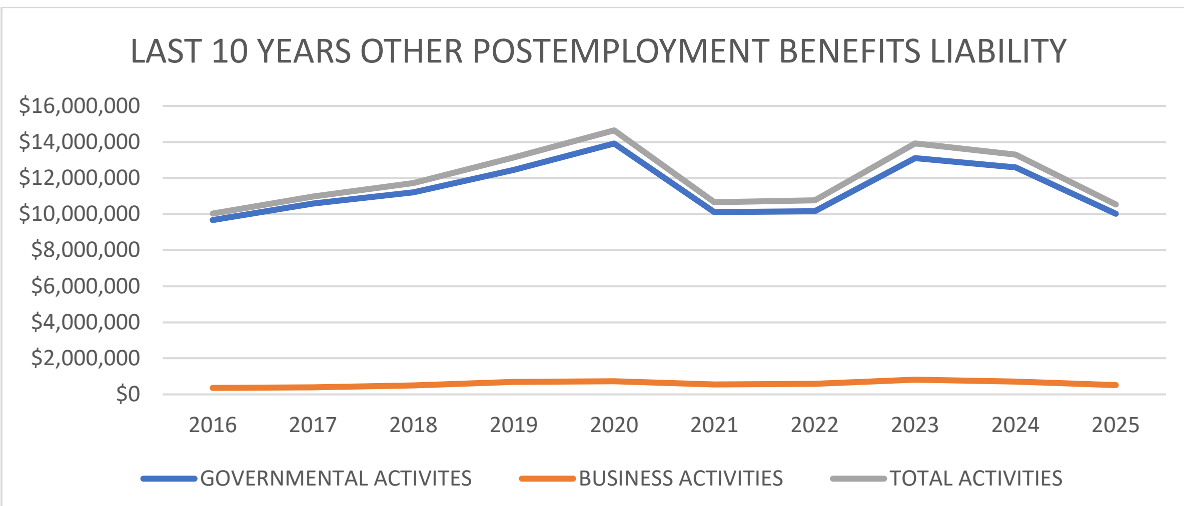
Restricted Net Position ($7,727,913) is subject to external restrictions on how they can be used. They are imposed by either creditors or laws and regulations of other governments and typically represent required debt service reserves, impact fees, or restricted balances from special revenues.

Unrestricted Net Position (positive balance of $5,606,350) represents the balance of net position that is neither part of capital assets nor restricted. A main component of unrestricted net position is the $10,951,839 in liabilities recorded for postemployment benefits. Postemployment liabilities reported are for the City's portion of the unfunded liability of the FRS pension plan ($9,874,577 liability), the net effect of deferred inflows and outflows ($427,057 liability) and the other postemployment benefits (OPEB, $652,205 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 <u>City does not have an obligation to fund or budget</u> 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 $18,679,572.

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 **$5,292,189** 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.

