

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, 2023

Date: February 02, 2024

Attached, please find the annual comprehensive financial report (ACFR) for the fiscal year ended September 30, 2023. 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 an Audit Selection Committee as proposal reviewers. The City's current independent auditor, James Moore & Co. CPAs, is in its fifth 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 2022-23 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, 2023, the City's General Fund assets exceeded liabilities by \$7,055,555 (page 43, total fund balance). This represents an increase of \$894,430 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:

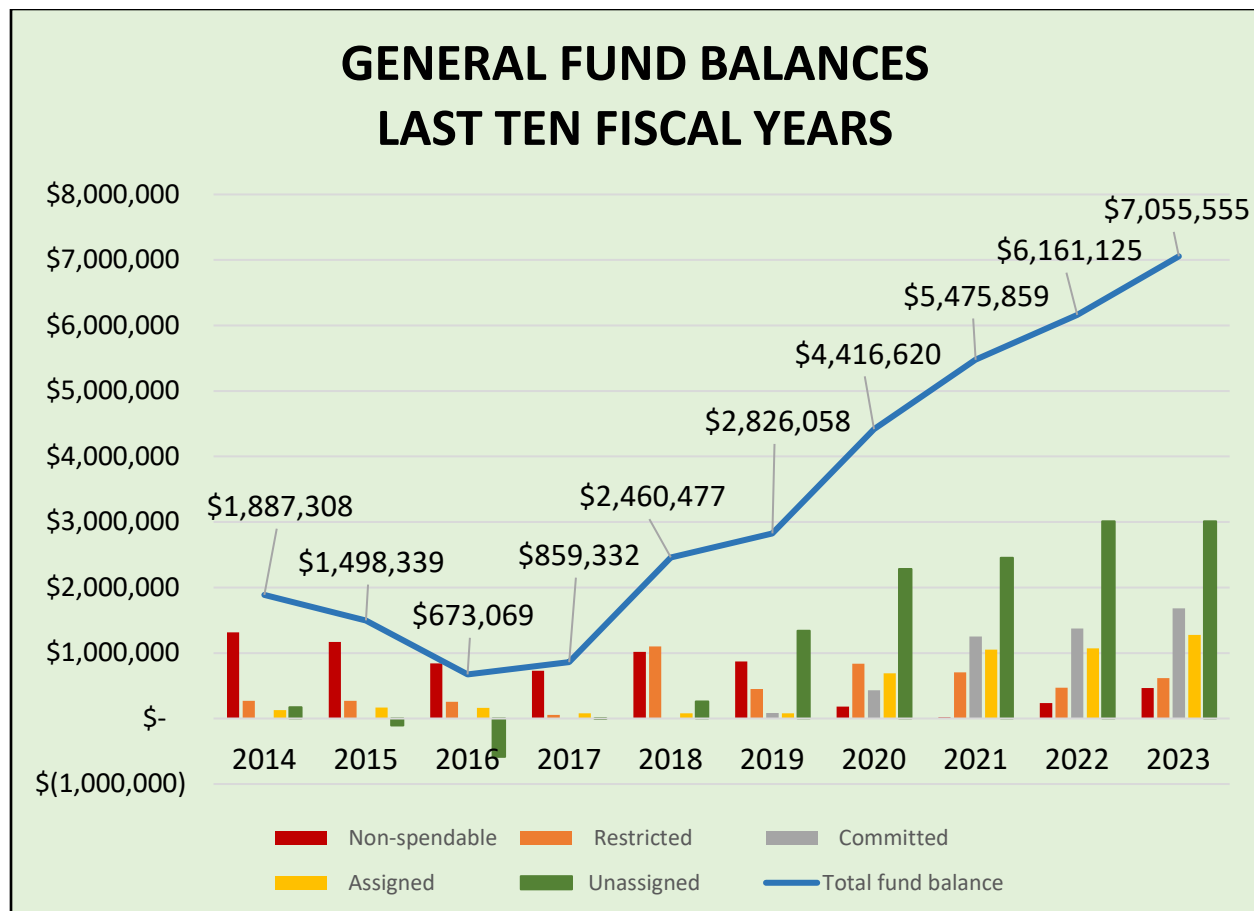
\$466,856 nonspendable fund balance includes amounts that are not in a spendable form and cannot be used to meet current obligations, such as prepaid items and advances to other funds;

