2025

City of DeFuniak Springs, Florida

Financial Statements and Independent Auditor's Report

September 30, 2025

PURVIS GRAY
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

CITY OF DEFUNIAK SPRINGS, FLORIDA
DEFUNIAK SPRINGS, FLORIDA

SEPTEMBER 30, 2025

TABLE OF CONTENTS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

CITY OF DEFUNIAK SPRINGS, FLORIDA
DEFUNIAK SPRINGS, FLORIDA

SEPTEMBER 30, 2025

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of DeFuniak Springs, Florida (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2025, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the City's proportional share of net pension liability, schedules of the City's contributions, and schedule of changes in the City's total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has not 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. In our opinion, the combining and individual non-major fund financial statements are 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 16, 2026, 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 that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is 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.

Purvis Gray

June 16, 2026
Tallahassee, Florida

CITY OF DEFUNIAK SPRINGS, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2025

The City of DeFuniak Springs, Florida's (the City) discussion and analysis provides an objective overview of the City's financial activities for the fiscal year ended September 30, 2025. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of the City exceeded total liabilities and deferred inflows by approximately $57.8 million (net position). Of this amount, a deficit of approximately $4.7 million is unrestricted for governmental activities, and approximately $8.9 million is unrestricted for business-type activities. Total net position includes approximately $6.5 million of net investment in capital assets in governmental activities and approximately $34.1 million in business-type activities.

- Revenues for governmental activities increased by approximately $480 thousand or 4.1%, primarily from an increase in tax revenues.

- Revenues for business-type activities increased by approximately $480 thousand or 2.8%, primarily from an increase in investment earnings and charges for service.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The focus of financial statements is on both the City as a whole (government-wide) and on major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the City's accountability.

BASIC FINANCIAL STATEMENTS

The basic financial statements of the City consist of: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. A brief description of these different reporting sections follows.

Government-Wide Financial Statements

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which sum to a total for Primary Government. This provides readers with a broad overview of the City's finances in a manner similar to a private-sector business. Two statements, the statement of net position and the statement of activities, are utilized to provide information on a government-wide basis.

The statement of net position presents information on all the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. This statement combines and consolidates the governmental funds' current financial resources (short-term available resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flow in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (city council, city manager, administration, finance and public works), public safety (planning, police and fire), physical environment (cemetery), transportation (streets and fleet maintenance), culture and recreation (parks and recreation, grounds maintenance, facilities maintenance, cultural services, and Christmas reflections), and debt service interest. The business-type activities of the City include the utilities (water, sewer, gas, and sanitation) and the airport.

Fund Financial Statements

The fund financial statements provide more detailed information than the government-wide financial statements. Governmental fund financial statements provide information on the assets and liabilities of the General Fund, changes in current financial resources (revenue and expenditures), and current available resources. The proprietary fund financial statements provide information on all assets and liabilities of the fund, changes in the economic resources (revenues and expenses), and total economic resources available. In the case of governmental funds, outlays for long-lived assets are reported as expenditures, and long-term liabilities such as revenue bonds, are not included in the fund financial statements. A reconciliation is provided to facilitate a comparison between the fund financial statements and the government-wide financial statements.

The fund financial statements for all governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances. The City's General Fund includes a statement of revenues, expenditures, and changes in fund balances – budget and actual. For the proprietary funds, a statement of net position, statement of revenues, expenses, and changes in net position, as well as a statement of cash flows are provided.

Notes to Financial Statements

The financial notes provide additional detail concerning the financial activities and financial balances of the City. Additional information concerning the City's significant accounting policies, investments of the City, as well as capital assets and long-term obligations are just a few of the items included in the financial notes.

FINANCIAL ANALYSIS OF THE CITY

The following table reflects the condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and Other Assets	$ 9,049,538	$ 6,734,897	$ 22,686,066	$ 20,900,804	$ 31,735,604	$ 27,635,701
Capital Assets	8,776,587	8,894,268	44,745,343	44,410,729	53,521,930	53,304,997
Total Assets	17,826,125	15,629,165	67,431,409	65,311,533	85,257,534	80,940,698
Deferred Outflows of Resources	2,158,441	2,698,596	436,768	425,867	2,595,209	3,124,463
Long-Term Liabilities	9,393,319	11,579,525	11,555,069	12,647,947	20,948,388	24,227,472
Other Liabilities	3,812,837	2,452,054	3,543,510	3,949,652	7,356,347	6,401,706
Total Liabilities	13,206,156	14,031,579	15,098,579	16,597,599	28,304,735	30,629,178
Deferred Inflows of Resources	1,444,011	942,172	350,443	226,796	1,794,454	1,168,968
Net Position						
Net Investment in Capital Assets	6,471,543	6,373,724	34,087,344	33,208,973	40,558,887	39,582,697
Restricted	3,597,879	2,595,721	9,403,144	6,560,399	13,001,023	9,156,120
Unrestricted	(4,735,023)	(5,615,435)	8,928,667	9,143,633	4,193,644	3,528,198
Total Net Position	$ 5,334,399	$ 3,354,010	$ 52,419,155	$ 48,913,005	$ 57,753,554	$ 52,267,015

The City is able to report positive balances in all three categories of net position for the business-type activities. However, for the governmental activities, the unrestricted net position reflects a deficit balance. Capital assets (e.g., land, buildings and equipment) are utilized to provide services to citizens and, therefore, are not available for future spending. This investment in capital assets, net of related debt, is the largest portion of the City's total net position. The restricted net position is comprised of funds required to be used for the retirement of the City's debt obligations, as well as impact fees that can only be used for the expansion of the City's systems.

The following table provides a summary of the changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues						
Program Revenues:						
Charges for Services	$ 1,188,558	$ 1,389,007	$ 15,396,409	$ 14,386,610	$ 16,584,967	$ 15,775,617
Operating Grants and Contributions	333,637	225,691	-	-	333,637	225,691
Capital Grants and Contributions	153,210	417,982	1,277,493	2,430,155	1,430,703	2,848,137
General Revenues:						
Property Taxes	2,945,691	2,424,585	-	-	2,945,691	2,424,585
Gas Taxes	329,852	312,531	-	-	329,852	312,531
Sales Taxes	3,053,723	2,989,957	-	-	3,053,723	2,989,957
Franchise and Utility Taxes	1,767,404	1,735,293	-	-	1,767,404	1,735,293
State-Shared Revenues	1,970,654	1,975,516	-	-	1,970,654	1,975,516
Miscellaneous	261,753	175,096	252,805	-	514,558	175,096
Investment Earnings	190,158	69,974	550,000	180,336	740,158	250,310
Total Revenues	12,194,640	11,715,632	17,476,707	16,997,101	29,671,347	28,712,733
Expenses						
Primary Government:						
General Government	3,523,418	3,737,048	-	-	3,523,418	3,737,048
Public Safety	5,179,311	5,493,401	-	-	5,179,311	5,493,401
Physical Environment	122,077	162,717	-	-	122,077	162,717
Transportation	1,591,285	1,777,584	-	-	1,591,285	1,777,584
Culture and Recreation	1,586,048	1,645,302	-	-	1,586,048	1,645,302
Interest on Long-Term Debt	56,074	64,028	-	-	56,074	64,028
Business-Type Activities:						
Water	-	-	2,759,582	2,667,267	2,759,582	2,667,267
Sewer	-	-	2,822,297	2,985,192	2,822,297	2,985,192
Sanitation	-	-	4,288,609	4,179,141	4,288,609	4,179,141
Airport	-	-	967,040	921,196	967,040	921,196
Gas	-	-	1,289,067	1,144,941	1,289,067	1,144,941
Total Expenses	12,058,213	12,880,080	12,126,595	11,897,737	24,184,808	24,777,817
Change in Net Position Before Transfers	136,427	(1,164,448)	5,350,112	5,099,364	5,486,539	3,934,916
Transfers	1,843,962	843,791	(1,843,962)	(843,791)	-	-
Change in Net Position	1,980,389	(320,657)	3,506,150	4,255,573	5,486,539	3,934,916
Net Position at Beginning of Year	3,354,010	16,630,177	48,913,005	31,701,922	52,267,015	48,332,099
Change Within Reporting Entity	-	(12,955,510)	-	12,955,510	-	-
Net Position at End of Year	$ 5,334,399	$ 3,354,010	$ 52,419,155	$ 48,913,005	$ 57,753,554	$ 52,267,015

- Property Taxes and Sales Taxes account for 24.2% and 25.0%, respectively, of the City's revenues from governmental activities.
- Public safety accounts for 43.0% of the total expenses for governmental activities, while General government and Transportation expenses account for 42.4% of total expenses for governmental activities.

- Capital grants and contributions decreased by approximately $265 thousand in governmental activities. Capital grants and contributions decreased by $1.1 million in business-type activities, primarily because the Airport Fund completed the Terminal Project.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund
The main operating fund of the City is the General Fund. As of September 30, 2025, total assets for the General Fund were approximately $7.4 million, and the total liabilities were approximately $3.9 million. Unassigned fund balance was approximately $1.7 million, and total fund balance was approximately $3.5 million.

Proprietary Funds
The City's Proprietary Funds consist of five enterprise funds which are used to report the same functions presented as business-type activities in the City-wide financial statements. The City has four utility services, water, sewer, natural gas, and sanitation, as well as an airport. The asset makeup is very capital intensive with capital assets, net of accumulated depreciation, representing 65.0% of the fund's total assets.

During fiscal year 2025, the Proprietary Funds had an increase in net position of approximately $3.5 million at the combined level. This increase was largely due to completing the Terminal project in the Airport Fund. The total net position of this fund as of September 30, 2025, was approximately $52.4 million.

General Fund Budgetary Highlights
The City amended the FY 2024-25 budget for multiple funds on November 10, 2025. For the General Fund, the City received unanticipated revenues and determined actual cash balance forward dollars in excess of the original budget figures in the amount of $734,863.

Capital Asset Activity
The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2025, was approximately $53.5 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, improvements, as well as machinery and equipment. See Note 5 for further details.

