City of Fellsmere, Florida

FINANCIAL STATEMENTS

Year Ended September 30, 2025

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Jessica Salgado
Mayor

Fernando Herrera
Vice Mayor

Ben Baker
Inocensia Hernandez
Shayla Macias
Council Members

Warren W. Dill
City Attorney

Armando Martinez
City Manager

Maria Suarez-Sanchez
City Clerk

Scott Newsom
Chief of Police

Kenneth Evans
Public Works Director

Kevin Burge
Utilities Director

Kimberly Warren
Finance Director

Robert Loring
Community Development Director

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Fellsmere, 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 Fellsmere, 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, 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.

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, and budget vs actual schedules 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 of Fellsmere, Florida's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for the CRA fund, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.

If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 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.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
August 31, 2026

The City of Fellsmere, Florida's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns.

Because Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the City's financial statements.

Financial Highlights

The following are highlights of financial activity for the year ended September 30, 2025:

- The City's assets exceeded its liabilities at the close of the fiscal year 2025 by $31,230,036 (net position). The City's unrestricted net position (which may be used to meet the City's ongoing obligations to citizens and creditors) amounted to $1,589,592.

- The City's total net position decreased by ($1,004,301), resulting from a decrease of ($101,784) from Governmental activities and a decrease of ($902,517) from Business-type activities.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $2,460,348 or 97.3% of the total general fund balance.

- General fund revenue increased by $131,383 or 4.3% and expenditures increased by $646,896 or 20.0%. This increase in expenditures is due to an increase in public safety salaries and transportation costs.

- The City increased the external debt by $66,877 in the 2025 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains the supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *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 this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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, public safety, transportation, and culture and recreation. The business-type activities of the City include water, wastewater, stormwater and community development operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fellsmere, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources available* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Infrastructure Fund, and ARPA Fund, all of which are considered to be major funds. Data from several other governmental funds are combined into a single, aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements.

The City adopts an annual appropriated budget for all governmental funds. Budgetary comparison statements have been provided for the General Fund, Infrastructure Fund, and ARPA Fund, to demonstrate compliance with these budgets.

Proprietary funds. The City maintains three proprietary funds, all of which are enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for water and wastewater, stormwater system, and community development activities.

Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but those statements provide more detail and additional information, such as cash flows, for proprietary funds. The stormwater system fund is reported as a non-major proprietary fund.

The basic proprietary fund financial statements can be found after the governmental fund financial statements after this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting after the basic proprietary fund financial statements after this report.

Government-wide Financial Analysis

As previously stated, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and deferred inflows by $31,230,036 at the close of the most recent fiscal year.

Net Position

	Governmental Activities		Business-type Activities		Total	
Assets:	2025	2024	2025	2024	2025	2024
Current and other assets	$ 7,979,029	$ 9,001,100	$ 3,171,497	$ 3,741,798	$ 11,150,526	$ 12,742,898
Capital assets, net	23,136,942	22,347,480	5,883,182	6,023,190	29,020,124	28,370,670
Total assets	31,115,971	31,348,580	9,054,679	9,764,988	40,170,650	41,113,568
Liabilities:						
Noncurrent liabilities	2,157,485	2,245,542	676,213	506,665	2,833,698	2,752,207
Other liabilities	4,353,722	4,385,595	678,313	644,862	5,032,035	5,030,457
Total liabilities	6,511,207	6,631,137	1,354,526	1,151,527	7,865,733	7,782,664
Deferred inflows of resources:						
Deferred revenue - lease revenue	500,996	511,891	564,163	576,166	1,065,159	1,088,057
Deferred revenue - business tax revenue	-	-	9,722	8,510	9,722	8,510
Total deferred inflows	500,996	511,891	573,885	584,676	1,074,881	1,096,567
Net position:						
Net investment in capital assets	21,220,861	20,378,369	5,229,538	5,537,708	26,450,399	25,916,077
Restricted	2,187,699	1,388,847	1,002,346	1,181,939	3,190,045	2,570,786
Unrestricted	695,208	2,438,336	894,384	1,309,138	1,589,592	3,747,474
Total net position	$ 24,103,768	$ 24,205,552	$ 7,126,268	$ 8,028,785	$ 31,230,036	$ 32,234,337

A substantial portion of the City's net position (84.7%) reflects its investment in capital assets (i.e., land, buildings, other improvements, infrastructure improvements, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The City's net position is also grouped as restricted and unrestricted. Restricted net position is subject to restrictions by external parties on how it may be used. Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, and overall for the City as a whole.

The following table shows the revenue and expenses of the total primary government:

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
Program revenues:	2025	2024	2025	2024	2025	2024
Charges for services	$ 40,521	$ 23,199	$ 1,784,577	$ 2,023,578	$ 1,825,098	$ 2,046,777
Operating grants	647,901	2,399,160	-	-	647,901	2,399,160
Capital grants	1,058,813	1,292,306	45,420	-	1,104,233	1,292,306
General revenues:						
Property taxes	809,304	752,175	-	-	809,304	752,175
Other taxes*	2,312,141	2,222,457	-	-	2,312,141	2,222,457
Intergovernmental	816,890	813,245	-	-	816,890	813,245
Other	353,955	368,167	46,134	129,101	400,089	497,268
Total revenues	6,039,525	7,870,709	1,876,131	2,152,679	7,915,656	10,023,388
Expenses:						
General government	1,295,902	1,332,267	-	-	1,295,902	1,332,267
Public safety	1,684,658	1,486,749	-	-	1,684,658	1,486,749
Physical environment	1,783,715	979,222	-	-	1,783,715	979,222
Transportation	1,270,934	1,360,034	-	-	1,270,934	1,360,034
Cultural and recreation	289,988	309,825	-	-	289,988	309,825
Interest and fiscal charges	77,373	68,309	-	-	77,373	68,309
Water & Wastewater	-	-	1,721,532	1,405,316	1,721,532	1,405,316
Community development	-	-	784,330	517,746	784,330	517,746
Stormwater system	-	-	11,525	22,323	11,525	22,323
Total expenses	6,402,570	5,536,406	2,517,387	1,945,385	8,919,957	7,481,793
Change in net position, before transfers:	(363,045)	2,334,303	(641,256)	207,294	(1,004,301)	2,541,597
Transfers	261,261	364,089	(261,261)	(364,089)	-	-
Change in net position	(101,784)	2,698,392	(902,517)	(156,795)	(1,004,301)	2,541,597
Net position -beginning of year	24,205,552	21,507,160	8,028,785	8,185,580	32,234,337	29,692,740
Net position - ending	$ 24,103,769	$ 24,205,552	$ 7,126,268	$ 8,028,785	$ 31,230,036	$ 32,234,337

*Other taxes include local option gas tax, franchise fees, utility taxes, communication services tax, discretionary sales surtaxes, motor fuel tax, and half cent sales tax.

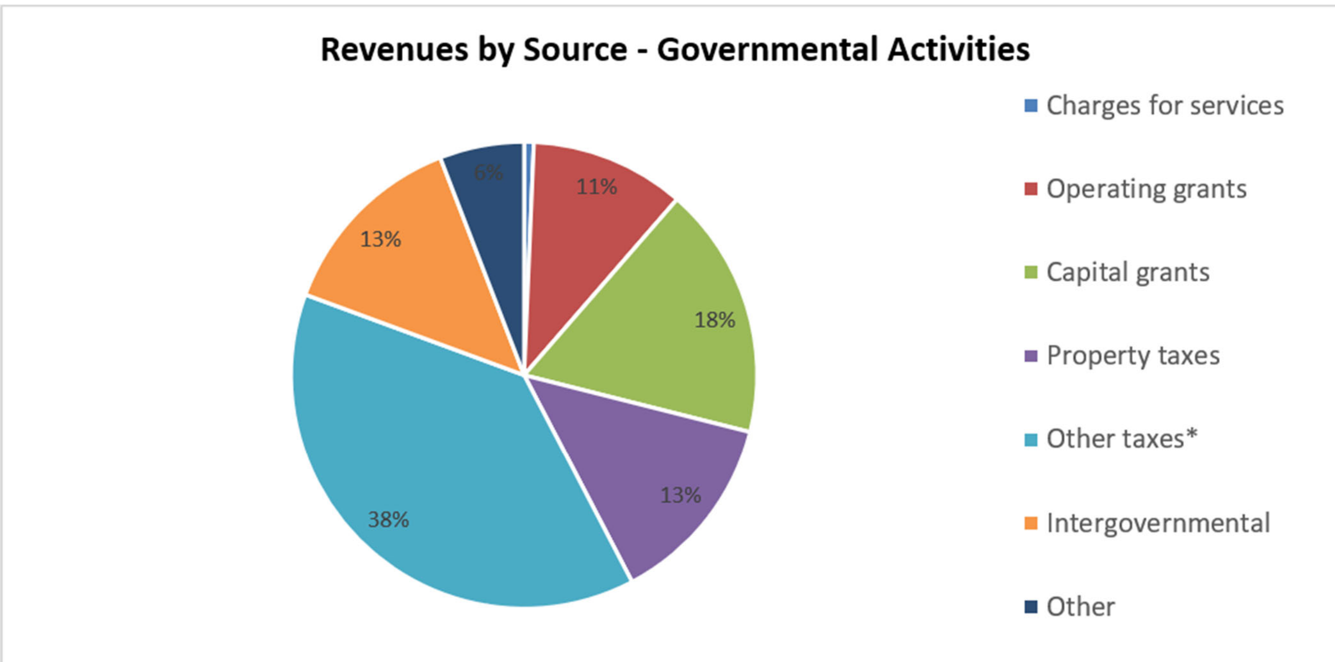
Governmental activities. Governmental activities decreased the City's net position by ($101,784). Key elements of this decrease is as follows:

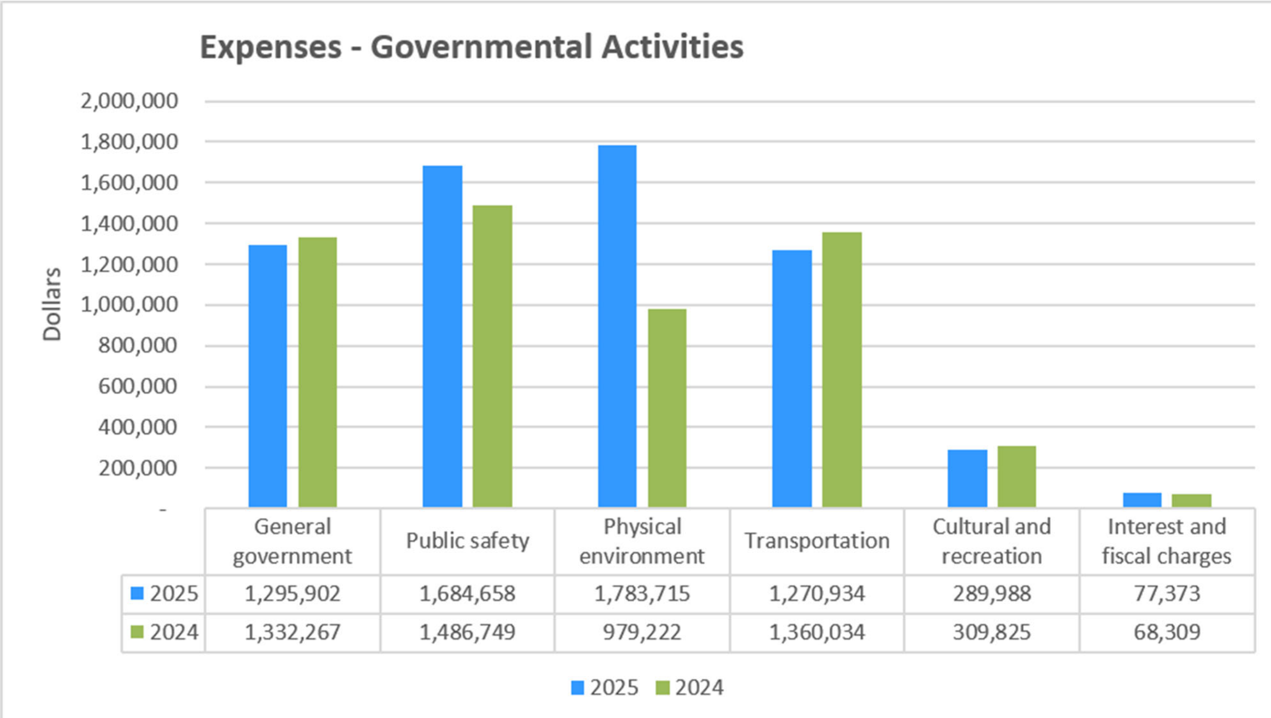
- Operating grants decreased by ($1,751,259) or -73%. The decrease is primarily due to the closing out of the ARPA grant funding from prior years.

- Property and other taxes increased $146,813 or 4.9%, due to the improved real estate values in the County, and increased millage rate.

- This year we had Capital Grants totaling $1,058,813, which was 18.1% less than in 2024. Mainly due to receiving FRDAP and other Grants in fiscal year 2024.

- Governmental Expenses increased $866,164, or 15.7% over the 2024 fiscal year, mainly due to improvements to the City's physical environment with consulting for capital improvements.

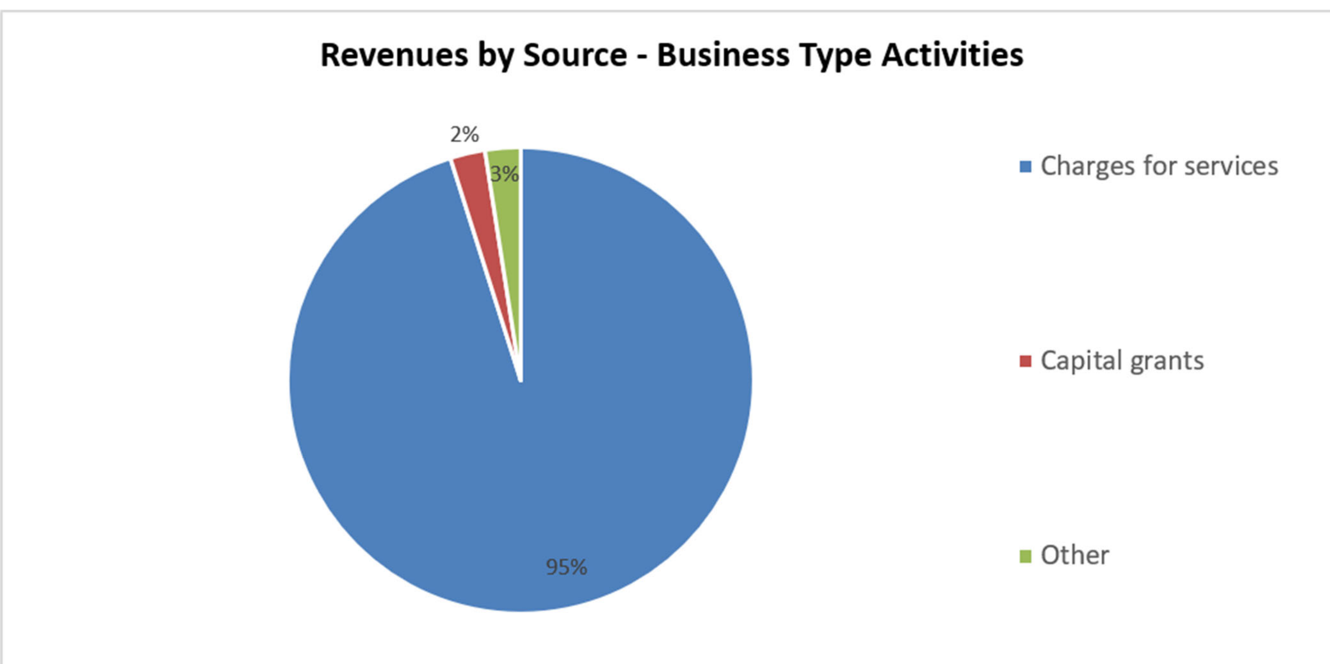


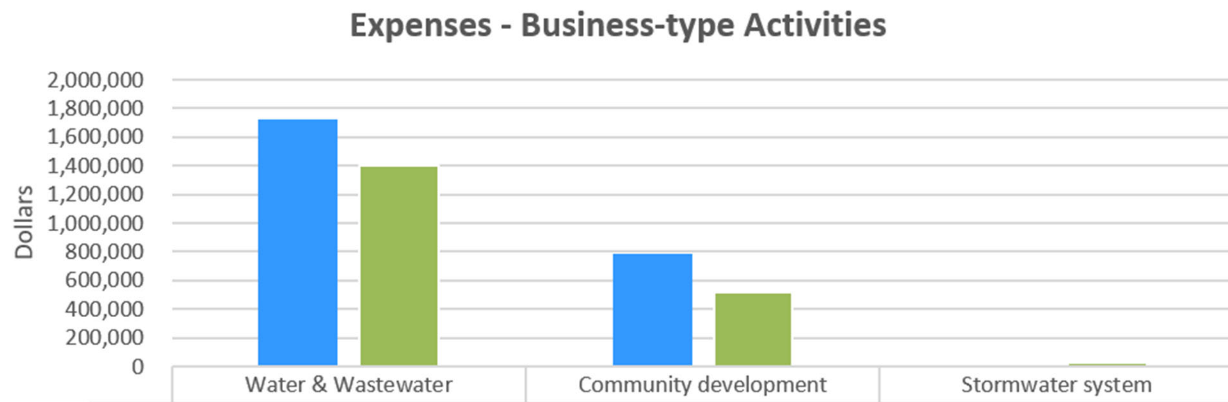


	General government	Public safety	Physical environment	Transportation	Cultural and recreation	Interest and fiscal charges
2025	1,295,902	1,684,658	1,783,715	1,270,934	289,988	77,373
2024	1,332,267	1,486,749	979,222	1,360,034	309,825	68,309

***Business-type activities*.** Business-type activities decreased the City's net position by ($902,517). Key elements of this decrease are as follows:

- Increases in salaries and wages for utility building development staff.
- Increased engineering fees and repair and maintenance
- Reduction in charges for services from lower usage of water and fewer building permits





	Water & Wastewater	Community development	Stormwater system
2025	1,721,532	784,330	11,525
2024	1,405,316	517,746	22,323

Financial Analysis of the City's Funds As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information regarding near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the recent fiscal year, the City's governmental funds reported combined ending fund balances of $815,636, a decrease of $2,038,116 in comparison with the prior year. An amount of ($1,379,300) constitutes unassigned fund balance deficit, due to the lack of reimbursements on grants. The remainder of fund balance is non-spendable or restricted.

The General Fund is the main operating fund of the City. At the end of the most recent fiscal year, unassigned fund balance of the General Fund was $2,460,348 while the total fund balance reached $2,529,125. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 63.9% of total general fund expenditures, while total fund balance represents 65.7% of that same amount. The fund balance of the City's General Fund decreased by $865,045 during the current fiscal year.

The Community Redevelopment Fund recorded year-end fund balances restricted for capital projects. Additional information on the fund equity can be found in Note 8.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the City's Water and Wastewater Fund, Community Development, and Stormwater Enterprise funds amounted to $894,384. The total for unrestricted net position (deficit) for each of these funds was

$1,651,067, ($1,197,412) and $440,729, respectively. Other factors concerning the finances of these funds have previously been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. At the end of fiscal year 2025, the City had $29,020,124 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, roads and drainage, and construction in progress. This amount represents a net increase (including additions and deductions) of $649,454, approximately 2.3% more than last year.

The following major increases occurred in Governmental activities during the fiscal year:

- Construction in progress projects and equipment purchases totaling $2,087,753.