\$618,291 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;

\$1,682,589 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 \$307,589 at the end of the fiscal year to achieve a balance closer to the \$1.9 million general fund disaster recovery costs incurred in FY 2023 because of Hurricane Ian.

\$1,276,535 assigned funds set aside for specific purposes based on budget priorities (i.e., prior year reappropriations; and capital); and

\$3,011,284 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 26.6% of the 2024 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, 2023. The total net position of the City for all activities was \$42,173,797 (page 41, total net position). The City's total net position increased \$3,171,760 primarily due to the City decreasing outstanding debt by \$2,959,943 during the fiscal year. There is also \$1,651,172 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.

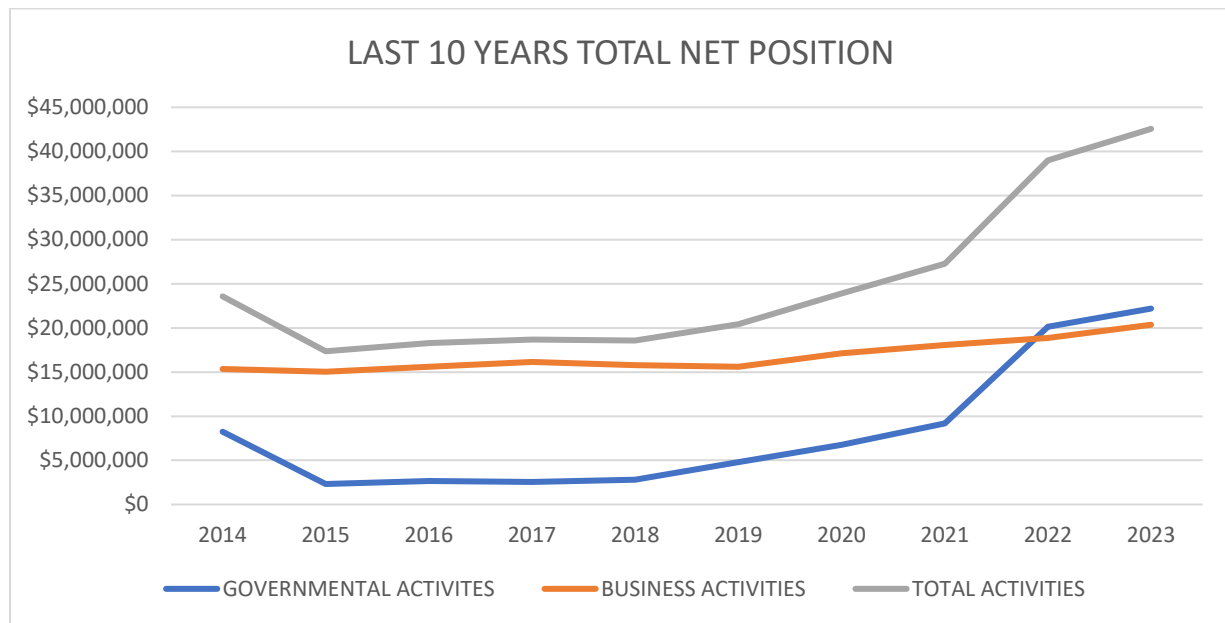
Net Investment in Capital Assets (\$35,279,072) includes land, buildings, improvements, infrastructure and utility systems, and construction in progress net of depreciation/amortization and related debt.