Debt Management
At the end of the current fiscal year, the City had total bond debt and notes payable outstanding in the amount of approximately $12.9 million. See Note 7 for further details.

OTHER FINANCIAL INFORMATION

The Constitution of the State of Florida does not allow a state personal income tax; therefore, the state operates primarily using sales, gasoline, and corporate income taxes. Local governments, such as the City, primarily rely on property and a limited array of other permitted taxes, such as gasoline and utility service taxes, along with fees such as franchise, occupational, and license fees for its governmental activities. There are also a limited number of state-shared revenues and grants from both the state and federal governments. The City's business-type, and to a much lesser degree certain governmental activities such as recreation, obtain funding by charging fees for their services.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning this report or requests for additional information should be addressed to City Manager, P.O. Box 685, DeFuniak Springs, Florida 32435.

BASIC FINANCIAL STATEMENTS

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	$ 1,481,923	$ 7,889,271	$ 9,371,194
Investments	685,380	1,631,879	2,317,259
Accounts Receivable, Net	45	2,009,633	2,009,678
Lease Receivable	29,002	69,657	98,659
Due from Other Governments	653,700	498,504	1,152,204
Internal Balances	1,774,210	(1,774,210)	-
Prepaid Items	48,494	-	48,494
Restricted Assets:			
Cash and Cash Equivalents	4,365,084	12,361,332	16,726,416
Investments	11,700	-	11,700
Capital Assets:			
Assets Not Being Depreciated	789,062	3,571,170	4,360,232
Assets Being Depreciated, Net	7,987,525	41,174,173	49,161,698
Total Assets	17,826,125	67,431,409	85,257,534
Deferred Outflows of Resources			
Pension Related	2,115,656	428,116	2,543,772
OPEB Related	42,785	8,652	51,437
Total Deferred Outflows of Resources	2,158,441	436,768	2,595,209
Liabilities			
Accounts Payable	2,632,223	398,262	3,030,485
Accrued Liabilities	832,002	67,406	899,408
Due to Other Governments	-	58,133	58,133
Unearned Revenue	13,012	2,040,065	2,053,077
Payable from Restricted Assets:			
Accrued Interest	11,419	863	12,282
Customer Deposits	12,794	412,765	425,559
Non-Current Liabilities:			
Due Within One Year:			
Compensated Absences	25,908	3,530	29,438
Leases	15,440	-	15,440
Notes Payable	270,039	137,486	407,525
Revenue Bonds Payable	-	425,000	425,000
Due in More Than One Year:			
Compensated Absences	492,252	67,054	559,306
Leases	32,944	-	32,944
Notes Payable	1,986,621	1,374,113	3,360,734
Revenue Bonds Payable	-	8,721,400	8,721,400
Other Postemployment Benefits	77,959	15,761	93,720
Net Pension Liability	6,803,543	1,376,741	8,180,284
Total Liabilities	13,206,156	15,098,579	28,304,735
Deferred Inflows of Resources			
Pension Related	1,300,213	263,106	1,563,319
OPEB Related	116,116	23,479	139,595
Leases	27,682	63,858	91,540
Total Deferred Inflows of Resources	1,444,011	350,443	1,794,454
Net Position			
Net Investment in Capital Assets	6,471,543	34,087,344	40,558,887
Restricted for:			
Debt Service	141,158	261,863	403,021
Capital Improvements	1,585,249	9,141,281	10,726,530
Redevelopment	1,871,472	-	1,871,472
Unrestricted (Deficit)	(4,735,023)	8,928,667	4,193,644
Total Net Position	$ 5,334,399	$ 52,419,155	$ 57,753,554

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Function/Program Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	$ 3,523,418	$ 682,522	$ 4,662	$ 143,718	$ (2,692,516)	$ -	$ (2,692,516)
Public Safety	5,179,311	203,317	68,030	9,492	(4,898,472)	-	(4,898,472)
Economic Environment	-	-	62,932	-	62,932	-	62,932
Physical Environment	122,077	79,325	146,400	-	103,648	-	103,648
Transportation	1,591,285	30,919	51,613	-	(1,508,753)	-	(1,508,753)
Culture and Recreation	1,586,048	192,475	-	-	(1,393,573)	-	(1,393,573)
Debt Service Interest	56,074	-	-	-	(56,074)	-	(56,074)
Total Governmental Activities	12,058,213	1,188,558	333,637	153,210	(10,382,808)	-	(10,382,808)
Business-Type Activities							
Water	2,759,582	6,474,895	-	250,344	-	3,965,657	3,965,657
Sewer	2,822,297	3,848,413	-	28,920	-	1,055,036	1,055,036
Sanitation	4,288,609	3,042,480	-	-	-	(1,246,129)	(1,246,129)
Airport	967,040	698,315	-	998,229	-	729,504	729,504
Gas	1,289,067	1,332,306	-	-	-	43,239	43,239
Total Business-Type Activities	12,126,595	15,396,409	-	1,277,493	-	4,547,307	4,547,307
Total	$ 24,184,808	$ 16,584,967	$ 333,637	$ 1,430,703	(10,382,808)	4,547,307	(5,835,501)
			General Revenues				
			Taxes:				
			Ad Valorem Taxes		2,945,691	-	2,945,691
			Local Option Gas Tax		329,852	-	329,852
			Local Sales Tax		3,053,723	-	3,053,723
			Franchise and Utility Taxes		1,767,404	-	1,767,404
			State-Shared Revenues		1,970,654	-	1,970,654
			Miscellaneous		261,753	252,805	514,558
			Investment Income		190,158	550,000	740,158
			Transfers		1,843,962	(1,843,962)	-
			Total General Revenues and Transfers		12,363,197	(1,041,157)	11,322,040
			Change in Net Position		1,980,389	3,506,150	5,486,539
			Net Position, Beginning of Year		3,354,010	48,913,005	52,267,015
			Net Position, End of Year		$ 5,334,399	$ 52,419,155	$ 57,753,554

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	$ 1,333,377	$ 148,546	$ 1,481,923
Investments	613,224	72,156	685,380
Accounts Receivable	45	-	45
Due from Other Governments	653,700	-	653,700
Due from Other Funds	2,290,587	2,443	2,293,030
Prepaid Items	48,494	-	48,494
Lease Receivable	29,002	-	29,002
Restricted Assets:			
Cash and Cash Equivalents	2,414,536	1,950,548	4,365,084
Investments	11,700	-	11,700
Total Assets	$ 7,394,665	$ 2,173,693	$ 9,568,358
Liabilities			
Accounts Payable	$ 2,632,223	$ -	$ 2,632,223
Accrued Liabilities	826,100	5,902	832,002
Due to Other Funds	433,398	85,422	518,820
Unearned Revenue	-	13,012	13,012
Customer Deposits	12,794	-	12,794
Total Liabilities	3,904,515	104,336	4,008,851
Deferred Inflows of Resources			
Leases	27,682	-	27,682
Fund Balances			
Non-Spendable - Prepaid Items	48,494	-	48,494
Restricted - Debt Service	141,158	-	141,158
Restricted - Capital Improvements	1,585,249	-	1,585,249
Restricted - Redevelopment	-	1,871,499	1,871,499
Committed - Special Revenue	-	197,858	197,858
Unassigned	1,687,567	-	1,687,567
Total Fund Balances	3,462,468	2,069,357	5,531,825
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 7,394,665	$ 2,173,693	$ 9,568,358

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

Total Funds Balances - Governmental Funds		$ 5,531,825
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.		
Capital Assets	$ 19,202,012	
Less Accumulated Depreciation/Amortization	(10,425,425)	8,776,587
Deferred inflows of resources and deferred outflows of resources are not available/receivable or due/payable, respectively, in the current period and, therefore, are not reported in the governmental funds:		
Deferred Outflows of Resources Related to Pension Plans	2,115,656	
Deferred Outflows of Resources Related to Other Postemployment Benefits	42,785	
Deferred Inflows of Resources Related to Pension Plans	(1,300,213)	
Deferred Inflows of Resources Related to Other Postemployment Benefits	(116,116)	742,112
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:		
Compensated Absences	(518,160)	
Leases	(48,384)	
Accrued Interest	(11,419)	
Notes Payable	(2,256,660)	
Other Postemployment Benefits	(77,959)	
Net Pension Liability	(6,803,543)	(9,716,125)
Total Net Position - Governmental Activities		$ 5,334,399

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2025

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	$ 6,584,728	$ 1,511,945	$ 8,096,673
License and Permits	35,876	34,966	70,842
Intergovernmental	2,312,210	10,000	2,322,210
Charges for Services	869,296	151,275	1,020,571
Investment Income	132,862	57,293	190,155
Miscellaneous	341,700	69,891	411,591
Total Revenues	10,276,672	1,835,370	12,112,042
Expenditures			
Current:			
General Government	2,901,187	565,290	3,466,477
Public Safety	5,178,678	-	5,178,678
Physical Environment	-	122,332	122,332
Transportation	1,502,690	-	1,502,690
Culture and Recreation	1,415,300	109,054	1,524,354
Capital Outlay	606,375	11,765	618,140
Debt Service:			
Principal	281,448	-	281,448
Interest	56,898	-	56,898
Total Expenditures	11,942,576	808,441	12,751,017
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,665,904)	1,026,929	(638,975)
Other Financing Sources (Uses)			
Lease Obligation	65,948	-	65,948
Transfers In	4,897,686	41,157	4,938,843
Transfer Out	(3,094,881)	-	(3,094,881)
Total Other Financing Sources (Uses)	1,868,753	41,157	1,909,910
Net Changes in Fund Balances	202,849	1,068,086	1,270,935
Fund Balance, Beginning of Year	3,259,619	1,001,271	4,260,890
Fund Balance, End of Year	$ 3,462,468	$ 2,069,357	$ 5,531,825

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2025

Net Change in Fund Balances - Governmental Funds		$ 1,270,935
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.		
Expenditures for Capital Assets	$ 618,140	
Contributed Assets	143,718	
Disposals of Capital Assets	(61,120)	
Less Current Year Depreciation/Amortization	(818,419)	(117,681)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Debt Proceeds	(65,948)	
Debt Service Payments	281,448	215,500
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Change in Accrued Interest	824	
Change in Compensated Absences	(32,722)	
Change in Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension	619,940	
Change in Net Pension Liability, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB	23,593	611,635
Change in Net Position - Governmental Activities		$ 1,980,389