The following major decrease occurred in Business-type activities during the fiscal year:

- Depreciation expense of $263,971

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	$ 7,958,208	$ 7,958,208	$ 445,699	$ 445,699	$ 8,403,907	$ 8,403,907
Construction in progress	3,610,160	2,258,429	-	-	3,610,160	2,258,429
Buildings	1,619,109	1,940,618	-	-	1,619,109	1,940,618
Improvements other than buildings	806,237	737,242	-	-	806,237	737,242
Machinery and equipment	753,743	293,102	5,437,483	5,577,491	6,191,226	5,870,593
Infrastructure	8,383,121	9,148,650	-	-	8,383,121	9,148,650
Right-to-use lease assets	6,364	11,231	-	-	6,364	11,231
Total capital assets, net	$ 23,136,942	$ 22,347,480	$ 5,883,182	$ 6,023,190	$ 29,020,124	$ 28,370,670

Additional information on the City's capital assets can be found in Note 2-C of this report.

Long-term debt. At the end of the 2025 fiscal year, the City of Fellsmere had total outstanding debt of $2,669,305, reflecting a increase of $66,877 from 2024. There was $175,981 in new debt issued for vehicle notes in 2025.

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Capital improvement revenue bond, 2022	$ 1,827,048	$ 1,952,519	$ 446,588	$ 485,482	$ 2,273,636	$ 2,438,001
Construction loans	-	-	123,391	-	123,391	-
Vehicles note	182,563	153,300	83,665	-	266,228	153,300
Lease liabilities	6,050	11,127	-	-	6,050	11,127
Total long-term debt	$ 2,015,661	$ 2,116,946	$ 653,644	$ 485,482	$ 2,669,305	$ 2,602,428

Economic Factors and Next Year's Budgets and Rates

The City’s elected and appointed officials considered many factors when setting the fiscal year 2026 budget, tax rates and fees that will be charged for business-type activities. One of these factors is the economy.

At the end of the 2025 fiscal year, unassigned fund balance in the general fund decreased to $2,460,348. For the 2025 fiscal year, the City adopted the millage the at 5.3500 (2.85% greater than the rolled back rate 5.2020).

The City implemented a CPI increase of 5.00% for the Water/Wastewater fund, and the Stormwater fund.

Requests for Information

The financial report is designed to provide a general overview of the City’s finances for all those with an interest in the City’s finances and to demonstrate the City’s accountability for the funds it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to the City Finance Department, City of Fellsmere, 22 S. Orange Street, Fellsmere, Florida 32948-6714.

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BASIC FINANCIAL STATEMENTS

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September 30, 2025	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	**$ 3,074,505**	**$ 714**	**$ 3,075,219**
Investments	**2,824,288**	**676,351**	**3,500,639**
Accounts receivable	**112,321**	**126,145**	**238,466**
Lease receivables	**195,491**	**-**	**195,491**
Due from other governments	**2,807,270**	**-**	**2,807,270**
Internal balances	**(1,042,083)**	**1,042,083**	**-**
Inventories	**-**	**67,454**	**67,454**
Restricted cash and cash equivalents	**-**	**1,252,292**	**1,252,292**
Prepaid items	**7,237**	**6,458**	**13,695**
Capital assets:			
Nondepreciable			
Land	**7,958,208**	**445,699**	**8,403,907**
Construction in progress	**3,610,160**	**-**	**3,610,160**
Depreciable, net of accumulated depreciation and amortization			
Buildings	**1,619,109**	**-**	**1,619,109**
Improvements other than buildings	**806,237**	**-**	**806,237**
Machinery and equipment	**753,743**	**5,437,483**	**6,191,226**
Infrastructure	**8,383,121**	**-**	**8,383,121**
Right-to-use lease assets	**6,364**	**-**	**6,364**
Total assets	**31,115,971**	**9,054,679**	**40,170,650**

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

September 30, 2025	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable and accrued liabilities	**845,071**	**327,301**	**1,172,372**
Due to other governments	**94,907**	**-**	**94,907**
Unearned revenues	**3,413,744**	**351,012**	**3,764,756**
Noncurrent liabilities:			
Due within one year			
Compensated absences	**70,960**	**9,930**	**80,890**
Lease liability	**4,969**	**-**	**4,969**
Bonds and notes payable	**199,984**	**56,279**	**256,263**
Due in more than one year			
Compensated absences	**70,864**	**12,639**	**83,503**
Lease liability	**1,081**	**-**	**1,081**
Bonds and notes payable	**1,809,627**	**597,365**	**2,406,992**
Total liabilities	**6,511,207**	**1,354,526**	**7,865,733**
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - lease revenue	**500,996**	**564,163**	**1,065,159**
Deferred revenue - business tax revenue	**-**	**9,722**	**9,722**
Total deferred inflows of resources	**500,996**	**573,885**	**1,074,881**
NET POSITION			
Net investment in capital assets	**21,220,861**	**5,229,538**	**26,450,399**
Restricted for:			
Debt service	**-**	**10,134**	**10,134**
Renewal and replacement	**-**	**992,212**	**992,212**
Cemetery perpetual care	**61,540**	**-**	**61,540**
Capital projects	**2,126,159**	**-**	**2,126,159**
Unrestricted	**695,208**	**894,384**	**1,589,592**
Total net position	**$ 24,103,768**	**$ 7,126,268**	**$ 31,230,036**

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

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Year ended September 30, 2025						Program Revenues
Functions/Programs		Expenses		Charges for Services		Operating Grants and Contributions
Primary government						
Governmental activities:						
General government	$	1,295,902	$	3,488	$	14,494
Public safety		1,684,658		6,855		-
Physical environment		1,783,715		29,903		-
Economic environment		-		-		633,407
Transportation		1,270,934		-		-
Culture and recreation		289,988		275		-
Interest and fiscal charges		77,373		-		-
Total governmental activities		6,402,570		40,521		647,901
Business-type activities:						
Water & Wastewater		1,721,532		1,464,530		-
Community development		784,330		167,929		-
Stormwater system		11,525		152,118		-
Total business-type activities		2,517,387		1,784,577		-
Total primary government	$	8,919,957	$	1,825,098	$	647,901

General revenues and transfers:
Taxes:
Property
Discretionary sales
Local option gas tax
Franchise
Utility
Communications services
Unrestricted investment earnings
State shared revenue
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position

Net position, beginning of year
Net position, end of year

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

	Net (Expense) Revenue and Changes in Net Position		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
$ -	$ (1,277,920)	$ -	$ (1,277,920)
-	(1,677,803)	-	(1,677,803)
1,058,813	(694,999)	-	(694,999)
-	633,407	-	633,407
-	(1,270,934)	-	(1,270,934)
-	(289,713)	-	(289,713)
-	(77,373)	-	(77,373)
1,058,813	(4,655,335)	-	(4,655,335)
41,460	-	(215,542)	(215,542)
-	-	(616,401)	(616,401)
3,960	-	144,553	144,553
45,420	-	(687,390)	(687,390)
$ 1,104,233	(4,655,335)	(687,390)	(5,342,725)
	809,304	-	809,304
	945,751	-	945,751
	150,305	-	150,305
	421,449	-	421,449
	606,569	-	606,569
	188,067	-	188,067
	134,114	29,199	163,313
	816,890	-	816,890
	219,841	16,935	236,776
	261,261	(261,261)	-
	4,553,551	(215,127)	4,338,424
	(101,784)	(902,517)	(1,004,301)
	24,205,552	8,028,785	32,234,337
	$ 24,103,768	$ 7,126,268	$ 31,230,036

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

September 30, 2025		General		Infrastructure		Grants Fund
ASSETS						
Cash and cash equivalents	$	404,845	$	-	$	-
Investments		2,824,288		-		-
Accounts receivable		112,321		-		-
Lease receivables		195,491		-		-
Due from other funds		-		1,974,322		-
Due from other governments		125,592		158,427		2,496,505
Prepaid items		7,237		-		-
Total assets	$	3,669,774	$	2,132,749	$	2,496,505
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$	117,316	$	475,601	$	172,180
Accrued liabilities		60,626		-		-
Due to other funds		366,804		138,390		3,855,298
Due to other governments		94,907		-		-
Unearned revenues		-		-		-
Total current liabilities		639,653		613,991		4,027,478
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue		-		-		2,308,675
Deferred revenue - lease revenue		500,996		-		-
Total deferred inflows of resources		500,996		-		2,308,675
Fund balances						
Nonspendable		7,237		-		-
Restricted		61,540		1,518,758		-
Unrestricted / unassigned (deficit)		2,460,348		-		(3,839,648)
Total fund balances		2,529,125		1,518,758		(3,839,648)
Total liabilities and fund balances	$	3,669,774	$	2,132,749	$	2,496,505

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

IRC ARPA Funds	Nonmajor Funds	Total Governmental Funds
$ 2,161,452	$ 508,208	$ 3,074,505
-	-	2,824,288
-	-	112,321
-	-	195,491
1,252,292	91,795	3,318,409
-	26,746	2,807,270
-	-	7,237
$ 3,413,744	$ 626,749	$ 12,339,521
$ -	$ 19,348	$ 784,445
-	-	60,626
-	-	4,360,492
-	-	94,907
3,413,744	-	3,413,744
3,413,744	19,348	8,714,214
-	-	2,308,675
-	-	500,996
-	-	2,809,671
-	-	7,237
-	607,401	2,187,699
-	-	(1,379,300)
-	607,401	815,636
$ 3,413,744	$ 626,749	$ 12,339,521

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

City of Fellsmere, Florida
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

September 30, 2025

Total fund balances - governmental funds			**$ 815,636**
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 funds.			
Governmental capital assets	$	42,222,146	
Less: accumulated depreciation/amortization		(19,085,204)	**23,136,942**
Unavailable grant revenue (related to reimbursement grant funds) is recorded as a liability in the fund statements, but is recorded as revenue in the governmental activities.			**2,308,675**
Long-term liabilities, including bonds and notes payable, compensated absences and lease liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Bond and note payable	$	(2,009,611)	
Compensated absences		(141,824)	
Lease liability		(6,050)	**(2,157,485)**
Net position of governmental activities			**$ 24,103,768**