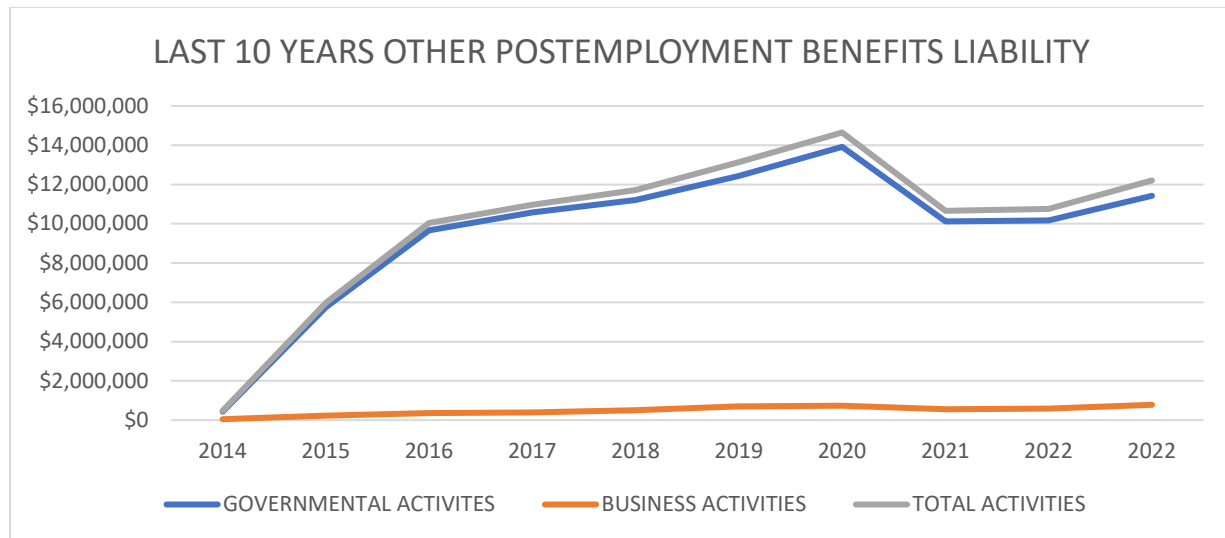
Restricted Net Position (\$2,898,744) is subject to external restrictions on how they can be used. They are imposed by either creditors or laws and regulations of other governments and typically represent required debt service reserves, impact fees, or restricted balances from special revenues.

Unrestricted Net Position (positive balance of \$3,995,981) represents the balance of net position that is neither part of capital assets nor restricted. A main component of unrestricted net position is the \$12,186,000 in liabilities recorded for postemployment benefits. Postemployment liabilities reported are for the City's portion of the unfunded liability of the FRS pension plan (\$12,619,018 liability), the net effect of deferred inflows and outflows (\$1,738,771 asset) and the other postemployment benefits (OPEB, \$1,305,753 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 \$16,181,981.

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 \$8,809,481 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.