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 5,944,993	$ 6,294,993	$ 6,584,728	$ 289,735
License and Permits	265,274	265,274	35,876	(229,398)
Intergovernmental	4,367,034	4,417,434	2,312,210	(2,105,224)
Charges for Services	830,292	831,892	869,296	37,404
Interest	10,000	10,000	132,862	122,862
Miscellaneous	1,947,700	2,164,675	341,700	(1,822,975)
Total Revenues	13,365,293	13,984,268	10,276,672	(3,707,596)
Expenditures				
Current:				
General Government	3,319,028	3,422,416	2,901,187	521,229
Public Safety	5,505,727	5,500,207	5,178,678	321,529
Transportation	3,654,922	3,654,922	1,502,690	2,152,232
Culture and Recreation	3,922,315	3,990,315	1,415,300	2,575,015
Capital Outlay	805,000	1,023,995	606,375	417,620
Debt Service:				
Principal	263,885	263,885	281,448	(17,563)
Interest	58,546	58,546	56,898	1,648
Total Expenditures	17,529,423	17,914,286	11,942,576	5,971,710
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,164,130)	(3,930,018)	(1,665,904)	2,264,114
Other Financing Sources (Uses)				
Lease Obligation	-	-	65,948	65,948
Transfers In	4,767,911	4,883,799	4,897,686	13,887
Transfer Out	(2,809,819)	(3,159,819)	(3,094,881)	64,938
Total Other Financing Sources (Uses)	1,958,092	1,723,980	1,868,753	144,773
Net Change in Fund Balances	(2,206,038)	(2,206,038)	202,849	2,408,887
Fund Balance, Beginning of Year	3,259,619	3,259,619	3,259,619	-
Fund Balance, End of Year	$ 1,053,581	$ 1,053,581	$ 3,462,468	$ 2,408,887

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2025

	Major Funds			
	Water	Sewer	Sanitation	Airport
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 3,896,023	$ 2,464,409	$ 523,137	$ 388,077
Investments	66,448	1,067,432	6,512	-
Accounts Receivable, Net	1,068,308	566,610	208,079	606
Leases Receivable	-	-	-	69,657
Due from Other Funds	3,345	102,480	-	525
Due from Other Governments	250,000	28,920	-	219,584
Restricted Assets:				
Cash and Cash Equivalents	3,750,129	5,987,632	-	2,579,737
Total Current Assets	9,034,253	10,217,483	737,728	3,258,186
Non-Current Assets:				
Capital Assets:				
Assets Not Being Depreciated	718,081	371,798	-	2,469,772
Assets Being Depreciated, Net	13,332,300	12,366,909	243,731	13,282,446
Total Non-Current Assets	14,050,381	12,738,707	243,731	15,752,218
Total Assets	23,084,634	22,956,190	981,459	19,010,404
Deferred Outflows of Resources				
Related to Pensions	128,206	110,654	-	69,699
Related to Other Postemployment Benefits	2,591	2,237	-	1,408
Total Deferred Outflows of Resources	130,797	112,891	-	71,107
Liabilities				
Current Liabilities:				
Accounts Payable	14,728	22,796	359,739	999
Accrued Liabilities	47,206	7,340	-	5,587
Due to Other Governments	41,392	11,486	-	-
Due to Other Funds	587,986	67,439	530,972	645,751
Unearned Revenue	-	-	-	2,040,065
Compensated Absences	1,111	1,111	-	640
Notes Payable	34,363	103,123	-	-
Revenue Bonds Payable	345,080	79,920	-	-
Payable from Restricted Assets:				
Accrued Interest	-	-	-	-
Customer Deposits	334,617	-	-	34,314
Total Current Liabilities	1,406,483	293,215	890,711	2,727,356
Non-Current Liabilities:				
Compensated Absences	21,105	21,105	-	12,158
Notes Payable	144,115	1,229,998	-	-
Revenue Bonds Payable	7,549,225	1,172,175	-	-
Other Postemployment Benefits	4,720	4,076	-	2,564
Net Pension Liability	412,286	355,842	-	224,140
Total Non-Current Liabilities	8,131,451	2,783,196	-	238,862
Total Liabilities	9,537,934	3,076,411	890,711	2,966,218
Deferred Inflows of Resources				
Related to Pensions	78,791	68,004	-	42,835
Related to Other Postemployment Benefits	7,031	6,072	-	3,820
Related to Leases	-	-	-	63,858
Total Deferred Inflows of Resources	85,822	74,076	-	110,513
Net Position				
Net Investment in Capital Assets	5,977,598	10,153,491	243,731	15,752,218
Restricted for Capital Improvements	3,178,346	5,962,935	-	-
Restricted for Debt Service	237,166	24,697	-	-
Unrestricted	4,198,565	3,777,471	(152,983)	252,562
Total Net Position	$ 13,591,675	$ 19,918,594	$ 90,748	$ 16,004,780

The accompanying notes are an integral part of these financial statements.

Non-Major Fund Gas	Total
$ 617,625	$ 7,889,271
491,487	1,631,879
166,030	2,009,633
-	69,657
8,629	114,979
-	498,504
43,834	12,361,332
1,327,605	24,575,255
11,519	3,571,170
1,948,787	41,174,173
1,960,306	44,745,343
3,287,911	69,320,598
119,557	428,116
2,416	8,652
121,973	436,768
-	398,262
7,273	67,406
5,255	58,133
57,041	1,889,189
-	2,040,065
668	3,530
-	137,486
-	425,000
863	863
43,834	412,765
114,934	5,432,699
12,686	67,054
-	1,374,113
-	8,721,400
4,401	15,761
384,473	1,376,741
401,560	11,555,069
516,494	16,987,768
73,476	263,106
6,556	23,479
-	63,858
80,032	350,443
1,960,306	34,087,344
-	9,141,281
-	261,863
853,052	8,928,667
$ 2,813,358	$ 52,419,155

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2025

	Major Funds			
	Water	**Sewer**	**Sanitation**	**Airport**
Operating Revenue				
Charges for Service	$ 6,474,895	$ 3,848,413	$ 935,628	$ 698,315
Interlocal Agreement	-	-	2,106,852	-
Other Operating Income	-	250,827	-	-
Total Operating Revenue	6,474,895	4,099,240	3,042,480	698,315
Operating Expenses				
Cost of Sales	-	-	-	231,448
Personnel Services	513,329	459,107	-	258,457
Materials and Supplies	126,108	61,802	-	5,393
Repairs and Maintenance	513,750	163,678	-	46,795
Office and Utilities	200,129	322,019	-	17,374
Insurance Expense	52,219	76,470	-	73,714
Contractual Services	469,200	755,645	4,281,091	8,710
Billing Fees	185,031	185,031	-	-
Depreciation	492,987	752,036	6,250	272,982
Other Expenses	2,426	4,812	1,268	52,167
Total Operating Expenses	2,555,179	2,780,600	4,288,609	967,040
Operating Income	3,919,716	1,318,640	(1,246,129)	(268,725)
Non-Operating Expense				
Interest Expense	(204,403)	(41,697)	-	-
Investment Income	239,744	189,113	14,724	79,945
Total Non-Operating Expenses	35,341	147,416	14,724	79,945
Income Before Capital Contributions and Transfers	3,955,057	1,466,056	(1,231,405)	(188,780)
Capital Grants and Contributions				
Capital Grants and Contributions	250,344	28,920	-	998,229
Transfers				
Transfers In	-	139,035	3,053,724	-
Transfers Out	(2,127,485)	(901,574)	(1,811,499)	-
Total Transfers	(2,127,485)	(762,539)	1,242,225	-
Change in Net Position	2,077,916	732,437	10,820	809,449
Net Position, Beginning of Year	11,513,759	19,186,157	79,928	15,195,331
Net Position, End of Year	$ 13,591,675	$ 19,918,594	$ 90,748	$ 16,004,780

The accompanying notes are an integral part of these financial statements.

Non-Major Fund Gas	Total
$ 1,332,306	$ 13,289,557
-	2,106,852
1,978	252,805
1,334,284	15,649,214
335,527	566,975
448,795	1,679,688
73,743	267,046
97,323	821,546
6,745	546,267
16,401	218,804
-	5,514,646
185,030	555,092
125,503	1,649,758
-	60,673
1,289,067	11,880,495
45,217	3,768,719
-	(246,100)
26,474	550,000
26,474	303,900
71,691	4,072,619
-	1,277,493
-	3,192,759
(196,163)	(5,036,721)
(196,163)	(1,843,962)
(124,472)	3,506,150
2,937,830	48,913,005
$ 2,813,358	$ 52,419,155

The accompanying notes are an integral part of these financial statements.

CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2025

	Major Funds	
	Water	**Sewer**
Cash Flows from Operating Activities		
Receipts from Customers and Users	$ 5,896,273	$ 3,915,606
Payments to Employees for Services	(1,623,877)	(1,547,792)
Payments to Suppliers for Goods and Services	(469,170)	(396,762)
Net Cash Provided by (Used in) Operating Activities	3,803,226	1,971,052
Cash Flows from Non-Capital Financing Activities		
Transfers In	-	139,035
Transfers Out	(2,127,485)	(901,574)
Interfund Borrowings	813,277	(221,123)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(1,314,208)	(983,662)
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(534,526)	(152,902)
Interest Paid	(204,403)	(41,697)
Principal Payments on Notes and Bonds Payable	(371,338)	(172,417)
Capital Grants	250,344	28,920
Net Cash Provided by (Used in) Capital and Related Financing Activities	(859,923)	(338,096)
Cash Flows from Investing Activities		
Purchase of Investments	42,108	208,046
Interest Received on Investments	239,744	189,113
Net Cash Flows Provided by (Used in) Investing Activities	281,852	397,159
Net Change in Cash and Cash Equivalents	1,910,947	1,046,453
Cash and Cash Equivalents, Beginning of Year	5,735,205	7,405,588
Cash and Cash Equivalents, End of Year	$ 7,646,152	$ 8,452,041
Cash and Cash Equivalents at End of Year Consist of		
Unrestricted	$ 3,896,023	$ 2,464,409
Restricted	3,750,129	5,987,632
Total Cash and Cash Equivalents	$ 7,646,152	$ 8,452,041
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 3,919,716	$ 1,318,640
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	492,987	752,036
Decrease (Increase) in Assets:		
Accounts Receivable, Net	(351,562)	(154,713)
Leases Receivable	-	-
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	(75,014)	21,665
Customers Deposits	22,940	-
Due to Other Governments	(250,000)	(28,921)
Deferred Inflow of Resources - Leases	-	-
Net Pension Liability and Related Deferred Inflows and Outflows	49,952	67,600
Compensated Absences	(6,663)	(6,664)
Other Postemployment Benefits and Related Deferred Inflows and Outflows	870	1,409
Net Cash Provided by (Used in) Operating Activities	$ 3,803,226	$ 1,971,052

The accompanying notes are an integral part of these financial statements.