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Year Ended September 30, 2025	General	Infrastructure	Grants Fund
Revenues			
Taxes:			
Property	$ 809,304	$ -	$ -
Public utility	606,569	-	-
Sales	-	945,751	-
Motor fuel	-	-	-
Communications services	188,067	-	-
Franchise fees	421,449	-	-
Intergovernmental	834,872	-	633,407
Charges for services	15,809	-	-
Fines	6,855	-	-
Investment earnings	134,114	-	-
Other revenues	168,283	-	-
Total revenues	3,185,322	945,751	633,407
Expenditures			
Current:			
General government	865,187	-	-
Public safety	1,581,841	-	-
Physical environment	-	-	1,118,195
Transportation	1,256,683	-	-
Culture and recreation	143,635	-	-
Debt service:			
Principal	5,077	181,367	-
Interest and fiscal charges	202	77,171	-
Capital outlay	-	554,092	1,533,661
Total expenditures	3,852,625	812,630	2,651,856
Excess (deficiency) of revenues over (under) expenditures	(667,303)	133,121	(2,018,449)
Other financing sources (uses)			
Transfers in	-	367,208	46,526
Transfers out	(197,742)	-	(973,564)
Loan proceeds	-	85,159	-
Total other financing sources (uses)	(197,742)	452,367	(927,038)
Net change in fund balances	(865,045)	585,488	(2,945,487)
Fund balances (deficit), beginning of year	3,394,170	933,270	(894,161)
Fund balances (deficit), end of year	$ 2,529,125	$ 1,518,758	$ (3,839,648)

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

IRC ARPA Funds	Nonmajor Funds	Total Governmental Funds
$ -	$ -	$ 809,304
-	-	606,569
-	-	945,751
-	150,305	150,305
-	-	188,067
-	-	421,449
-	-	1,468,279
-	-	15,809
-	-	6,855
-	-	134,114
-	65,927	234,210
-	216,232	4,980,712
-	-	865,187
-	-	1,581,841
-	-	1,118,195
-	47,912	1,304,595
-	225	143,860
-	-	186,444
-	-	77,373
-	-	2,087,753
-	48,137	7,365,248
-	168,095	(2,384,536)
-	1,065,359	1,479,093
-	(46,526)	(1,217,832)
-	-	85,159
-	1,018,833	346,420
-	1,186,928	(2,038,116)
-	(579,527)	2,853,752
$ -	$ 607,401	$ 815,636

City of Fellsmere, 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 - total governmental funds		**$(2,038,116)**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense.		
Expenditures for capital assets	$ 2,087,753	
Less: current year depreciation/amortization	(1,298,291)	**789,462**
Issuance of long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the statement of net position.		**(85,159)**
Under the modified accrual basis of accounting used in the governmental funds, revenues are not recognized until funds are measurable and available to finance current expenditures. In the statement of activities, however, which is presented on the accrual basis, revenues are reported regardless of when financial resources are available. This is the additional revenue recognized under the accrual basis.		**2,308,675**
Reversal of revenue under modified accrual basis of accounting recognized in prior years.		**(1,249,862)**
Repayment of bond principal, loans, and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.This is the principal payments on the long-term debt.		**186,444**
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		**(13,228)**
Change in net position of governmental activities		**$ (101,784)**

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September 30, 2025	Water & Wastewater	Community Development
ASSETS		
Current assets:		
Cash and cash equivalents	$ **614**	$ **100**
Restricted cash and cash equivalents	**1,252,292**	**-**
Investments	**676,351**	**-**
Accounts receivable	**106,413**	**2,459**
Due from other funds	**1,631,951**	**-**
Inventories	**67,454**	**-**
Prepaid items	**5,953**	**505**
Total current assets	**3,741,028**	**3,064**
Noncurrent assets:		
Capital assets:		
Land	**324,564**	**37,860**
Machinery and equipment	**10,003,778**	**8,104**
Less accumulated depreciation	**(4,607,505)**	**(8,104)**
Total capital assets, net of accumulated depreciation	**5,720,837**	**37,860**
Total noncurrent assets	**5,720,837**	**37,860**
Total assets	**9,461,865**	**40,924**
LIABILITIES		
Current liabilities:		
Accounts payable	**190,824**	**46,927**
Accrued liabilities	**63,827**	**25,723**
Due to other funds	**-**	**1,013,324**
Unearned revenues	**249,946**	**101,066**
Current portion of accrued compensated absences	**8,296**	**1,634**
Current portion of long-term debt	**56,279**	**-**
Total current liabilities	**569,172**	**1,188,674**
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	**10,559**	**2,080**
Long-term debt, net of current portion	**597,365**	**-**
Total noncurrent liabilities	**607,924**	**2,080**
Total liabilities	**1,177,096**	**1,190,754**
DEFERRED INFLOW OF RESOURCES		
Deferred revenue - lease revenue	**564,163**	**-**
Deferred revenue - business tax receipts	**-**	**9,722**
Total deferred inflow of resources	**564,163**	**9,722**
NET POSITION (DEFICIT)		
Net investment in capital assets	**5,067,193**	**37,860**
Restricted for:		
Debt service	**10,134**	**-**
Renewal and replacement	**992,212**	**-**
Unrestricted (deficit)	**1,651,067**	**(1,197,412)**
Total net position (deficit)	$ **7,720,606**	$ **(1,159,552)**

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

Stormwater System - Nonmajor fund	Total
$ -	$ 714
-	1,252,292
-	676,351
17,273	126,145
423,456	2,055,407
-	67,454
-	6,458
440,729	4,184,821
83,275	445,699
74,276	10,086,158
(33,066)	(4,648,675)
124,485	5,883,182
124,485	5,883,182
565,214	10,068,003
-	237,751
-	89,550
-	1,013,324
-	351,012
-	9,930
-	56,279
-	1,757,846
-	12,639
-	597,365
-	610,004
-	2,367,850
-	564,163
-	9,722
-	573,885
124,485	5,229,538
-	10,134
-	992,212
440,729	894,384
$ 565,214	$ 7,126,268

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

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

Year ended September 30, 2025	Water & Wastewater	Community Development	Stormwater System - Nonmajor fund	Total
Operating revenues:				
Charges for services	**$ 1,464,530**	**$ -**	**$ 152,118**	**$ 1,616,648**
Building permits, licenses and fees	**-**	**167,929**	**-**	**167,929**
Other revenues	**14,166**	**2,769**	**-**	**16,935**
Total operating revenues	**1,478,696**	**170,698**	**152,118**	**1,801,512**
Operating expenses:				
Salaries, wages and employee benefits	**494,523**	**333,920**	**-**	**828,443**
Contractual services, materials and supplies	**945,205**	**450,410**	**6,607**	**1,402,222**
Depreciation	**259,053**	**-**	**4,918**	**263,971**
Total operating expenses	**1,698,781**	**784,330**	**11,525**	**2,494,636**
Operating income (loss)	**(220,085)**	**(613,632)**	**140,593**	**(693,124)**
Nonoperating revenues (expenses):				
Interest income	**29,199**	**-**	**-**	**29,199**
Interest expense	**(22,751)**	**-**	**-**	**(22,751)**
Total nonoperating revenues (expenses)	**6,448**	**-**	**-**	**6,448**
Income (loss) before transfers and capital contributions	**(213,637)**	**(613,632)**	**140,593**	**(686,676)**
Capital contributions and transfers:				
Capital contributions	**41,460**	**-**	**3,960**	**45,420**
Transfers out	**(261,261)**	**-**	**-**	**(261,261)**
Total capital contributions and transfers	**(219,801)**	**-**	**3,960**	**(215,841)**
Change in net position	**(433,438)**	**(613,632)**	**144,553**	**(902,517)**
Net position (deficit), beginning of year	**8,154,044**	**(545,920)**	**420,661**	**8,028,785**
Net position (deficit), end of year	**$ 7,720,606**	**$ (1,159,552)**	**$ 565,214**	**$ 7,126,268**

City of Fellsmere, Florida
Statement of Cash Flows
Proprietary Funds

Year ended September 30, 2025	Water & Wastewater	Community Development	Stormwater System - Nonmajor fund	Total
Cash flows from operating activities:				
Cash received from customers for sales and services	$ 1,569,323	$ 84,313	$ 139,453	$ 1,793,089
Internal activity - (payments) receipts from other funds	(1,038,698)	656,684	(423,456)	(805,470)
Cash payments to employees	(490,459)	(324,259)	-	(814,718)
Cash payments to suppliers for goods and services	(817,763)	(431,738)	(6,612)	(1,256,113)
Net cash provided by (used in) operating activities	(777,597)	(15,000)	(290,615)	(1,083,212)
Cash flows from noncapital financing activities:				
Transfers to other funds	(261,261)	-	-	(261,261)
Net cash provided by (used in) noncapital financing activities	(261,261)	-	-	(261,261)
Cash flows from capital and related financing activities:				
Capital contributions	41,460	-	3,960	45,420
Acquisition and construction of capital assets	(123,963)	-	-	(123,963)
Proceeds from long-term debt	234,776	-	-	234,776
Payments on long-term debt	(66,614)	-	-	(66,614)
Interest paid on long-term debt	(22,751)	-	-	(22,751)
Net cash provided by (used in) capital and related financing activities	62,908	-	3,960	66,868
Cash flows from investing activities:				
Purchase of Investments	(29,199)	-	-	(29,199)
Interest on investments	29,199	-	-	29,199
Net cash provided by (used in) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(975,950)	(15,000)	(286,655)	(1,277,605)
Cash and cash equivalents, beginning of year	2,228,856	15,100	286,655	2,530,611
Cash and cash equivalents, end of year	$ 1,252,906	$ 100	$ -	$ 1,253,006
Classified on the statement of net position as:				
Current assets:				
Cash and cash equivalents	$ 614	$ 100	$ -	$ 714
Restricted cash and cash equivalents	1,252,292	-	-	1,252,292
	$ 1,252,906	$ 100	$ -	$ 1,253,006