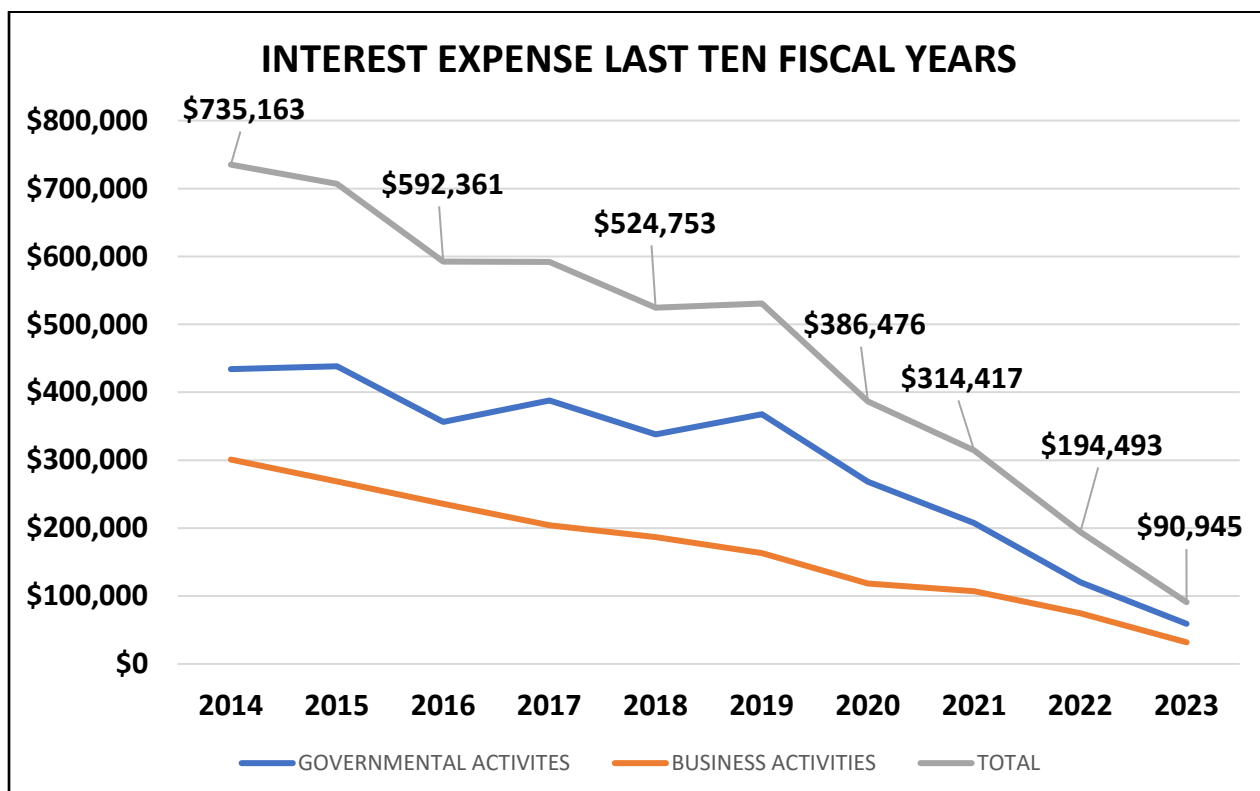
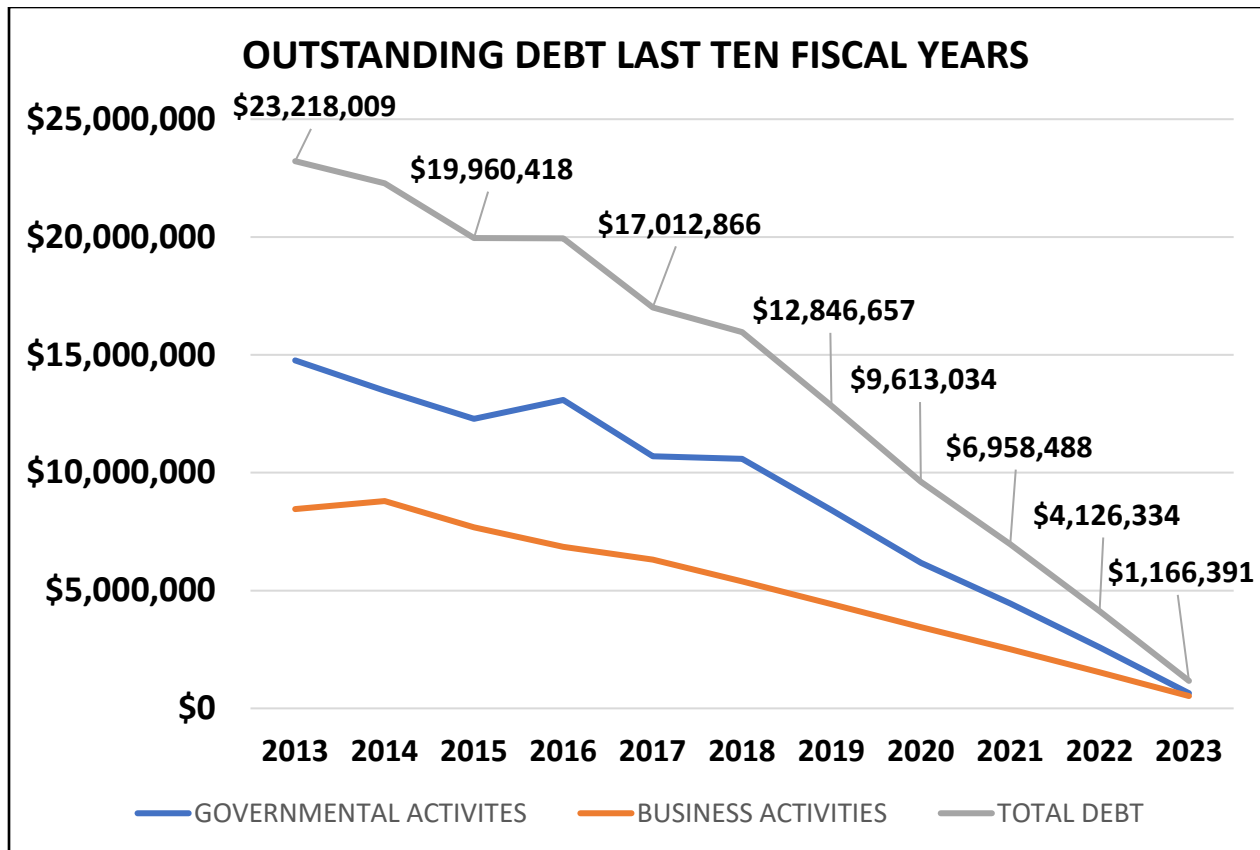