Major Funds		Non-Major Fund	
Sanitation	Airport	Gas	Total
$ 2,980,129	$ 697,590	$ 1,314,601	$ 14,804,199
(4,207,890)	(774,330)	(716,860)	(8,870,749)
-	(233,932)	(430,537)	(1,530,401)
(1,227,761)	(310,672)	167,204	4,403,049
3,053,724	-	-	3,192,759
(1,811,499)	-	(196,163)	(5,036,721)
262,744	176,154	38,414	1,069,466
1,504,969	176,154	(157,749)	(774,496)
(249,981)	(954,604)	(92,359)	(1,984,372)
-	-	-	(246,100)
-	-	-	(543,755)
-	545,469	-	824,733
(249,981)	(409,135)	(92,359)	(1,949,494)
(261)	-	(18,337)	231,556
14,724	79,945	26,474	550,000
14,463	79,945	8,137	781,556
41,690	(463,708)	(74,767)	2,460,615
481,447	3,431,522	736,226	17,789,988
$ 523,137	$ 2,967,814	$ 661,459	$ 20,250,603
$ 523,137	$ 388,077	$ 617,625	$ 7,889,271
-	2,579,737	43,834	12,361,332
$ 523,137	$ 2,967,814	$ 661,459	$ 20,250,603
$ (1,246,129)	$ (268,725)	$ 45,217	$ 3,768,719
6,250	272,982	125,503	1,649,758
(62,351)	(1,971)	(24,658)	(595,255)
	17,714	-	17,714
74,469	(338,729)	(2,091)	(319,700)
-	3,300	4,950	31,190
-	(120)	25	(279,016)
-	(19,648)	-	(19,648)
-	24,367	27,003	168,922
-	(244)	(9,049)	(22,620)
-	402	304	2,985
$ (1,227,761)	$ (310,672)	$ 167,204	$ 4,403,049

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Description of City

The City of DeFuniak Springs, Florida (the City) is a political subdivision of the state and was created by Laws of Florida, Chapter 5341 in 1901. The City provides police and fire protection, general government, parks and recreation, and public works services to its residents. In addition, the City operates water, sewer, gas, and sanitation enterprises.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City.

The Reporting Entity

As required by GAAP, the financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB standards for determining financial accountability of potential component units in evaluating all potential component units. In accordance with these standards, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to, or impose specific financial burden on, the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In September 2018, the City Council approved City Ordinance No. 895, which established a redevelopment trust fund (the CRA) and provided for funding within the community redevelopment area via tax increments. The governing body of the CRA is the City Council, and it is considered a component unit of the City.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the primary government. 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 significantly rely on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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: 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 instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for grant revenues, for which the period is one year. Like accrual accounting, expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Walton County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1
Levy Date	October 1
Due Date	November 1
Delinquent Date	April 1

Discounts of 1% are granted for each month taxes are paid prior to March of the subsequent year.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. The City considers 75% of capacity fee revenue as capital contributions for the water and sewer system; therefore, only 25% of capacity fee revenues are included in operating revenue. Operating expenses for enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following two broad classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has one major governmental fund:

General Fund – This is the City's primary operating fund and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary

Proprietary funds focus on the determination of net position, changes in net position and cash flows. The City's five proprietary funds are enterprise funds, as fees are charged to external users for services.

- Water Fund - This fund accounts for the operations and activities of the City's water system.
- Sewer Fund - This fund accounts for the operations and activities of the City's sewer system.
- Sanitation Fund - This fund accounts for the operations and activities of the City's garbage collection activity.
- Airport Fund - This fund accounts for the operations and activities of the City's airport.
- Gas Fund - This fund accounts for the operations and activities of the City's natural gas system.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balance

Cash and Cash Equivalents
The City defines cash and cash equivalents as cash on hand, demand deposits, certificates of deposit with maturities of two months or less when purchased, and all highly liquid debt instruments with maturities of three months or less when purchased. The City's cash deposits are held by banks that qualify as public depositories under the *Florida Security for Public Deposits Act* as required by Chapter 280, Florida Statutes. The City's cash deposits are fully insured by the Public Deposits Trust Fund.

Receivables and Payables
Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. At the end of the fiscal year, loans outstanding between funds are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables in governmental funds are shown net of an allowance for doubtful accounts. At September 30, 2025, the City considers all governmental fund receivables collectible and, accordingly, does not have an allowance.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

All proprietary fund receivables are shown net of an allowance for doubtful accounts. The City's estimate is based on historical collection experience and a review of the current status of accounts receivable. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established.

Restricted Assets
Certain resources of the City are restricted for specific purposes and are not available to be used for general operations. The City's restricted assets consist of cash, cash equivalents, and investments restricted for bond repayments, impact fees, customer deposits, grant requirements and various other purposes.

Capital Assets
Capital assets, which include construction in process, property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than $5,000 and an estimated useful life of more than one year.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through various allowable estimating techniques. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at their acquisition value on the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until the completion of the project with interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Utility Systems	35-75 Years
Public Domain Infrastructure	50 Years
Furniture and Fixtures	10 Years
Vehicles	5 Years
Office Equipment	5 Years
Computer Equipment	5 Years

Leases When the City is Lessee
From time to time, the City enters into lease agreements where the City is lessee. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide and proprietary fund financial statements. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made at or before the lease commencement date, plus initial direct costs. The lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise, if any.

Leases When the City is Lessor
In situations where the City is lessor in a lease agreement, the City recognizes a lease receivable and a deferred inflow of resources in the government-wide, governmental fund, and enterprise fund financial statements. At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease

receivable is reduced by the principal portion of the lease payments received. The deferred inflow or resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Key estimates and judgments include how the City determines: (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The City uses the stated interest rate in the lease agreement if available and if not, utilizes its estimated rate of return on investments nearest to the date of lease commencement. The lease term includes the non-cancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset, receivable, liability, and/or deferred inflows of resources if certain changes occur that are expected to significantly affect the lease amounts.

Deferred Inflows/Outflows of Resources
In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City's deferred outflows of resources are comprised of pension related and other postemployment benefit related items.

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City's deferred inflows of resources are comprised of pension related, other postemployment benefit, and lease related items.

Compensated Absences
The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. The City recognizes a compensated absences liability for leave time that has been earned for services previously rendered, accumulates and carries over to subsequent years, and is more likely than not to be used as time off or paid upon termination. For proprietary funds and the government-wide statements, the current portion is the amount estimated to be used in the following year. In the fund financial statements, all the governmental-related compensated absences are considered long-term and, therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

Long-Term Obligations
In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest methods. Bond issuance costs are expensed as they are incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether withheld from the actual debt proceeds received, are reported as debt service expenditures.

Other Postemployment Benefits (OPEB) Liability
For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Net Pension Liability
For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) plans (Plans), and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by FRS. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when due and payable in accordance with the benefit terms. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes.

Classification of Fund Balance
GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB No. 54, are comprised of the following:

- Non-Spendable – includes amounts that are: (1) not in spendable form, or (2) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.

- Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

- Committed – includes amounts that can only be used for the specific purposes determined by a formal action (an Ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (an Ordinance) that imposed the constraint originally.

- Assigned – includes spendable fund balance amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by the City Council to assign amounts to be used for specific purposes. The City's fund balance policy does not explicitly specify who is authorized to establish fund balance assignments. Only the City Council has the authority to establish fund balance assignments.

- Unassigned – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

These classifications reflect not only the nature of funds but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Net Position

Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted, or unrestricted. Net investment in capital assets represents net position related to property, plant and equipment, net of any related debt. Restricted net position represents the net position restricted by enabling legislation. The City considers restricted amounts to be spent first when both restricted and unrestricted resources are available.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Implementation of New Accounting Standards

During the year ended September 30, 2025, the City adopted GASB Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Risk Disclosures*.

GASB Statement No. 101, *Compensated Absences* – This accounting standard expands the considerations used in determination of long-term liabilities associated with accrued compensated absences, including a requirement to consider potential usage of accumulated time in determination of the liability, rather than considering only amounts to be paid at severance of employment. Additionally, disclosures associated with the liability for compensated absences were updated for clarity and efficiency. Note 7 to the financial statements provides information regarding the City's compensated absences as of September 30, 2025. Management has determined the effects of prior period implementation are immaterial to the financial statements as a whole.

GASB Statement No. 102, *Certain Risk Disclosures* – The State of Florida and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for the City beginning with fiscal year ending September 30, 2025. Implementation of this Statement had no impact on the City's financial statements in FY 2025.

Note 2 - <u>Stewardship, Compliance, and Accountability</u>

Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted by resolution for all governmental funds and the proprietary fund. However, a budget for the proprietary fund is not legally required to be reported on, and is not included in, the financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects. Budgetary data reflected in the financial statements are established by the following procedures: Prior to September 1 of each year, proposed budgets are received by the City Council from the City Finance Director. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Council. The City Council requires such changes as deemed necessary, sets proposed millage and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

Proposed budgets are advertised in a newspaper of general circulation in the City. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating.