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

Year ended September 30, 2025	Water & Wastewater	Community Development	Stormwater System - Nonmajor fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	**$ (220,085)**	**$ (613,632)**	**$ 140,593**	**$ (693,124)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	**259,053**	**-**	**4,918**	**263,971**
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	**63,046**	**77,848**	**(12,665)**	**128,229**
Due from other funds	**(1,038,698)**	**-**	**(423,456)**	**(1,462,154)**
Inventories	**3,150**	**-**	**-**	**3,150**
Prepaid items	**(3,567)**	**(447)**	**-**	**(4,014)**
Increase (decrease) in liabilities and: deferred inflows:				
Accounts payable	**127,859**	**19,119**	**(5)**	**146,973**
Accrued liabilities	**2,679**	**9,660**	**-**	**12,339**
Due to other funds	**-**	**656,684**	**-**	**656,684**
Due to other governmental units	**-**	**(19,842)**	**-**	**(19,842)**
Accrued compensated absences	**1,385**	**1**	**-**	**1,386**
Unearned revenues	**39,584**	**(145,603)**	**-**	**(106,019)**
Deferred inflows - business tax receipts	**-**	**1,212**	**-**	**1,212**
Deferred inflows - lease revenue	**(12,003)**	**-**	**-**	**(12,003)**
Total adjustments	**(557,512)**	**598,632**	**(431,208)**	**(390,088)**
Net cash provided by (used in) operating activities	**$ (777,597)**	**$ (15,000)**	**$ (290,615)**	**$ (1,083,212)**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fellsmere, Florida (the "City"), located in Indian River County (the "County"), was incorporated in 1911. The City was created under the legal authority of Article VIII of the Florida Constitution, Florida Statutes' Chapter 165 and pursuant to the Laws of Florida 11480, Act of 1925. The City operates under a Council - manager form of government whereby the mayor is elected from the five members of Council. The City provides the following services: General and Administrative Services, Public Safety-Police, Public Works-Streets, Culture and Recreation, Water, Wastewater Systems, and Community Development.

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a four-member governing council (the "Council"). The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component unites are, in substance, part of the primary government's operations even though they are legally separate entities. Thus, blended component units are appropriately presented as funds in the primary government. The City reported no discretely presented component units for the year ended September 30, 2024. The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applied to governmental units. The more significant accounting policies used by the City are described below.

In evaluating the City as a reporting entity, management has considered all potential component units in accordance with Section 2100: *Defining the Financial Reporting Entity* of the Governmental Accounting Standards Board (GASB) Codification.

Blended Component Unit

The Community Redevelopment Agency (CRA) was created in November 2005, through Resolution No. 05-JJ, to finance development within the geographic boundaries of the community redevelopment area. Although legally separate, the CRA is governed by a board primarily of the City's elected Council members and the services provided by the CRA create a financial benefit relationship with the City. The CRA does not issue separate financial statements. Their financial statements are included in the City's Financial Statements as a non-major special revenue fund for the year ended September 30, 2025.

B. Government-Wide 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 of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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 government considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgements, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within six months). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's wastewater and sanitation services functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *Infrastructure Fund* accounts for the financial resources used for infrastructure improvements and equipment purchases.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The *Grants Fund* accounts for the financial resources used for Hurricane Loss Mitigation Program.

The *Indian River County American Rescue Plan Act (IRC ARPA) Fund* accounts for the financial resources used for deployment of broadband services to unincorporated areas around Fellsmere.

The City reports the following major enterprise funds:

The *Water & Wastewater Fund* accounts for the activities in providing water and wastewater services to the public.

The *Community Development Fund* accounts for the financial resources of the City's building department.

Additionally, the City reports the following nonmajor fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The City's nonmajor enterprise fund consists of the stormwater system fund.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advanced to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Similarly, balances between funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Budgetary Information

The City has elected to report the budgetary comparison schedules as Required Supplementary Information (RSI). Please refer to the accompanying notes to the RSI for the City's budgetary information.

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Deposits available within various funds were consolidated for investment purposes. Substantially all deposits were investing using the pooled investment concept. Interest earned was allocated monthly to the various funds based on their month-ending cash and investment balances.

Investments for the City are reported at fair value except for the position in the Investment Pool. The Investment Pool meets all of the specified criteria in Section I50: *Investments* to qualify to elect to measure their investments at amortized costs. Accordingly, the value of the City's position in the pool is equal to the value of pooled shares.

The City of Fellsmere is empowered by statute to invest in the following instruments and may divest itself of such investments, at prevailing market prices or rates subject to the limitations of Section 218.415 – a) the Local Government Surplus Funds Trust Fund, administered by the Florida State Board of Administration or any intergovernmental investment pool authorized pursuant the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01, Florida Statutes; b) Securities and Exchange Commission registered money market funds with the highest quality rating from a nationally recognized rating agency; c) savings accounts in state-certified qualified public depositories, as defined in Florida Statute 280.02; d) certificates of deposit and Repurchase

Agreements in state-certified qualified depositories, as defined in Florida Statute 280.02; e) direct obligations of the U.S. Treasury; and f) Federal agencies and instrumentalities.

Banks and savings and loans in which the City funds are deposited must be classified as a qualified public depository as defined in the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes, before any deposits are made with those institutions. The City had deposits only with qualifying public depositories as of September 30, 2025.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

3. Receivables and Payables

Accounts receivable consist of trade receivables. Amounts due from other governments amounts include due from the State of Florida. Program and capital grants are recorded as receivable and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are reported as "unearned."

Lease receivables – The City's lease receivables are measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the City may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received.

The City has no allowance for doubtful accounts as of September 30, 2025, as all receivables are considered collectible.

4. Interfund Activities and Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" within the fund financial statements. Long-term borrowings between funds are classified as "advances to other funds" or "advances from other funds" in the fund financial statements. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual balance outstanding between the governmental and business-type activities at the end of the fiscal year, which are reported in the government-wide financial statements as internal balances.

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or business-type funds are funds are netted as part of the reconciliation to the government-wide presentation.

5. Inventories and Prepaid Items

Inventory at September 30, 2025 consisted of various parts, materials, and supplies on hand in connection with the water system. This inventory is stated at cost, determined by the first-in, first-out (FIFO) method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. Prepaid items consist of prepaid insurance at September 30, 2025.

6. Restricted Assets

Certain assets of the City are classified as restricted assets on the Statement of Net Position because their use is limited either by law or through constitutional provision or enabling legislation, or by restrictions imposed externally by creditors, grantors, contributors, or laws and regulations of other governments. In a fund with both restricted and unrestricted net position, qualified expenses are considered to be paid first from restricted net position, then from unrestricted net position.

7. Capital Assets

Capital assets, which include property, plant, equipment, right-to-use assets and infrastructure assets (e.g., roads, bridges, sidewalks, 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, individual cost of more than $5,000 and an estimated useful life of more than five years. Such assets are recorded at historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred. Donated capital assets are recorded at their acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. The other capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 to 30 years
Improvements other than buildings	10 to 20 years
Infrastructure improvements	20 years
Water distribution and wastewater systems	50 years
Equipment and vehicles	5 to 10 years

Right-of-use lease assets are amortized over the life of the lease.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

8. Unearned Revenues

Unearned revenues include amounts collected before the eligibility criteria are met, and consisted of various grants.

9. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The City had two (2) items that qualified as deferred inflows of resources, business tax receipts and leases (amounts owed to the City as the lessor).

10. Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. Both unused vacation benefits and unused sick leave are eligible to be used while still employed by the City. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements to the extent that the leave is attributable to employees' services already rendered and is more likely than not to be used and paid for while employed or paid for at the end of employment. For the purpose of measuring the liability, the City assumes that leave is used on a last-in-first-out (LIFO) basis, with leave earned during the current year used before leave accumulated in prior years. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

11. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term 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 and is recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Codification Section I30: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

12. Leases

Lease contracts provide the City with control of a non-financial assets, such as land, buildings or equipment, for a period of time in excess of twelve months are reported as a leased asset with a related lease liability. The lease liability is recorded at the present value of future lease payments, including fixed payments, variable payments based on an index or fixed rate and reasonably certain residual guarantees. The intangible leased asset is recorded for the same amount as the related lease liability plus any prepayments and initial direct costs to place the asset in service. Lease assets are amortized over the shorter of the useful life of the asset or the lease term. The lease liability is reduced for lease payments made, less the interest portion of the lease payment.

13. Categories and Classification of Net Position and Fund Balance

Net position flow assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions – Sometimes the City will fund outlaws for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance polices – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, specifies the following classifications:

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Nonspendable fund balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The governing council has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund.

14. Revenues and Expenditures/Expenses

Program revenues – Amounts reported as 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, 2) operating grants and contributions, 3) capital grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Property taxes – Property taxes attach as an enforceable lien on real property and are levied based on the property valuation as of January 1. The fiscal year for which property taxes are levied begins October 1. Taxes are due beginning November 1 and considered delinquent on April 1. All property taxes remaining unpaid at May 30 are subject to lien, and penalties and interest are assessed. Property taxes are considered fully collected (97% of the levy) during and prior to the end of the fiscal year. Therefore no material amounts of property taxes are receivable as of September 30, 2025.

Proprietary funds operating and nonoperating revenues and expenses – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

16. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 31, 2026. See Note 9 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Recently Issued and Implemented Accounting Pronouncements

GASB Statement No. 101*, Compensated Absences.* The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. This Statement differs from the prior standards in that governments should recognize a liability for (1) all forms of compensated absences, not just vacation leave, sick leave, and similar types of leave; (2) leave that may be carried forward and used and paid for while still employed, in addition to leave that may be carried forward and paid for at the end of employment; (3) leave that is more likely than not (instead of probable) to be used, paid, or settled; and (4) parental leave, military leave, jury duty leave, and other types of compensated absences that depend upon the occurrence of a sporadic event that affects a relatively small proportion of employees, but not until the leave commences. The potential effect of implementing this Statement is to encompass compensated absences for which long-term liabilities previously were not recognized, including sick leave, which City policy allows to be carried forward and used and paid for while still employed but not paid for at the end of employment. There were no significant impacts of implementing this Statement. The statement requires retrospective application; however, the change to the opening balances was de minimus.