Debt

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 \$2,959,943. 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 will not only retire the debt early, the City became debt free in December 2023, but create savings by reducing the outstanding balances prior to the scheduled due date which decreased interest expense each year.

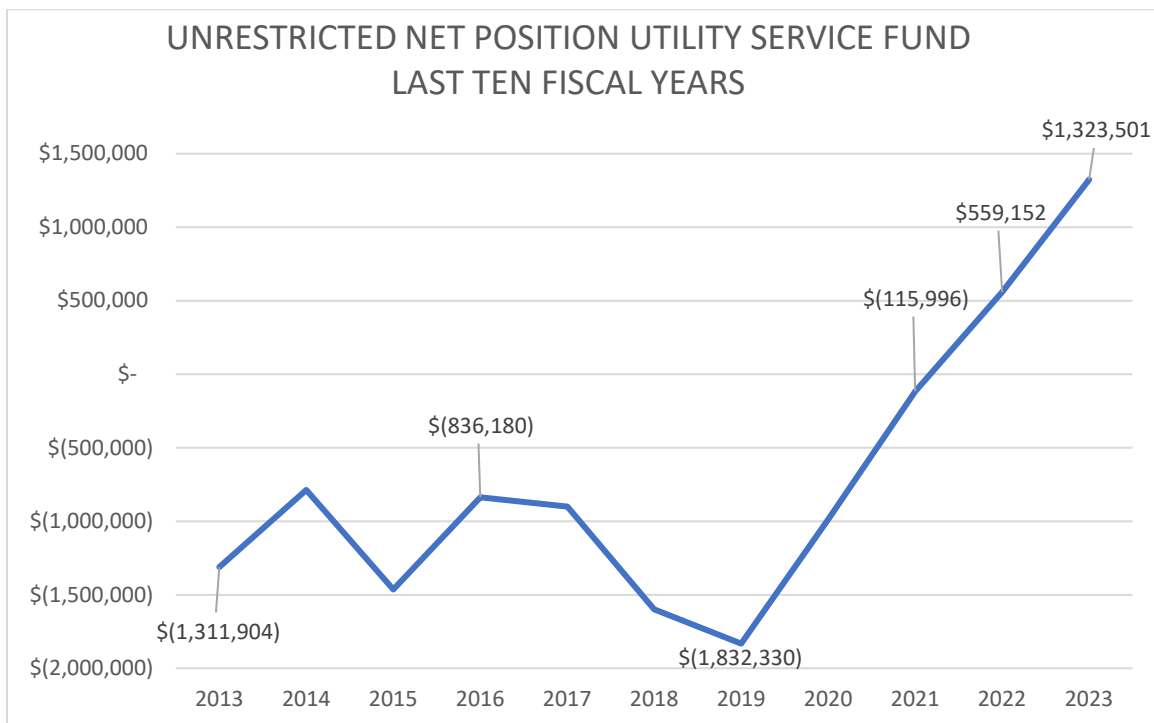
The City paid a total of \$90,945 in interest in the current fiscal year. Governmental funds paid \$59,081 (page 45, total governmental funds interest) and the Utility Service paid \$31,864 (page 52, interest paid). Interest paid in the current year was \$103,548 less than the \$194,493 paid in the prior year. As seen in the following graph, the **City has expended approximately \$4.6 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 \$607,970 in interest during the fiscal 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, \$90,945.