Prior to October 1, the budget for all governmental funds and the proprietary fund of the City is legally enacted through passage of a resolution. Budget amendments are periodically passed via resolutions throughout the fiscal year. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years' unassigned fund balance to the level required to accomplish current year objectives. The City's legal level of budgetary authority is the fund level.

Note 3 - <u>Deposits and Investments</u>

Deposits

The City manages its custodial credit risk by maintaining its deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow qualified public depositories to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All qualified public depositories must place with (or in the name of) the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125% of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits, are considered fully insured.

As of September 30, 2025, the bank balance of the City's cash deposits was $26,226,678, all of which was held by qualified public depositories under Chapter 280, Florida Statutes. The book balance of these deposits at September 30, 2025, was $26,096,348, which excludes $1,262 of petty cash, and is included in cash and cash equivalents in the accompanying statement of net position.

Investments

The City does not have a written investment policy but has adopted the policy provided by Florida Statutes, Section 218.15, which authorizes the City to invest surplus funds in the following:

1. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the *Florida Interlocal Cooperation Act*.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

The Florida Municipal Investment Trust (FMIvT) is an authorized investment under Section 218.415, Florida Statutes. It was created to offer diversified and professionally managed portfolios for participating municipalities. The Trustees of the Trust are designated as having official custody of the funds, which are invested by the purchase of shares of beneficial interest in the Trust. The Trust operates as a fiduciary trust fund under governmental accounting rules that require the Trust to prepare a series of financial statements. The FMIvT is a Local Government Investment Pool (LGIP) and, therefore, considered an external investment pool for GASB reporting purposes. The City's investment is the FMIvT portfolio, not the individual securities held within each portfolio. A copy of the FMIvT financial statements can be obtained from Florida Municipal Investment Trust, 301 S. Bronough Street, Suite 300, Tallahassee, Florida 32301.

The City's investment in the State Board of Administration (SBA) (Florida PRIME) also qualifies as an investment pool under Section 218.415, Florida Statutes. The Florida PRIME qualifies under the provisions of GASB Statement No. 79, to be measured at amortized cost for financial reporting purposes.

As of September 30, 2025, the City held the following investments:

Investment Type	Weighted Average Maturity	Rating	Fair Value	Fair Value Measurement
Florida Municipal Investment Trust:				
1-3 Year High Quality Bond Fund	1.9 years	AAAf/S2	$ 1,158,126	Level 2
Intermediate High Quality Bond Fund	4.8 years	Aaf/S3	1,170,833	Level 2
Investment with State Board of Administration:				
Florida PRIME	47 days	AAAm	1,403,660	N/A
Subtotal			$ 3,732,619	
Less: Amounts Reported as Cash and Cash Equivalents			(1,403,660)	
Total Investments			$ 2,328,959	

As Reported in the Statement of Financial Position	
Investments - Unrestricted	$ 2,317,259
Investments - Restricted	11,700
Total	$ 2,328,959

Credit Risk
Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. GASB Statement No. 40 requires disclosure of credit quality ratings for investments in debt securities, as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, S&P).

Custodial Credit Risk
Under GASB Statement No. 40, disclosure of categorization by custodial credit risk is only required if investments are uninsured, unregistered, and held by either the counterparty or the counterparty's trust department or agent, but not in the government's name (this was "Category 3" in GASB Statement No. 3). Participants' investments in the FMIvT and Florida PRIME are evidenced by shares of the pool. Investments in pools should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investment in the FMIvT twice a month with a five-business day notice.

The Florida PRIME generally has no limitations or restrictions on participant withdrawals including redemption notices and maximum transaction amounts. Regarding redemption gates, Section 218.409(8)(a), Florida Statutes, states, "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the board can invest money entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, and the Investment Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." Regarding liquidity fees, Florida Statute Section 218.409(4) provides authority for the SBA to impose penalties for early withdrawal, subject to disclosure in the enrollment materials of the amount and purpose of such fees. At present, no such disclosure has been made. As of September 30, 2025, there were no redemption fees, maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

Concentration Risk
GASB Statement No. 40 requires disclosure of the concentration of credit risk when five or more percent of the total assets of the portfolio are invested with a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from the concentration of credit risk disclosure requirements. The City has no limit on the amount it may invest in any one issuer. The FMIvT and Florida PRIME are pooled investments; therefore, no additional disclosure is required.

Interest Rate Risk
Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk disclosures are required for all debt instruments as well as investment in mutual funds, external investment pools, and other pooled investments.

Additionally, GASB Statement No. 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments. The City's investment policy is limited to complying with the state's investment statutes. The state law has not addressed an interest rate risk and, therefore, the City has not adopted an investment policy on that point. It is the City's intention to make investments to provide sufficient liquidity to pay obligations as they become due. The City uses the WAM for its investments with the FMIvT and Florida PRIME as previously presented.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The City's two investment funds in the FMIvT invest mainly in U.S. government and agency securities and asset-backed securities. The underlying securities have observable Level 1 quoted pricing inputs or observable Level 2 significant other observable pricing inputs. Most of the security prices were obtained from a pricing service, Interactive Data Corporation. While the underlying asset values are based on quoted prices or market corroborated inputs, the net asset value of the portfolio is not publicly quoted. The City considers their shares in these funds as Level 2 since the value is based on market-corroborated data. The City's investment in Florida PRIME is measured at amortized cost and therefore, the fair value measurements are not applicable.

Restricted Cash

Restricted cash and investments at September 30, 2025, consist of the following:

	Customer Deposits	Grants	Debt Service	Impact/Capacity Fees	Other	Total
General Fund	$ 5,530	$ 58,166	$ 142,810	$ 604,287	$ 1,615,443	$ 2,426,236
CRA	-	-	-	-	1,950,548	1,950,548
Water Fund	334,617	-	237,166	3,178,346	-	3,750,129
Sewer Fund	-	-	24,697	5,962,935	-	5,987,632
Airport Fund	34,314	2,545,423	-	-	-	2,579,737
Gas Fund	43,834	-	-	-	-	43,834
Total Restricted Cash, Cash Equivalents and Investments	$ 418,295	$ 2,603,589	$ 404,673	$ 9,745,568	$ 3,565,991	$ 16,738,116

Note 4 - Receivables

Receivables and amounts due from other governments at year-end, were as follows:

	Governmental Activities	Business-Type Activities					
	General Fund	Water	Sewer	Sanitation	Airport	Gas	Total
Accounts Receivable	$ 45	$ 1,202,370	$ 843,729	$ 216,273	$ 3,812	$ 179,649	$ 2,445,878
Less Allowance for Doubtful Accounts	-	(134,062)	(277,119)	(8,194)	(3,206)	(13,619)	(436,200)
Total Receivables, Net	$ 45	$ 1,068,308	$ 566,610	$ 208,079	$ 606	$ 166,030	$ 2,009,678
Taxes Receivable	$ 556,756	$ -	$ -	$ -	$ -	$ -	$ 556,756
Grants Receivable	96,944	250,000	28,920	-	219,584	-	595,448
Total Due from Other Governments	$ 653,700	$ 250,000	$ 28,920	$ -	$ 219,584	$ -	$ 1,152,204

Due from Other Governments
Amounts due from other governments relate to state and federal grants, half-cent sales taxes, local option fuel taxes, and telecommunications service tax.

Lease Receivable
In November of 2014, the City entered into a lease agreement with an unrelated party for a supercharger station on City-owned property. The initial term of the lease was five years with the option to renew for two additional five-year terms. The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term, including options reasonably certain to be exercised. The City recognized lease revenue of $6,513 and $812 of interest income related to the lease.

In December of 2023, the City entered into a five-year lease agreement for hangar space at the Airport. The City recognized lease revenue of $19,649 and interest income of $2,987 related to the lease.

Note 5 - Changes in Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 551,798	$ 99,938	$ (61,120)	$ 590,616
Construction in Progress	5,502	192,944	-	198,446
Total Capital Assets Not Being Depreciated	557,300	292,882	(61,120)	789,062
Capital Assets Being Depreciated:				
Buildings and Improvements	9,660,452	-	-	9,660,452
Machinery and Equipment	8,213,532	403,028	69,990	8,686,550
Leased Assets	-	65,948	-	65,948
Total Capital Assets Being Depreciated	17,873,984	468,976	69,990	18,412,950
Less Accumulated Depreciation and Amortization				
Buildings, Improvements, Machinery and Equipment	(9,537,016)	(803,306)	(69,990)	(10,410,312)
Leased Assets	-	(15,113)	-	(15,113)
Total Accumulated Depreciation and Amortization	(9,537,016)	(818,419)	(69,990)	(10,425,425)
Total Capital Assets Being Depreciated, Net	8,336,968	(349,443)	-	7,987,525
Governmental Activities, Net	$ 8,894,268	$ (56,561)	$ (61,120)	$ 8,776,587
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Land	$ 2,654,920	$ 90,000	$ (115,886)	$ 2,629,034
Construction in Progress	9,948,771	1,340,999	(10,347,634)	942,136
Total Capital Assets Not Being Depreciated	12,603,691	1,430,999	(10,463,520)	3,571,170
Capital Assets Being Depreciated:				
Buildings and Improvements	58,367,468	10,429,389	-	68,796,857
Machinery and Equipment	2,466,411	587,504	(69,990)	2,983,925
Total Capital Assets Being Depreciated	60,833,879	11,016,893	(69,990)	71,780,782
Less Accumulated Depreciation	(29,026,841)	(1,649,758)	69,990	(30,606,609)
Total Capital Assets Being Depreciated, Net	31,807,038	9,367,135	-	41,174,173
Business-Type Activities, Net	$ 44,410,729	$ 10,798,134	$ (10,463,520)	$ 44,745,343

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

Depreciation/Amortization Expense

Governmental Activities		
General Government	$	182,340
Public Safety		334,532
Human Services		7,281
Transportation		173,036
Culture and Recreation		121,230
Total Depreciation Expense – Governmental Activities	$	818,419
Business-Type Activities		
Water	$	492,987
Sanitation		6,250
Sewer		752,036
Airport		272,982
Gas		125,503
Total Depreciation Expense – Business-Type Activities	$	1,649,758

Note 6 - The Florida Retirement System

All the City's employees can participate in the Florida Retirement System (FRS). 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, Division of Retirement, including the FRS Pension Plan (Pension Plan) and the 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 SBA. As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of 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.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Research and Education Section, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

Plan Description
The Pension Plan is a cost-sharing, multiple-employer defined benefit pension 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. *Regular Class* members enrolled before July 1, 2011, 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 1.60% 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 age 62 and receive reduced retirement benefits.