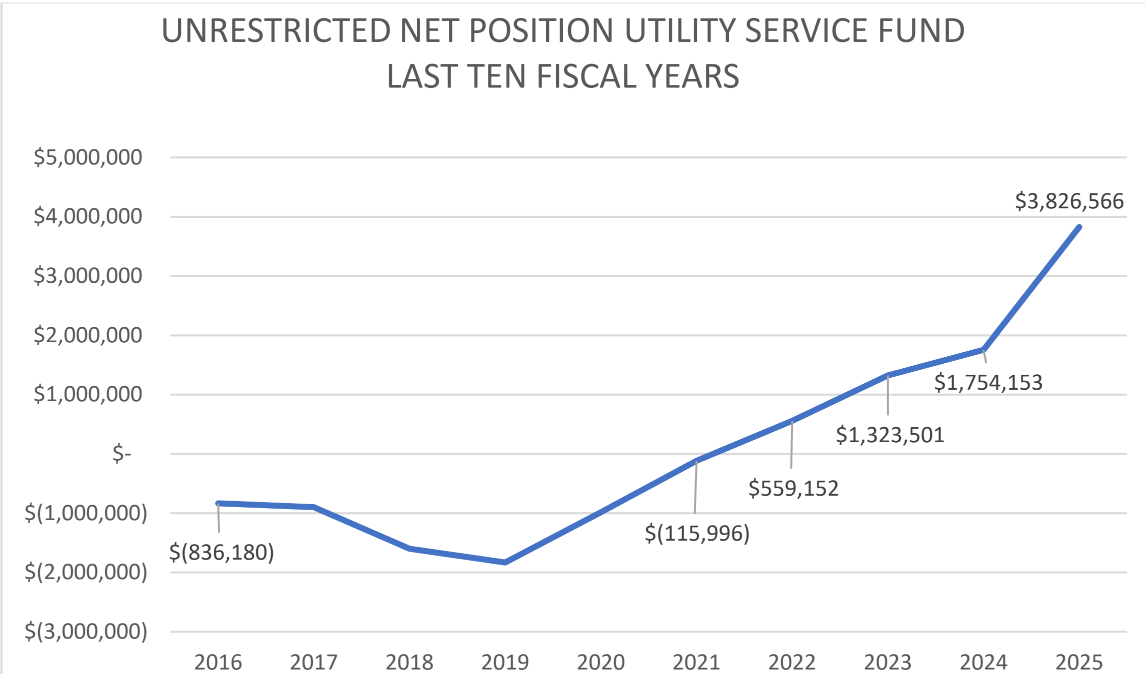




The City continued to invest cash into a local government investment pool, the Florida Short Term Asset Reserve (FLSTAR). Since the short-term interest rates were favorable and the City had a large amount of cash available to invest from both Capital Project Funds, the City earned $929,926 in interest during the fiscal year.

Utility Service Fund

The Utility Service Fund is reported with both a long-term and short-term focus. The impact of the council approved rate changes implemented by the City in 2019 are seen in the graph below. At fiscal year-end 2025, unrestricted net position increased by $2,072,413. The amount reported as restricted for capital contains $1,694,554 for capital expenses budgeted but not incurred in the fiscal year 2024-2025 that will be expensed in fiscal year 2025-2026. 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 represents 26.2% of the original fiscal year budget for 2026.



While the unrestricted portion of net position in the utility service met the policy goal at the end of the current fiscal year, the City needs to adjust utility rates as necessary. Utility rates that were not sufficient to support the operations of the Utility Fund led the fund to have a negative balance as recently as fiscal year 2021. **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 exceeded the 12% policy amount, the City was able to restrict cash for future renewal and replacement at the end of the current fiscal year. Currently the fund has $205,725 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 $2,395,333 more than the original budget. An adjustment for stormwater projects increased the budget by $1,261,491. An additional adjustment for disaster recovery due to Hurricane Milton was made to increase the budget by $1,133,842.

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

- Federal and state grants and disaster recovery were increased by $1,133,842 for reimbursements related to Hurricane Milton damage and clean up expenses.

- Non-operating sources and interfund transfers out were increased by $1,261,491 for transferring money from committed for disaster recovery to stormwater for the enhancement of the stormwater system to better manage flooding events.

- As part of the mid-year budget review, the investment earnings line item was increased and franchise taxes, communication service tax, and intergovernmental revenues were decreased to match year-to-date updated projections.

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 2025 Budget by $1,101,864. Most of this variance is primarily due to a budgeted transfer from reserves of ($2,247,505). The transfer from reserves is a planned use of fund balances that was committed to disaster recovery and committed to capital projects. Other significant variances between the final budget and actual results are as follows:

- Property taxes were $125,492 higher than budgeted due to delinquent property taxes received during the fiscal year.
- Franchise fees were $77,854 higher than budgeted and utility taxes were $168,303 higher than budgeted due to increases in Florida Power and Light rates.
- Communication service tax was $74,618 higher than budgeted due to an increase in actual revenue in the third and fourth quarter of the fiscal year.
- Permit revenue was $87,448 higher than budgeted due to construction permits issued Zaxby's, McDonalds, Scooters and Edison Pointe.
- Federal and State grants were higher than budgeted due to reimbursements related to Hurricane Ian that were received during FY 2025.
- Intergovernmental revenue was $102,342 higher than budgeted due to an increase in actual revenue for state shared revenue and sales tax in the third and fourth quarters of the fiscal year.
- Investment earnings were $239,221 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 2025 Budget by $1,122,024. 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 $231,994 under budget due to a delay in the police department evidence room remodel, vehicle and equipment purchases made at less than anticipated costs, and the budgeted $50,000 that is being set aside for a new fire truck.