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 \$1,323,501 (page 50, unrestricted deficit). The impact of the council approved rate changes implemented by the City in 2019 are seen in the below graph. At fiscal year-end 2023, unrestricted net position increased by \$764,349. Keep in mind that \$362,000 of that increase is from capital expenses budgeted but not incurred in the fiscal year 2022-2023 that will be expensed in fiscal year 2023-2024. 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 \$42,820 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, and handled as a pass-through to our residents, 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 \$2,779,681 more than the original budget. A roll-forward budgeted adjustment from the previous year increased the budget by \$578,424. The mid-year amendment to the budget was increased mainly needed to cover Hurricane Ian disaster recovery expenditures of \$2,201,259.

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

- Budgeted franchise taxes and utility taxes were increased by \$140,800 to reflect additional revenues resulting from increases in Florida Power and Light (FPL) rates.
- Federal and state grants were increased by \$2,117,184 for the federal and state portion of disaster recovery that the City will be reimbursed for damages and clean up after Hurricane Ian.
- Miscellaneous revenues were increased by \$77,000. This adjustment recognized public safety donations received and an increase in investment earnings.

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

Final budget compared to actual results. Revenues reported an overall positive variance in the General Fund with actual revenues higher than the final FY 2023 Budget by \$609,695. Most of this variance is primarily due to the following:

- Property taxes were \$105,615 higher than budgeted due to delinquent property taxes received during the fiscal year.
- Franchise taxes exceeded the budget by \$77,070 due to Florida Power and Light rate increases.
- Utility taxes, communication service tax, state revenue sharing, sales tax, fines and forfeitures all **were identified as trending high during the fiscal year, but staff, out of an abundance of caution, did not adjust the budget at midyear to allow the additional funds to increase reserves.**

Expenditures reported an overall positive variance in the General Fund with actual expenditures lower than the final FY 2023 Budget by \$1,114,598. This variance is attributed to a continued focus on cost containment efforts, salary attrition due to vacancies across the community development, police, and parks departments, and not needing to spend budgeted contingency money.

The economic impact of the Covid-19 pandemic has resulted in project and capital outlay delays. Capital outlay was 54% of budget which represents \$828,811 under the budgeted amount. Non grant related expenditures are being rolled into the subsequent budget. The amount rolled forward is reported as part of the general fund balances assigned for the subsequent year's budget.

Other Fund Highlights

The fund balance of the City's Redevelopment Trust Fund increased by \$869,012 during the current fiscal year. This increase is a result of delays in the completion of the entry way markers construction and the burial of utility lines.