GASB Statement No. 102*, Certain Risk Disclosures.* The objective of this Statement is to provide essential information about risks related to a government's vulnerabilities due to certain concentrations (a lack of diversification related to an aspect of a significant revenue source or expense) or constraints (limitations Imposed externally or by formal action of a government's highest level of decision-making authority). A government is required to disclose information about such risks if a concentration or constraint (1) is known to the government before the financial statements are available to be issued, (2) makes the government vulnerable to the risk of a substantial impact, and (3) an event or events associated with the concentration or constraint that could cause the substantial impact has occurred, begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are available to be issued. There were no significant impacts of implementing this Statement.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Recently Issued and Implemented Accounting Pronouncements (continued)

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

GASB Statement No. 103*, Financial Reporting Model Improvements.* The objective of this Statement is to improve key components of the financial reporting blueprint to enhance its effectiveness in providing essential information and to address certain application issues. The Statement requires changes to management's discussion and analysis to make it easier to read and understand and to focus on explaining the reasons why balances and results of operation have changed. The Statement also provides more explicit definitions of operating and nonoperating revenues and expenses and changes the presentation of nonoperating revenues and expenses in the proprietary funds statement of revenues, expenses, and changes in fund net position. The new standards also (1) combine extraordinary items and special items into a single category, unusual or infrequent items, and clarify how they should be reported; (2) limits the reporting of major component unit information to the face of the government-wide financial statements, if it does not reduce their readability, or in combining financial statements following the fund financial statements; and (3) requires that budgetary comparisons be presented as required supplementary information, eliminating the option to present them as basic financial statements. The only significant impact of implementing Statement 103 was the change from displaying nonoperating revenues and expenses in a single section of the proprietary funds statement of revenues, expenses, and changes in fund net position to separately displaying noncapital subsidies from other nonoperating revenues and expenses.

GASB Statement No. 104*, Disclosure of Certain Capital Assets.* The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. In addition to existing requirements regarding the level of detail with which notes to financial statements should disclose intangible right-to-use lease and subscription-based information technology arrangements (SBITA) assets, the Statement requires that (1) intangible right-to-use assets recognized by government operators in a public-public partnership should be disclosed by major class of underlying asset; (2) other types of intangible assets should be disclosed by major class; and (3) right-to-use assets should be disclosed separately from owned assets of the same type. The Statement also establishes that capital assets held for sale are those a government has decided to sell and whose sale within a year of the financial statement date is probable. Capital assets held for sale should be disclosed together with other capital assets of the same class. Governments also should disclose in notes the historical cost and accumulated depreciation (or amortization) of capital assets held for sale, as well as the carrying amount of debt for which they are pledged as collateral, by major class of asset for governmental and business-type activities.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Recently Issued and Implemented Accounting Pronouncements (continued)

GASB Statement No. 105*, Subsequent Events.* The objective of this Statement is to enhance the consistency with which the standards for reporting subsequent events are applied, thereby better meeting the information needs of financial statement users. The Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued (that is, when the financial statements are complete in a form and format that complies with generally accepted accounting principles and approvals necessary for issuance have been obtained), rather than the date the financial statements are issued. The date through which subsequent events have been evaluated should be disclosed. A recognized subsequent event provides evidence of conditions that existed at the financial statement date that inform accounting estimates reported as of the financial statement date and should be reflected in those estimates. A nonrecognized subsequent event results in a significant effect (favorable or unfavorable) that is recognized or disclosed in the basic financial statements in the reporting period in which the event occurs and is one of the following: a debt-related transaction; government combination or a disposal of government operations; a change to the legally separate entities that compose the financial reporting entity; or a transaction or other event that is of such a nature that disclosure is essential to a user's analysis for making decisions or assessing accountability. Governments will be required to disclose a description of the nonrecognized event and its effect and an estimate of the amount of the effect (or the reason why an estimate cannot be made).

The City is evaluating the requirements of the above statements and the impact on financial statement reporting.

Note 2: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At September 30, 2025, the carrying amount of the City's deposits with banks was $3,073,755 and the bank balance was $4,405,949. In addition, the City holds $1,464 of petty cash. As of September 30, 2025, $250,000 of the City's bank balances were covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depository, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes.

Restricted cash in the Enterprise Funds at September 30, 2025 consists of unspent water and wastewater system impact fees and interest earned on these funds of $1,242,158. Under City adopted resolutions, these funds may be used only for extensions, enlargements, or additions to the capital assets of the water and wastewater systems. Restricted cash also consists of bond sinking fund reserve for the water system in the amount of $10,134.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

In lieu of adopting its own investment policy, the City invests surplus funds pursuant to the guidelines in Florida Statute 218.415, subsection 17, which allows the City to invest in the Florida State Board of Administration intergovernmental investment pool or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, direct obligations of the United States Government, obligations of the different agencies of the Federal Government, registered money market funds and accounts of state qualified public depositories.

The Florida Cooperative Liquid Assets Securities System (FLCLASS) is an independent Local Government Investment Pool (LGIP) designed to meet the cash management and short-term investment needs of Florida governmental entities and was created by an interlocal agreement by and among State public agencies under Florida Statute 163.01 and is administered under Florida Statute 218.415. FLCLASS is governed by a Board of Trustees (the "Board"). The Board supervises the Trust and its affairs and acts as the liaison between the participants, the custodian, the administrator and all service providers.

The fair values of the LGIP's are equal to the value of the pooled shares. The investments in the LGIP's are not insured by FDIC or any other governmental agency. The LGIP's follow GASB Statement No. 79 and value all securities at amortized cost, which approximate fair value, in an attempt to maintain a constant net asset value (NAV) of $1 per share. On September 30, 2025, the City had $3,500,639 invested. The fair value of the City's position in the pool is equal to the value of pooled shares or net asset value.

Under GASB Codification I50: *Investments*, if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes of its investments at amortized cost it should disclose the present of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transactions amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements. As of September 30, 2025, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit the City's access to 100 percent of their account value in the external investment pool.

Custodial credit risk – Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificate of deposits are defined as public deposits. The financial institutions in which the City places its deposits are certified as "qualified public depositories," as required under the Florida Security for Public Deposits Act. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Interest rate risk – Interest rate risk is the possibility that interest rates will rise and reduce the fair value of an investment.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

The dollar weighted average days to maturity (WAM) of FLCLASS at September 30, 2025, was 42.34 days and the weighted average life (WAL) was 85.05 days.

Credit risk – Section I50: *Investments* of the GASB Codification requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations.

Concentration risk – Section I50: *Investments* of the GASB Codification requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investments pools and other pooled investments.

As of September 30, 2025, the City has the following investments and effective duration presented in terms of years.

		Investment Maturities (in years)			
Investment Type	Credit Rating	Fair Value	Less than 1	From 1-5	More than 5
Primary government:					
Florida Cooperative Liquid Assets Securities System - FLCLASS	AAAm	$ 3,500,639	$ 3,500,639	$ -	$ -
Total primary government investments		$ 3,500,639	$ 3,500,639	$ -	$ -

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

B. Interfund receivables and payables and transfers

The composition of interfund balances as of September 30, 2025, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	$ -	$ 366,804
Infrastructure fund	1,974,322	138,390
IRC ARPA fund	1,252,292	-
Grants fund	-	3,855,298
Nonmajor governmental funds	91,795	-
Water & Wastewater fund	1,631,951	-
Stormwater System fund	423,456	-
Community development fund	-	1,013,324
Total	$ 5,373,816	$ 5,373,816

The Community Development fund and various nonmajor funds required funding from the Water & Wastewater fund to support operations and cash flow when waiting for reimbursement from grantors. The General fund required funding from the ARPA fund for expenditures being expended under the ARPA grant, for each funds had not yet been transferred.

For the year ended September 30, 2025, interfund transfers consisted of the following:

	Transfers In			
Transfers Out	Infrastructure fund	Grants fund	Nonmajor Governmental funds	Totals
General fund	$ 105,947	$ -	$ 91,795	$ 197,742
Grants fund	-	-	973,564	973,564
Water & wastewater fund	261,261	-	-	261,261
Nonmajor governmental funds	-	46,526	-	46,526
Totals	$ 367,208	$ 46,526	$ 1,065,359	$ 1,479,093

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 7,958,208	$ -	$ -	$ 7,958,208
Construction in progress	2,258,429	1,351,731	-	3,610,160
Total capital assets, not being depreciated	10,216,637	1,351,731	-	11,568,368
Capital assets, being depreciated:				
Buildings	6,150,515	-	-	6,150,515
Improvements other than buildings	3,576,673	181,930	-	3,758,603
Machinery and equipment	2,645,402	554,092	-	3,199,494
Infrastructure	17,520,343	-	-	17,520,343
Total capital assets, being depreciated	29,892,933	736,022	-	30,628,955
Less accumulated depreciation for:				
Buildings	(4,209,897)	(321,509)	-	(4,531,406)
Improvements other than buildings	(2,839,431)	(112,935)	-	(2,952,366)
Machinery and equipment	(2,352,300)	(93,451)	-	(2,445,751)
Infrastructure	(8,371,693)	(765,529)	-	(9,137,222)
Total accumulated depreciation	(17,773,321)	(1,293,424)	-	(19,066,745)
Total capital assets, being depreciated, net	12,119,612	(557,402)	-	11,562,210
Right-to-use lease assets, being amortized				
Equipment	24,823	-	-	24,823
Right-to-use lease assets, being amortized	24,823	-	-	24,823
Less accumulated amortization for				
Equipment	(13,592)	(4,867)	-	(18,459)
Total accumulated amortization	(13,592)	(4,867)	-	(18,459)
Right-to-use lease assets being amortized, net	11,231	(4,867)	-	6,364
Governmental activities capital assets, net	$ 22,347,480	$ 789,462	$ -	$ 23,136,942