Other Fund Highlights

The fund balance of the City's Redevelopment Trust Fund increased by $2,437,928 during the current fiscal year. Capital outlay in the redevelopment was $1,544,415 under budget with construction starting on the utility underground project late in fiscal year 2025. This money will remain in the Redevelopment Trust Fund to complete projects that include the final phase of burying utility lines along the U.S. 1 corridor, streetscape and sidewalk improvements, and the replacement of lift station #1.

The Transportation Fund balance increased by $250,623. 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) ($6,499,091) and the sale of cell tower capital asset ($2,725,000). 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	
Beginning Balance 10/01/2022	**$ 2,725,000**
Revenues	
Grant - Magnolia Park	243,750
Grant - Splash Pad	152,823
Interest Income	241,465
Total revenues	638,038
Expenditures	
Magnolia Park	495,794
Splash Pad	265,075
Reed Canal Prehistoric Park	362,873
Total expenditures	1,123,742
Balance 09/30/25	**$ 2,239,296**

ARPA		
Balance 10/01/2022	**$**	**6,499,091**
Revenues		
Grant - Sewer Lining		750,000
Grant - Lift Station #5		117,983
Interest Income		381,898
Total revenues		1,249,881
Expenditures		
Lift Station #1		68,060
Lift Station #5		126,755
Sewer Lining		2,744,496
AMI Meter Project		1,721,841
Lantern Park Stormwater Improvements		3,693
Total expenditures		4,664,845
Balance 09/30/25	**$**	**3,084,127**

Total Capital Projects Combined		
Balance 09/30/25	**$**	**5,323,423**

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. The General Fund will need to maintain its current millage rate to fund capital replacement (specifically street resurfacing), replenish the funds committed to disaster recovery that has been spent on stormwater projects, to 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 rates.

The biggest challenge that the City currently faces is the multiple stormwater projects that are being completed. Some of these projects require the City to match a portion of grant funding that the City was able to obtain. Other projects that have been deemed necessary have been or will be funded by the City. The General Fund and the Utility Service Fund are currently meeting the stated financial policy goals, but if resources are needed from these funds to help pay for these projects, the unrestricted fund balances may drop below the required amount. As seen in the table below, the City has identified over $18 million in improvements. The City has also been successful in obtaining grant assistance in the amount of $13.125 million. The remaining $5.6 million of the projects would need to be funded by the City. Other than the Sherwood Forest Stormwater Pond project ($3,375,000), all projects have been successfully funded or budgeted by the City. A transfer of $1,261,491 from the General Fund committed to disaster recovery was needed to subsidize the stormwater fund for the City portion of the projects listed. The remaining amount is being paid for by the ARPA Fund (Lantern Park, $350,000) or by revenues generated by charges for service in the stormwater fund, $640,746.

PROJECT	CITY FUNDS	CITY SOURCE	GRANT FUNDS	GRANT SOURCE	PROJECT TOTAL
POPE AVENUE DRAINAGE IMPROVEMENTS	$ -	$ -	$ 500,000	CDBG	$ 500,000
WINDLE LANE POND EXPANSION	168,650	STORMWATER	-	-	168,650
ANASTASIA DRY RETENTION POND	53,816	STORMWATER	-	-	53,816
REED CANAL STORMWATER PUMP	94,895	STORMWATER	100,000	FL DEP	194,895
BRIAN AVENUE AND GREEN STREET DRAINAGE	-	-	1,750,000	FL DEP	1,750,000
REED CANAL BLUE VILLA EXPANSION	334,385	STORMWATER	-	-	334,385
MELODIE PARK STORMWATER IMPROVEMENTS	400,000	STORMWATER	-	-	400,000
EQUIPMENT - INSTALLED GENERATORS	610,220	STORMWATER	-	-	610,220
ASPEN STORMWATER POND EXPANSION	240,271	STORMWATER	4,000,000	CDBG-DR	4,240,271
LANTERN PARK STORMWATER POND	350,000	ARPA	3,150,000	CDBG-DR	3,500,000
SHERWOOD FOREST STORMWATER POND	3,375,000	DISASTER, TBD	1,125,000	CDBG-DR	4,500,000
STEVENS CANAL BANK STABILIZAION	-	-	2,500,000	CDBG-DR	2,500,000
TOTAL	$ 5,627,237	-	$ 13,125,000	-	$ 18,752,237