The transportation fund balance increased by \$50,010. 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		
BALANCE 10/01/2022	\$ 2,725,000	\$ 2,725,000
REVENUES		
	BUDGET	ACTUAL
GRANT - MAGNOLIA	240,000	119,676
GRANT - SPLASH PAD	67,117	51,790
INTEREST INCOME	-	79,330
	<u>307,117</u>	<u>250,795</u>
EXPENDITURES		
MAGNOLIA	500,000	269,409
SPLASH PAD	240,000	167,004
	<u>740,000</u>	<u>436,413</u>
BALANCE 09/30/23	\$ 2,292,117	\$ 2,539,383

CAPITAL PROJECTS		
ARPA		
BALANCE 10/01/2022	\$ 6,499,091	\$ 6,499,091
REVENUES		
	BUDGET	ACTUAL
INTEREST INCOME	-	138,827
	-	138,827
EXPENDITURES		
LFT STATION #1	1,000,000	68,060
SEWER LINING	750,000	862,914
METER PROJECT	1,600,000	73,147
LFT STATION #5	-	21,020
	3,350,000	1,025,141
BALANCE 09/30/23	\$ 3,149,091	\$ 5,612,777

Capital Assets

One of the major aftereffects of the City's financial recovery has been the continued deferral of maintenance and capital replacement. To create a sustainable capital plan, the City considered all capital needs, assessed its fiscal capacity, and potential debt issuance while understanding the potential impact on reserves and operating budgets.

At fiscal year-end 2023 machinery and equipment in governmental activities is 57% depreciated. The original cost of the machinery and equipment was \$5,272,232 less accumulated depreciation of \$3,017,723 resulting in a net book value of \$2,254,509 (page 67, note 9 capital assets).

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 needs to complete a new rate study and adjust the rates accordingly to reflect potential changes in the new 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 2024, the City has sent approximately 79 more million gallons for sewer treatment than water purchased. The cost for the first quarter of treating groundwater is approximately \$295,872. The General Fund will need to maintain or increase its 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.



February 2, 2024

To the Honorable Mayor, City Council, and City Manager,
City of South Daytona, Florida:

We have audited the financial statements of City of South Daytona, Florida (the City) as of and for the years ended September 30, 2023, and have issued our report thereon dated February 2, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 14, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm has complied with all relevant ethical requirements regarding independence.

We have applied safeguards related to any nonattest services provided, including, but not limited to, an assessment of management's skill, knowledge, and experience.

Significant Risks Identified

Professional standards require that we, as auditors, identify significant risks that impact the audit based upon the nature of the organization and design our audit procedures to adequately address those risks. As part of the audit process, we have identified the following significant risks, which are being communicated solely to comply with auditing standards and do not represent any specific finding and/or concerns related to the audit:

- Override of internal controls by management
- Improper revenue recognition due to fraud
- Improper use of restricted resources

Our audit was designed to adequately address the above risks and no issues were noted that impacted our ability to render an opinion on the financial statements.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year under audit. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for doubtful accounts was based on historical utility revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the fair value estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the useful lives for depreciation was based on past history within each capital asset class. We evaluated the key factors and assumptions used to develop the fair value estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the net pension liability and the total OPEB liability were based on actuarial factors and were calculated by actuaries independent of the City. We evaluated the key factors and assumptions used to develop the fair value estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:

The Long-Term Debt note summarizes the City's long-term debt obligations, including future debt service payments.

The Pension Plans note summarizes the basic information regarding the City's net pension liability.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We identified no significant unusual transactions as a result of our audit procedures.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit:

- None noted

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- None noted

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditors' Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We identified no such circumstances

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated February 2, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the introductory and statistical sections, as outlined in the table of contents, for material consistency with its presentation in the financial statements.

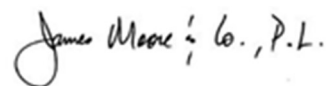
Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed, from the prior period, and the information is appropriate and complete in related to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the information and use of the City Council and management of the City of South Daytona, Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

A handwritten signature in dark ink that reads "James Moore & Co., P.L." The signature is written in a cursive, flowing style.

JAMES MOORE & CO., P.L.