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 445,699	$ -	$ -	$ 445,699
Total capital assets, not being depreciated	445,699	-	-	445,699
Capital assets, being depreciated:				
Water plant	3,049,374	-	-	3,049,374
Water lines	4,105,628	-	-	4,105,628
Water tank	408,813	-	-	408,813
Vehicle and equipment	86,896	96,073	-	182,969
Equipment	8,104	-	-	8,104
Wastewater lines	2,229,104	27,890	-	2,256,994
Stormwater equipment	74,276	-	-	74,276
Total capital assets, being depreciated	9,962,195	123,963	-	10,086,158
Less accumulated depreciation for:				
Water plant	(1,031,128)	(67,060)	-	(1,098,188)
Water lines	(2,125,952)	(122,766)	-	(2,248,718)
Water tank	(234,454)	(8,176)	-	(242,630)
Vehicle and equipment	(75,365)	(14,845)	-	(90,210)
Equipment	(8,103)	(1)	-	(8,104)
Wastewater lines	(881,553)	(46,205)	-	(927,758)
Stormwater equipment	(28,149)	(4,918)	-	(33,067)
Total accumulated depreciation	(4,384,704)	(263,971)	-	(4,648,675)
Total capital assets, being depreciated, net	5,577,491	(140,008)	-	5,437,483
Business-type activities capital assets, net	$ 6,023,190	$ (140,008)	$ -	$ 5,883,182

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets (continued)

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

Governmental activities:		
General government	$	430,342
Public safety		91,375
Transportation		647,232
Culture and recreation		129,342
Total depreciation/amortization expense - governmental activities	$	1,298,291
Business-type activities:		
Water & Wastewater		259,053
Stormwater		4,918
Total depreciation expense - business-type activities	$	263,971

D. Accounts payable and accrued liabilities

Payables are comprised of the following at year-end:

		Governmental Activities		Business-type Activities
Accounts payable	$	784,445	$	237,751
Accrued liabilities		60,626		89,550
Total payables	$	845,071	$	327,301

E. Construction Commitments

The City has active construction projects as of September 30, 2025. At year-end, the City's commitments with contractors totaled $54,150 across 1 construction project. The project is funded through grants and City funding.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities

Long-term liability activity for the year ended September 30, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital Improvement Revenue Refunding Bond, Series 2022	$1,952,519	$ -	$ (125,471)	$1,827,048	$ 131,101
Vehicle note 1670	-	85,159	(7,641)	77,518	12,214
Vehicle note 3570	153,300	-	(48,255)	105,045	56,669
Compensated absences*	128,596	13,228	-	141,824	70,960
Lease liabilities	11,127	-	(5,077)	6,050	4,969
Total governmental activities	$2,245,542	$ 98,387	$ (186,444)	$2,157,485	$ 275,913

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Capital Improvement Revenue Refunding Bond, Series 2022	$ 485,482	$ -	$ (38,894)	$ 446,588	$ 22,165
State Revolving Loan DW-301301	-	57,616	(8,244)	49,372	8,461
State Revolving Loan DW-301300	-	86,338	(12,319)	74,019	12,656
Vehicle note 2370	-	90,822	(7,157)	83,665	12,997
Compensated absences*	21,183	1,386	-	22,569	9,930
Total business-type activities	$ 506,665	$236,162	$ (66,614)	$ 676,213	$ 66,209

*Shown net.

<u>Capital Improvement Revenue Refunding Note, Series 2022 - Direct Borrowing</u>

On May 25, 2022, the City authorized a $2,764,000 Capital Improvement Revenue Refunding note with an interest rate of 3.22% to refund the outstanding balances of the Water Revenue Bond, Series 1993 and the Capital Improvement Revenue Bond, Series 2008 with an average interest rate of 4.5%.

Since fiscal year 2022, the Capital Improvement Revenue Refunding Note, Series 2022 is the sole outstanding bond issue of the City. Principal and interest are payable quarterly on December 1, March 1, June 1 and September 1 of each year. During the fiscal year ended September 30, 2025, a total of $156,000 in debt service principal and $77,675 in debt service interest were paid toward the outstanding balance. As of September 30, 2025, the balance of the note was $2,273,636.

The bond constitutes a special obligation of the City secured by a lien on and pledge of the gross discretionary sales tax revenues. Upon receipt of discretionary sales tax revenues, the City will transfer from the revenue fund into the sinking fund an equal monthly amount until the balance is sufficient to pay interest and principal due on the note on the next payment date. The City's current principal and interest of $225,775 was 24.9% of the current pledged revenue of $945,751. The balance of the sinking fund was $10,134 as of September 30, 2025.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities (continued)

Construction Loans – Direct Borrowing

In 2010, the City entered into two loans with the Florida Department of Environmental Protection. Disbursements for the loan were considered federal funds under a grant from the Environmental Protection Agency, Capitalization Grants for the State Revolving Fund. The construction project to expand the water treatment plant was finished in 2012.

Operational revenues from the Water & Wastewater utility are pledged as security for repayment of these loans. Both loans are to be repaid with 40 semi-annual payments of $7,288 for loan #1 and $4,837 for loan #2 in March and September ending in March and September 2031, respectively. Interest is charged at 2.71% and 2.61%, respectively. The loan agreement includes certain covenants with which the City was in compliance at September 30, 2025. In the event of default, outstanding amounts become immediately due if the City is unable to make payment and the City could be subject to a 6% interest penalty on amounts due, among other costs. At September 30, 2025 the balances of loan #1 and #2 were $74,019 and $49,372, respectively.

Vehicles Promissory Note – Direct Borrowing

On November 16, 2023, the City entered into a promissory note with Marine Bank & Trust Company. The City could borrow up to $300,000 at a 7.7% interest rate. Payments of principal and interest of $5,232 are due monthly beginning June 16, 2025. The maturity date is August 16, 2030. As of September 30, 2025, the outstanding balance was $105,045.

The City executed a promissory note dated January 16, 2025 with an interest rate of 7.64% per annum in favor of Marine Bank & Trust Company in the original principal amount of up to $85,159 for the purpose of purchasing vehicles and outfitting such vehicles. The City signed a loan agreement in order to set out the terms and conditions of the loan. The City will pay seventy-one payments of $1,482 starting February 16, 2025. The loan matures on January 16, 2031. As of September 30, 2025, the outstanding balance was $77,518.

The City executed a promissory note dated February 6, 2025 with an interest rate of 7.44% per annum in favor of Marine Bank & Trust Company in the original principal amount of up to $90,822 for the purpose of purchasing vehicles and outfitting of such vehicles. The City signed a loan agreement in order to set out the terms and conditions of the loan. The City will pay seventy-one payments of $1,572 starting March 6, 2025. The loan matures on February 6, 2031. As of September 30, 2025, the outstanding balance was $83,665.

Leases

The City has entered into a lease agreement to obtain the right-to-use office equipment. The total annual rent for the leases that the City paid for the fiscal year ended September 30, 2025 was $5,279. The office equipment lease expires in fiscal year 2027. Monthly payment amounts are $439. The balance as of September 30, 2025 was $6,050.

Note 2: DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term liabilities (continued)

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending September 30,	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2026	$ 204,953	$ 70,089	$ 56,279	$ 23,211
2027	197,785	60,235	68,574	20,572
2028	153,391	53,209	71,219	17,855
2029	160,171	47,299	74,378	14,910
2030	164,624	41,296	77,047	11,864
2031 - 2035	731,311	126,437	196,209	31,047
2036 - 2040	403,426	22,744	109,938	5,534
Total	$ 2,015,661	$ 421,309	$ 653,644	$ 124,993

G. Public – Private Partnership Arrangements

On December 22, 2022, the City entered into a telecommunication easement and lease assignment agreement with TPA V, LLC. ("TPA") As a result of this agreement, the City granted the cell tower rights to TPA for 50 years, that will end on December 22, 2072. The City received $932,363 for the lease assignment, and recognized $18,647 revenue in fiscal year 2025. As of September 30, 2025, the deferred inflow balance was $876,421, of which, $312,258 is included in the general fund, and $564,163 is in the water fund.

Additionally, TPA is permitted to enter into leases with new telecommunications tenant ("Rent Share Tenant", however the City will receive 50% of the revenue from it. The City retains ownership rights to asset, but grants cooperation and non-inference to the grantee. TPA will continue to collect fees from lessee until ultimately the cell tower rights revert back to the City after 50 years, on December 22, 2072.

H. Leases – Lessor

The City accounts for leases in accordance with GASB Statement No. 87, *Leases*. The City's operations consist of agreements for use of land, cell tower space and buildings. The agreements are made up of various non-cancelable agreements for land, cell tower space and buildings, which expire between the years 2026 and 2072. The City recognized $5,882 of lease revenue principal and $323 of lease interest for the year ended September 30, 2025.

On September 22, 2008, the City entered into an agreement with RGP Tower Group, LLC to operate the City's shared wireless communication facility. As of September 30, 2025, the deferred inflow and lease receivable balance was $188,738 which included in the general fund.

Note 3: 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.

The City's risk management activities are recorded in the General and Enterprise Funds. The funds administer the health, property and liability, and workers' compensation insurance activities of the City.

Significant losses are covered by insurance through a public entity risk pool for all major programs except employee health care, which is covered by commercial insurance. For insured programs, there have been no significant reductions in insurance coverage. There have been no settlements that exceeded insurance coverage for each of the past three fiscal years.

Note 4: PROPERTY TAXES

Property taxes are billed and collected within the same fiscal period, and are reflected on the cash basis when received from the tax collector. Since virtually all taxes levied will be collected through the tax collection process, remittances in October and November for prior year taxes are insignificant. Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State that regulate tax assessments are designed to assure a consistent property valuation method. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2025, the millage rate assessed by the City was 5.2210 mills.