Special Risk Class members (police and firefighters) enrolled before July 1, 2011, 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 3.00% of their final average compensation based on the five highest years of salary for 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, equal to 2.00% of their final average compensation based on the five highest years of salary for 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 3.00% (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 Pension Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for *Regular*, *Senior Management Service,* and *Elected Officers' Class* members, and to age 60 or 30 years of service regardless of age for *Special Risk Class* members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

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 an FRS employer for a period not to exceed 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
Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3.00% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for each of the prior two years are as follows:

	07/01/2025 - 06/30/2026	7/01/2024 - 06/30/2025
Regular Class	14.03%	13.63%
Special Risk	35.19%	32.79%
Senior Management Class	33.24%	34.52%
DROP	22.02%	21.13%

These employer contribution rates include 2.00% for the period July 1, 2023 through June 30, 2026. The rates also include the fee of 0.06% for administration of the FRS Investment Plan and provision of education tools for both for all periods presented for all classes except DROP. The City's contributions to the Pension Plan totaled $1,205,290 and $1,160,106 for the fiscal years ended September 30, 2025 and 2024, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources
The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025.

At September 30, 2025, the City reported a liability of $6,251,960 for its proportionate share of the Pension Plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS, relative to the contributions of all participating governments. The City's proportionate share of the net pension liability was .0201447835%, representing an increase of .0003897139% from the previous year.

For the fiscal year ended September 30, 2025, the City recognized pension expense of $798,695. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experiences	$ 667,775	$ -
Change of Assumptions	726,015	-
Net Difference Between Projected and Actual Earnings of Pension Plan Investments	-	1,043,828
Changes in Proportion and Differences Between City Pension Plan Contributions and Proportionate Share of Contributions	622,347	48,415
City Pension Plan Contributions Subsequent to the Measurement Date	318,456	-
	$ 2,334,593	$ 1,092,243

A component of deferred outflows of resources related to the Pension Plan of $318,456, 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, 2026. Other components reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	Amount
2026	$ 1,161,626
2027	15,102
2028	(98,185)
2029	(154,649)
	$ 923,894

Actuarial Assumptions

The total pension liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.40%
Salary Increases	3.50%, Average, Including Inflation
Investment Rate of Return	6.70%, Net of Pension Plan Investment Expense, Including Inflation
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on Generational PUB-2010 with Scale MP-2021.

The actuarial assumptions that determined the total pension liability as of June 30, 2025, were based on the results of an actuarial experience study for the period of July 1, 2018 – June 30, 2023.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.20%	3.32%	1.10%
Fixed Income	29.0%	5.50%	5.40%	4.0%
Global Equity	45.0%	8.50%	6.90%	18.30%
Private Equity	11.0%	12.40%	8.80%	28.40%
Strategic Investments	2.0%	6.50%	6.10%	8.70%
Real Estate (Property)	12.0%	8.40%	7.10%	18.30%
Total	100.00%			
Assumed Inflation – Mean			2.40%	1.50%

(1) As Outlined in the Pension Plan's Investment Policy.

Discount Rate

The discount rate used to measure the total pension liability was 6.7%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for the calculation of the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Net Pension 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 6.70%, 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 or one percentage-point higher than the current rate:

	1% Decrease 5.70%	Current Discount Rate 6.70%	1% Increase 7.70%
City's Proportionate Share of the Net Pension Liability	$ 12,269,375	$ 6,251,960	$ 1,207,046

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 Annual Comprehensive Financial Report.

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 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, 2025, eligible retirees and beneficiaries received a monthly HIS payment of $7.50 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of $45 and a maximum HIS payment of $225 per month, pursuant to Section 112.363, Florida Statutes. 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 plan fiscal years ended June 30, 2025 and 2024, the HIS contribution for the plan was 2.00%. The City contributed 100% of its statutorily required contributions for the current and preceding two 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 $132,467 and $128,155 for the fiscal years ended September 30, 2025 and 2024 respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources
At September 30, 2025, the City reported a liability of $1,928,324 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2025, the City's proportionate share was 0.01506445282%, which was an increase of .0004831165% from the prior year.

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025. For the fiscal year ended September 30, 2025, the City recognized pension expense of $88,045. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experiences	$ 11,511	$ 3,059
Change of Assumptions	17,068	466,412
Net Difference Between Projected and Actual Earnings of Pension Plan Investments	-	1,605
Changes in Proportion and Differences Between City Pension Plan Contributions and Proportionate Share of Contributions	147,260	-
City Pension Plan Contributions Subsequent to the Measurement Date	33,340	-
	$ 209,179	$ 471,076

A component of deferred outflows of resources related to the HIS Plan, totaling $33,340, resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2026. Other components 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
2026	$ (52,275)
2027	(83,006)
2028	(69,853)
2029	(53,492)
2030	(36,611)
	$ (295,237)

Actuarial Assumptions
The total pension liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.40%
Salary Increases	3.50%, Average, Including Inflation
Investment Rate of Return	5.20%
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on Generational PUB-2010 with Projection Scale MP-2021.

Actuarial assumptions that determined the total pension liability as of June 30, 2025, were based on the results of an actuarial experience study of the FRS for the period of July 1, 2018 – June 30, 2023.

Discount Rate
The discount rate used to measure the total pension liability was 5.20%. 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 following changes in actuarial assumptions occurred in 2025 for the HIS Program:

- All demographic assumptions and methods were reviewed as part of the 2024 Experience Study. Changes were adopted by the 2024 FRS Actuarial Assumption Conference during its meetings in October 2024.
- The assumption changes were updated to reflect recent and anticipated future experience of HIS program participants.
- Changes were adopted by the 2025 FRS Actuarial Assumption Conference during its October 2025 meeting. The discount rate was modified to reflect the change in the value of the municipal bond index between GASB measurement dates.
- The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate was increased from the previous valuation which used 3.93%.

Sensitivity 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 5.20%, 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 or one percentage-point higher than the current rate:

	1% Decrease 4.20%	Current Discount Rate 5.20%	1% Increase 6.20%
City's Proportionate Share of the Net Pension Liability	$ 2,174,496	$ 1,928,324	$ 1,721,864

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 Annual Comprehensive Financial Report.

Defined Contribution Retirement Plan

The City contributes to the FRS Investment Plan (INV), the integrated defined contribution investment plan described above. The INV is administered by the Florida Department of Management Services, Division of Retirement. Benefit terms, including contribution requirements, for the INV are established and may be amended by the Florida Legislature. For each employee in the INV, the City must contribute at the blended uniform rate structure as previously disclosed for the FRS Pension Plan. Employees are required to contribute 3% of salary. For the year ended September 30, 2025, the City recognized pension expense of $323,585 related to the Investment Plan.

Employer contributions and earnings on those contributions are vested according to the same schedule as disclosed for the FRS Plan. Non-vested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the INV's administrative expenses. For the fiscal year ended September 30, 2025, 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.

Note 7 - Long-Term Debt

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2025, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated Absences*	$ 485,438	$ 32,722	$ -	$ 518,160	$ 25,908
OPEB Liability	86,357	-	(8,398)	77,959	-
Leases	-	65,948	(17,564)	48,384	15,440
Net Pension Liability	8,487,186	-	(1,683,643)	6,803,543	-
Notes Payable	2,520,544	-	(263,884)	2,256,660	270,039
Total Governmental Activities	$ 11,579,525	$ 98,670	$ (1,973,489)	$ 9,704,706	$ 311,387
Business-Type Activities					
Compensated Absences*	$ 93,204	$ -	$ (22,620)	$ 70,584	$ 3,530
OPEB Liability	13,630	2,131	-	15,761	-
Net Pension Liability	1,339,358	37,383	-	1,376,741	-
Notes and Loans Payable	1,639,954	-	(128,355)	1,511,599	137,486
Revenue Bonds	9,561,800	-	(415,400)	9,146,400	425,000
Total Business-Type Activities	$ 12,647,946	$ 39,514	$ (566,375)	$ 12,121,085	$ 566,016

* The change in compensated absences is presented on a net basis.

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES			
Notes Payable			
Note payable with PNC Bank for a fire truck with an original cost of $472,929; due in annual installments of $99,958; payments through January 2026; bearing interest at a rate of 1.87%.	$ 98,122	$ -	$ 98,122
Note payable with Cadence Equipment Finance for the purchase of vehicles totaling $100,000; due in annual installments of $23,698; payments through December 2028; bearing interest at a rate of 5.78%.	18,817	63,421	82,238
Revenue note payable with Regions Bank for the purchase of City Hall totaling $2,500,000; due in annual payments from $127,400 to $194,500 through December 2026; bearing interest at a rate of 2.2%.	153,100	1,923,200	2,076,300
Total Note Payable	270,039	1,986,621	2,256,660
TOTAL GOVERNMENTAL ACTIVITIES	$ 270,039	$ 1,986,621	$ 2,256,660

BUSINESS-TYPE ACTIVITIES			
Loans Payable			
State revolving loan payable (SRF#3) due in semi-annual payments of $27,334, through May 15, 2038; bearing no interest; secured by anticipated net sewer system revenues.	$ 52,809	$ 633,710	$ 686,519
State revolving loan payable (SRF#4) due in semi-annual payments of $13,098, through April 15, 2041; bearing an interest rate of 0.41%; secured by anticipated net sewer system revenues.	5,453	78,800	84,253
State revolving loan payable (SRF#5) due in semi-annual payments of $14,182, through November 15, 2041; bearing no interest; secured by anticipated net sewer system revenues.	28,363	467,997	496,360
State revolving loan payable (SRF#6) due in semi-annual payments of $5,687 through 2043; bearing interest at 0.93%; secured by anticipated net sewer system revenues.	9,617	69,878	79,495
Notes Payable			
Note payable with the State of Florida, Department of Transportation for the relocation of water and sewer utilities with an original cost of $625,925; annal payments of $41,728; payments through March 2028; bearing no interest rate.	$ 41,244	$ 123,728	$ 164,972
Total Notes and Loans Payable	137,486	1,374,113	1,511,599
Revenue Bonds Payable			
Water and Sewer System Revenue Refunding Bonds - Series 2021			
Authorized and issued $6,897,700 at 2.29% per annum, principal and interest payable annually on September 1. Bonds are collateralized by a pledge of net revenues of the water and sewer system.	333,000	5,219,400	5,552,400
Water System Revenue Refunding Bonds - Series 2012			
Authorized and issued $885,000 at 2.30% per annum, principal payable annually on May 1, interest payable semi-annually on November 1 and May 1. Bonds are collateralized by a pledge of the local government half-cent sales tax pursuant to Florida Statutes.	92,000	3,502,000	3,594,000
Total Revenue Bonds Payable	425,000	8,721,400	9,146,400
TOTAL BUSINESS-TYPE ACTIVITIES	$ 562,486	$ 10,095,513	$ 10,657,999
GRAND TOTAL LONG-TERM DEBT			$ 12,914,659

Future Maturities

The annual requirements to amortize all notes, loans and bonds outstanding as of September 30, 2025, are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending September 30	**Principal**	**Interest**	**Principal**	**Interest**
2026	$ 270,039	$ 50,710	$ 562,486	$ 227,042
2027	176,334	44,354	571,603	216,774
2028	181,017	39,692	584,015	206,290
2029	185,770	34,883	592,731	195,510
2030	167,000	29,921	563,402	184,522
2031-2035	891,700	92,225	2,659,859	758,645
2036-2040	384,800	8,513	2,053,693	510,159
2041-2045	-	-	1,749,510	301,790
2046-2050	-	-	958,700	122,616
2051-2052	-	-	362,000	14,960
Total	$ 2,256,660	$ 300,298	$ 10,657,999	$ 2,738,308

Leases

Effective November 1, 2024, the City entered into a lease agreement for certain computer equipment for the police force. The present value of the lease agreement totaled $65,948. The lease agreement requires four annual payments of $17,564. The interest rate stated in the lease was 4.39%. Lease asset value and related accumulated amortization are included in Note 5.

Future maturities of the City's lease obligation are as follows:

Year Ending September 30	Principal	Interest
2026	$ 15,440	$ 2,124
2027	16,118	1,446
2028	16,826	739
Total	$ 48,384	$ 4,309

Note 8 - Other Postemployment Benefits

OPEB Plan

Plan Description

The City provides certain continuing health care and life insurance benefits for its retired employees. The plan is a single, employer-defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the City, employees, and retirees rests with the City Council in accordance with requirements of Florida State Statutes, Section 112.0801. The plan does not issue a separate report.

Benefits Provided

Medical benefits are provided through comprehensive plans and are made available to employees upon actual retirement. For employees participating in the FRS pension Plan, eligibility is the same as that of the Pension Plan. For non-FRS Pension Plan participants, employees are eligible to receive full benefits after 30 years.

Plan Membership as of Actuarial Valuation Date	
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	1
Active Plan Members	118
	119

Net OPEB Liability

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of October 1, 2023, using the following actuarial assumptions:

Measurement Date	September 30, 2025
Valuation Date	October 1, 2023
Actuarial Cost Method	Entry Age Normal (AMM)
Inflation	3.0% Annually
Salary Increase	4.0% Annually
Discount Rate	4.50% Annually, Which is the S&P Municipal Bond 20-Year, High-Grade Rate Index as of September 30, 2025.
Retirement Age	Eligibility is the Same as the FRS

	Pension Plan
Mortality	Special Risk: PubS.H-2010 Mortality Table – Safety with Scale MP-2020; All Others: PubG.H-2010 Monthly Table – General with Scale MP-2020

The discount rate was changed from 4.06% to 4.50% for the measurement period ending September 30, 2025.

Changes in Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at September 30, 2024	$ 99,986	$ -	$ 99,986
Changes of the Year:			
Service Cost	9,643	-	9,643
Interest	3,736	-	3,736
Changes of Assumptions	(3,704)	-	(3,704)
Benefit Payments	(15,941)	-	(15,941)
Net Changes	(6,266)	-	(6,266)
Balance at September 30, 2025	$ 93,720	$ -	$ 93,720

Sensitivity of Net OPEB Liability to Changes in the Discount Rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability	$ 102,021	$ 93,720	$ 85,875

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 80,756	$ 93,720	$ 109,762

OPEB Liabilities, OPEB Expense, and Deferred Inflows/Outflows of Resources
For the fiscal year ended September 30, 2025, the City recognized OPEB expense of $(4,667). In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experiences	$ 13,047	$ 21,884
Change of Assumptions	38,390	117,711
	$ 51,437	$ 139,595

Components of deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense (income) as follows:

Fiscal Year Ending September 30:	Amount
2026	(18,046)
2027	(18,046)
2028	(18,046)
2029	(8,617)
2030	(8,161)
Thereafter	(17,242)
	$ (88,158)

Note 9 - Interfund Balances and Transfers

At September 30, 2025, interfund transfers relate to operational services and shared costs provided by the General Fund on behalf of other funds. Interfund receivables and payables represent such amounts that have not yet been reimbursed at year-end.

Interfund receivables and payables include the following at September 30, 2025:

	Interfund Receivable	Interfund Payable
General Fund	$ 2,290,587	$ 433,398
Water Fund	3,345	587,986
Sewer Fund	102,480	67,439
Sanitation Fund	-	530,972
Airport Fund	525	645,751
Gas Fund	8,629	57,041
Other Non-Major Governmental Funds:		
CRA	-	75,316
Christmas Reflections	129	3,243
Cemetery	2,314	6,863
	$ 2,408,009	$ 2,408,009

Interfund transfers include the following at September 30, 2025:

	Transfers In	Transfers Out
General Fund	$ 4,897,686	$ 3,094,881
Water Fund	-	2,127,485
Sewer Fund	139,035	901,574
Sanitation Fund	3,053,724	1,811,499
Gas Fund	-	196,163
Other Non-Major Governmental Funds:		
Cemetery	41,157	-
	$ 8,131,602	$ 8,131,602

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the FMIvT and other commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. The amount of settlements has not exceeded the insurance coverage in each of the past three years.

Note 11 - Commitments and Contingencies

Grants
Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amount, if any, to be immaterial.

Interlocal Landfill Agreement
The City entered into an interlocal agreement (the Agreement) with Walton County in 1995, as amended in 2013, whereby the City provides basic residential refuse collection and disposal services to residents of the City. The City will, in turn, receive from the County a sum of $8.50 per residential unit collection. Additionally, the Agreement exempts the City from assessment of County Landfill tipping fees for disposal of solid waste, with the exception of construction and demolition debris and tires. Under the agreement, the City remits 100% of the City's one-cent sales tax proceeds to Walton County, and at the end of the fiscal year, a true-up calculation is performed by Walton County, with any remaining funds being remitted back to the City. During the year ended September 30, 2025, the City remitted approximately $3.1 million to Walton County and received a check for approximately $2.1 million from Walton County, representing funds remaining from the prior year's remittance.

Subsequent to year-end, the City amended its interlocal agreement with Walton County. Under the revised agreement, the City will remit one-third of the proceeds from the one-cent sales tax to Walton County and will no longer receive the $8.50 per residential unit collection fee previously remitted by the County. At the end of each calendar year, a true-up calculation will be performed to determine the actual proportion of solid waste collection and disposal costs allocable to the City, with any variances remitted to or from the City and County, as appropriate.

Legal Matters
The City is involved in pending and threatened litigation. In the opinion of City Management, after consulting with legal counsel, the range of potential loss from all claims and actions should not materially affect the financial condition of the City.

Note 12 - Subsequent Event

On October 22, 2025, the City entered into a financing and grant agreement with the Department of Environmental Protection (FDEP) under the State Revolving Fund Loan Program for the design phase of a watermain replacement project. The agreement allows the City to obtain up to $383,000 in loan funds and $383,000 in grant funds (in the form of loan forgiveness) for the project. As of the date of the audit report, the City has drawn down $95,952 of loan funds, of which $47,976 is being forgiven by FDEP. Upon completion of the project, terms of the agreement require the City to make semi-annual loan payments of principal and interest for 10 years at an interest rate of 1.85% plus a loan service fee.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)
FLORIDA RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
City's Proportion of the Net Pension Liability (Asset)	0.000201448%	0.000197551%	0.017505666%	0.016915465%	0.016844762%	0.018106068%	0.017761257%	0.017007130%	0.018309200%	0.018313000%
City's Proportionate Share of the Net Pension Liability (Asset)	$ 6,251,960	$ 7,642,190	$ 6,975,454	$ 6,293,912	$ 1,272,431	$ 7,846,637	$ 6,116,730	$ 5,150,823	$ 5,415,735	$ 4,624,047
City's Covered Payroll	6,723,100	6,164,050	5,609,217	5,094,518	4,632,781	4,457,236	3,668,160	3,976,920	4,009,182	3,916,251
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll	92.99%	123.98%	124.36%	123.54%	27.47%	176.04%	166.75%	129.52%	135.08%	118.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.26%	83.70%	82.38%	82.89%	96.40%	78.85%	82.61%	84.26%	83.89%	84.88%

* The amounts for each fiscal year were determined as of 6/30.

CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)
HEALTH INSURANCE SUBSIDY
LAST 10 FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
City's Proportion of the Net Pension Liability (Asset)	0.015044528%	0.014561411%	0.014154767%	0.013976400%	0.013845127%	0.013511504%	0.012971022%	0.012419062%	0.012959050%	0.012515520%
City's Proportionate Share of the Net Pension Liability (Asset)	$ 1,928,324	$ 2,184,354	$ 2,247,966	$ 1,480,324	$ 1,698,313	$ 1,649,733	$ 1,451,328	$ 1,314,447	$ 1,385,641	$ 1,458,631
City's Covered Payroll	6,723,100	6,164,050	5,609,217	5,094,518	4,632,781	4,457,236	3,668,160	3,976,920	4,009,182	3,916,251
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll	28.68%	35.44%	40.08%	29.06%	36.66%	37.01%	39.57%	33.05%	34.56%	37.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	6.36%	4.80%	4.12%	4.81%	3.56%	3.00%	2.63%	2.15%	1.64%	0.97%

* The amounts for each fiscal year were determined as of 6/30.

CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)
FLORIDA RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually Required Contribution	$ 1,205,290	$ 1,160,106	$ 907,495	$ 721,814	$ 641,713	$ 601,584	$ 550,727	$ 487,357	$ 460,073	$ 428,850
Contributions in Relation to the Contractually Required Contribution	(1,205,290)	(1,160,106)	(907,495)	(721,814)	(641,713)	(601,584)	(550,727)	(487,357)	(460,073)	(428,850)
Contributions Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's Covered Payroll	$ 6,623,350	$ 6,407,750	$ 5,725,339	$ 5,094,518	$ 4,632,781	$ 4,457,236	$ 3,668,160	$ 3,976,920	$ 4,009,182	$ 3,916,251
Contributions as a Percentage of Covered-Employee Payroll	18.20%	18.10%	15.85%	14.17%	13.85%	13.50%	15.01%	12.25%	11.48%	10.95%

* The amounts presented for each fiscal year were determined as of 9/30.

CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)
HEALTH INSURANCE SUBSIDY
LAST 10 FISCAL YEARS

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually Required Contribution	$ 132,467	$ 128,155	$ 100,219	$ 84,569	$ 81,382	$ 77,860	$ 72,027	$ 67,349	$ 128,363	$ 125,628
Contributions in Relation to the Contractually Required Contribution	(132,467)	(128,155)	(100,219)	(84,569)	(81,382)	(77,860)	(72,027)	(67,349)	(128,363)	(125,628)
Contributions Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
City's Covered Payroll	$ 6,623,350	$ 6,407,750	$ 5,725,339	$ 5,094,518	$ 4,632,781	$ 4,457,236	$ 3,668,160	$ 3,976,920	$ 4,009,182	$ 3,916,251
Contributions as a Percentage of Covered-Employee Payroll	2.00%	2.00%	1.75%	1.66%	1.76%	1.75%	1.96%	1.69%	3.20%	3.21%

* The amounts presented for each fiscal year were determined as of 9/30.

CITY OF DEFUNIAK SPRINGS, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2025
LAST 10 FISCAL YEARS*

Reporting Date	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service Cost	$ 9,643	$ 9,827	$ 6,973	$ 10,197	$ 10,290	$ 8,043	$ 16,202	$ 17,091
Interest	3,736	4,767	5,119	3,110	2,891	7,532	7,368	10,397
Differences Between Expected and Actual Experience	-	(11,686)	-	10,915	-	11,020	-	(44,068)
Changes of Assumptions [1]	(3,704)	6,086	(827)	(19,197)	(2,773)	(84,088)	1,370	(66,627)
Other Changes	-	-	-	-	-	(7,548)	-	-
Benefit Payments	(15,942)	(13,786)	(27,605)	(23,818)	(11,198)	(9,695)	(23,863)	(25,556)
Net Change in Total OPEB Liability	(6,267)	(4,792)	(16,340)	(18,793)	(790)	(74,736)	1,077	(108,763)
Total OPEB Liability, Beginning of Year	99,987	104,779	121,119	139,912	140,702	215,438	214,361	323,124
Total OPEB Liability, End of Year	$ 93,720	$ 99,987	$ 104,779	$ 121,119	$ 139,912	$ 140,702	$ 215,438	$ 214,361
Covered-Employee Payroll	$ 6,165,789	$ 5,924,012	$ 5,725,339	$ 5,094,518	$ 4,632,781	$ 4,457,236	$ 3,528,523	$ 3,528,523
City's Net OPEB Liability as a Percentage of Covered-Employee Payroll	1.52%	1.69%	1.83%	2.38%	3.02%	3.16%	6.11%	6.08%

Notes to Schedule:

[1] As a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System to match the pension plan assumptions.

* This schedule is not available for earlier years.

SUPPLEMENTARY INFORMATION

CITY OF DEFUNIAK SPRINGS, FLORIDA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	CRA	Christmas Reflections	Cemetery	Total
Assets				
Cash and Cash Equivalents	$ -	$ 58,248	$ 90,298	$ 148,546
Investments	-	-	72,156	72,156
Due from Other Funds	-	129	2,314	2,443
Restricted Assets:				
Cash and Cash Equivalents	1,950,548	-	-	1,950,548
Total Assets	1,950,548	58,377	164,768	2,173,693
Liabilities				
Accrued Liabilities	3,760	1,052	1,090	5,902
Due to Other Funds	75,289	3,243	6,890	85,422
Unearned Revenue	-	-	13,012	13,012
Total Liabilities	79,049	4,295	20,992	104,336
Fund Balances				
Restricted - Redevelopment	1,871,499	-	-	1,871,499
Committed - Special Revenue	-	54,082	143,776	197,858
Total Fund Balances	1,871,499	54,082	143,776	2,069,357
Total Liabilities and Fund Balances	$ 1,950,548	$ 58,377	$ 164,768	$ 2,173,693

CITY OF DEFUNIAK SPRINGS, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2025

	CRA	Christmas Reflections	Cemetery	Total
Revenues				
Taxes	$ 1,511,945	$ -	$ -	$ 1,511,945
Licenses and Permits	-	-	34,966	34,966
Intergovernmental	-	10,000	-	10,000
Charges for Services		109,674	41,601	151,275
Investment Income	50,983	1,825	4,485	57,293
Miscellaneous	59,677	9,992	222	69,891
Total Revenues	1,622,605	131,491	81,274	1,835,370
Expenditures				
Current:				
General Government	565,290	-	-	565,290
Physical Environment	-	-	122,332	122,332
Culture and Recreation	-	109,054	-	109,054
Capital Outlay	-	11,765	-	11,765
Total Expenditures	565,290	120,819	122,332	808,441
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,057,315	10,672	(41,058)	1,026,929
Other Financing Sources				
Transfers In	-	-	41,157	41,157
Net Change in Fund Balances	1,057,315	10,672	99	1,068,086
Fund Balances, Beginning of Year	814,184	43,410	143,677	1,001,271
Fund Balances, End of Year	$ 1,871,499	$ 54,082	$ 143,776	$ 2,069,357

COMPLIANCE SECTION

INDEPENDENT ACCOUNTANT'S REPORT ON AN EXAMINATION OF COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

We have examined the City of DeFuniak Springs, Florida's (the City) compliance with Section 218.415, Florida Statutes, during the fiscal year ended September 30, 2025. City management is responsible for the 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including the assessment of the risks of material non-compliance, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the examination engagement.

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 during the fiscal year ended September 30, 2025.

This report is intended solely for the information and use of the Florida Auditor General, the Mayor and City Council of the City of DeFuniak Springs, Florida, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Purvis Gray

June 16, 2026
Tallahassee, Florida

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*

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, 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, each major fund, and the aggregate remaining fund information of the City of DeFuniak Springs, Florida (the City) as of and for the year ended September 30, 2025, 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 16, 2026.

Report on 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) as a basis for designing 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

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*

Report on 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, non-compliance with which could have a direct and material effect on the financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Purvis Gray

June 16, 2026
Tallahassee, Florida

MANAGEMENT LETTER

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

Report on the Financial Statements
We have audited the financial statements of the City of DeFuniak Springs, Florida (the City) as of and for the fiscal year ended September 30, 2025, and have issued our report thereon dated June 16, 2026.

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; and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements
We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards;* and our Independent Accountant's Report on an Examination conducted in accordance with American Institute of Certified Public Accountants 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 16, 2026, 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 financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report except as noted below.

Tabulation of Uncorrected Audit Findings		
2025	**2024**	**2023**
2025-01	2024-002	2023-007

<u>2025-001 - Sanitation Fund Reporting and Reconciliation</u>
It was noted during our testing of Sanitation Fund revenues that no reconciliation is currently being performed between amounts invoiced by the waste hauler to the active customers being billed by the City. We recommend that management implement a formal reconciliation process to ensure that the waste hauler's invoices align with the accounts being billed by the City to either customers directly or to the County, as applicable.

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

MANAGEMENT LETTER

Management's Response:
The City's Utility Billing staff has begun performing this reconciliation on a monthly basis in FY26. Staff communicates with the City's contractor, Waste Management, to identify and correct discrepancies. Additionally, the City is planning to have an Operational Audit conducted of all utility accounts (Water, Sewer, Natural Gas, and Sanitation) in FY26/27 to address any billing inconsistencies and ensure that customer accounts are as accurate as possible.

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. The official title and legal authority have been disclosed in Note 1 to the financial statements, and there were no component units related to the entity.

Financial Condition and Management
Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City 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. Our assessment was performed as of September 30, 2025.

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.

Property Assessed Clean Energy (PACE) Programs
As required by Section 10.554(1)(i)6.a., *Rules of the Auditor General*, the City is required to include a statement as to whether a PACE program authorized pursuant to Section 163.081 or Section 163.082, Florida Statutes, did/did not operate within the City's geographical boundaries during the fiscal year under audit. The City has not authorized the operation of a PACE program, and management is not aware of the operation of any such program, within the City's geographical boundaries.

Additional Matters
Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate non-compliance with provisions of contracts or grant agreements, or fraud, waste, or abuse that has occurred or is likely to have occurred, that has an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such matters.

Honorable Mayor and City Council
City of DeFuniak Springs
DeFuniak Springs, Florida

MANAGEMENT LETTER

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, 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.

Purvis Gray

June 16, 2026
Tallahassee, Florida