The tax levy of the City is established by the City Council prior to October 1 of each year. The Indian River County Property Appraiser incorporates the City's millage into the total tax levy.

All property is reassessed according to its fair market value at January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes.

All taxes are due and payable on November 1 (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed.

Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March, and thereafter, are without a discount.

On or prior to June 1 of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold tax certificates are held by the County.

Note 5: CONTINGENT LIABILITIES

The City participates in various federal and state grant programs from year-to-year, which are governed by various rules and regulations of the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any funding may be required. In the opinion of the City's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the financial statements for such contingencies.

Note 6: BENEFIT PLANS

Governmental Money Purchase Plan and Trust

Beginning October 1, 2008, the City established a governmental money purchase defined contribution plan created in accordance with Internal Revenue Code Section 401(a).

The plan is administered by an independent plan administrator through an administrative service agreement.

Participation in the plan is limited to charter officers and department heads (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for employees who contributed 4% in 2025. Although the charter officers and department heads may participate in both the deferred compensation plan (see Note 7) and the governmental money purchase plan and trust, the City will contribute to only one plan on their behalf. Total City contributions to the plan amounted to $67,903 for the fiscal year ended September 30, 2025. The money purchase plan is not available to employees until termination, retirement, death, or financial hardship.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the City employees and their beneficiaries and are not accessible by the City or its creditors. Neither the City nor the independent plan administrator have any liability for losses under the plan agreement, but they do have the duty of due care that would be required of any ordinary prudent investor.

Health Reimbursement Account

Beginning October 1, 2006 the City established a health reimbursement account and a retirement health savings plan for the benefit of the employees. Both accounts are administered by an independent plan administrator through administrative service agreements. The City credits a flat dollar amount to the health reimbursement account which will vary pursuant to the annual budget appropriation. That amount is then used to pay eligible health claims. For the year ended September 30, 2025, the City credited $3,500 to each employee's account, and an additional $3,000 to those employees with dependent coverage for a total of $6,500, which amounted to $199,935. All full-time employees participate in the plan.

Note 6: BENEFIT PLANS (Continued)

For the year ended September 30, 2025, the employees' remaining balance in the health reimbursement account amounted to $275,998.

The retirement health reimbursement account is administered by an independent plan administrator who also manages the associated funds. All amounts deposited into the fund, all property and rights purchased with those amounts, and all income attributable to those accounts are solely the property and rights of the City employees and their beneficiaries, and are not accessible by the City or its creditors. Neither the City nor the independent plan administrator have any liability for losses under the plan agreement, but they do have the duty of due care that would be required of any ordinary prudent investor.

Note 7: DEFERRED COMPENSATION PLAN

Beginning July 1, 1997, the City established a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan is administered by an independent plan administrator through an administrative service agreement. Participation in the plan is available to all City employees (participants) whereby the employees defer a portion of their salary in the form of plan contributions. In addition to employee contributions, the City has agreed to contribute 13% of employee salaries and wages for employees who contributed 4% in 2025.

Employer and employee contributions to the plan were $133,489 and $79,099, respectively, in 2025. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the City employees and their beneficiaries and are not accessible by the City or its creditors. Neither the City nor the independent plan administrator have any liability for losses under the plan agreement, but they do have the duty of due care that would be required of any ordinary prudent investor.

Note 8: FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASBC 1300, *Fund Accounting*, the City classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Infrastructure	Grants Fund	IRC ARPA Fund	Nonmajor Governmental Funds	Totals
Nonspendable:						
Prepaid items	$ 7,237	$ -	$ -	$ -	$ -	$ 7,237
Total nonspendable	7,237	-	-		-	7,237
Restricted for:						
Capital Projects	-	1,518,758	-	-	607,401	2,126,159
Brookside Cemetery	61,540	-	-	-	-	61,540
Total restricted	61,540	1,518,758	-	-	607,401	2,187,699
Unassigned	2,460,348	-	(3,839,648)	-	-	(1,379,300)
Total fund balances, governmental funds	$2,529,125	$ 1,518,758	$(3,839,648)	$ -	$ 607,401	$ 815,636

As at the end of the year, the grants fund reported an unassigned deficit fund balance of $(3,839,648).

Note 9: SUBSEQUENT EVENTS

On November 11, 20224, the City was awarded $3,926,700 under the State of Florida Revolving Fund Program (CW-310320). The purpose of this loan is to finance all labor, materials, and equipment to construct the forcemain, gravity sewer, and lift station. The estimated amount of principal foregiveness is $2,933,188 with the estimated principal amount of the loan to be repaid of $995,312. The effective interest rate for the funds borrowed under the program is 0.20% per annum. Pursuant to the contract, semi-annual payments consisting of principal and interest in the amount of $18,449 commencing February 15, 2027. The loan term is 30 years.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Fellsmere, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget vs Actual – General Fund

Year ended September 30, 2025	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Property	$ 788,603	$ 788,603	$ 809,304	$ 20,701
Public utility	592,171	592,171	606,569	14,398
Communications services	162,443	162,443	188,067	25,624
Franchise fees	466,665	466,665	421,449	(45,216)
Intergovernmental	826,196	826,196	834,872	8,676
Charges for services	10,765	10,765	15,809	5,044
Fines	5,150	5,150	6,855	1,705
Investment earnings	49,614	49,614	134,114	84,500
Other revenues	172,241	172,241	168,283	(3,958)
Total revenues	3,073,848	3,073,848	3,185,322	111,474
Expenditures				
Current:				
General government	1,740,990	1,740,990	865,187	875,803
Public safety	1,294,297	1,294,297	1,581,841	(287,544)
Transportation	1,107,251	1,107,251	1,256,683	(149,432)
Culture and recreation	106,650	106,650	143,635	(36,985)
Debt service:				
Principal	-	-	5,077	(5,077)
Interest	-	-	202	(202)
Total expenditures	4,249,188	4,249,188	3,852,625	396,563
Excess (deficiency) of revenues over (under) expenditures	(1,175,340)	(1,175,340)	(667,303)	508,037
Other financing sources (uses)				
Transfers in	863,040	863,040	-	(863,040)
Transfers out	-	-	(197,742)	(197,742)
Proceeds from sale of capital assets	300,000	300,000	-	(300,000)
Loan proceeds	12,300	12,300	-	(12,300)
Total other financing sources (uses)	1,175,340	1,175,340	(197,742)	(1,373,082)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(865,045)	(865,045)
Fund balances, beginning of year	3,394,170	3,394,170	3,394,170	-
Fund balances, end of year	$ 3,394,170	$ 3,394,170	$ 2,529,125	$ (865,045)

City of Fellsmere, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget vs Actual – Infrastructure Fund

Year ended September 30, 2025	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Sales	$ 871,840	$ 871,840	$ 945,751	$ 73,911
Developer Contributions	6,850,000	6,850,000	-	(6,850,000)
Investment earnings/other revenue	691,095	691,095	-	(691,095)
Total revenues	8,412,935	8,412,935	945,751	(7,467,184)
Expenditures				
Current:				
General government	92,000	92,000	-	92,000
Debt service:				
Principal	211,930	211,930	181,367	30,563
Interest and fiscal charges	84,495	84,495	77,171	7,324
Capital outlay	7,381,221	7,381,221	554,092	6,827,129
Total expenditures	7,769,646	7,769,646	812,630	6,957,016
Excess of revenues over expenditures	643,289	643,289	133,121	(510,168)
Other financing sources (uses)				
Transfers in	75,000	75,000	367,208	292,208
Transfers out	(975,000)	(975,000)	-	975,000
Loan proceeds	256,711	256,711	85,159	(171,552)
Total other financing sources (uses)	(643,289)	(643,289)	452,367	1,095,656
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	585,488	585,488
Fund balances (deficits), beginning of year	933,270	933,270	933,270	-
Fund balances (deficits), end of year	$ 933,270	$ 933,270	$ 1,518,758	$ 585,488

City of Fellsmere, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget vs Actual – Grants Fund

Year ended September 30, 2025	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	**$ 20,712,300**	**$ 20,712,300**	**$ -**	**$ (20,712,300)**
Total revenues	**20,712,300**	**20,712,300**	**-**	**(20,712,300)**
Expenditures				
Current:				
Physical Environment	**1,290,395**	**1,290,395**	**1,118,195**	**172,200**
Capital outlay	**20,623,905**	**20,623,905**	**1,533,661**	**19,090,244**
Total expenditures	**21,914,300**	**21,914,300**	**2,651,856**	**19,262,444**
Deficiency of revenues under expenditures	**(1,202,000)**	**(1,202,000)**	**(2,651,856)**	**(1,449,856)**
Other financing sources (uses)				
Transfers in	**1,392,000**	**1,392,000**	**46,526**	**(1,345,474)**
Transfers out	**-**	**-**	**(973,564)**	**(973,564)**
Total other financing sources (uses)	**1,392,000**	**1,392,000**	**(927,038)**	**(2,319,038)**
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	**190,000**	**190,000**	**(3,578,894)**	**(3,768,894)**
Fund balances, beginning of year	**(894,161)**	**(894,161)**	**(894,161)**	**-**
Fund balances, end of year	**$ (704,161)**	**$ (704,161)**	**$ (4,473,055)**	**$ (3,768,894)**

Note A- Budgetary Information

The City follows the procedures set forth below in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes the proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of an ordinance.

The City Council is authorized to amend the budget to utilize excess funds, to increase appropriations, to transfer funds, or for other purposes, as necessary. The final adoption of the City budget complies with the "Truth in Millage" Statute of Florida that mandates two public hearings prior to the adoption of the ad valorem tax millage rate and budget. Prior to October 1 of each year, the public hearings are held, and the Council adopts the final budget and establishes the ad valorem tax millage rate.

The budget may be formally amended by the City Council at any time during the fiscal year. Budgets for the government funds are prepared in accordance with generally accepted accounting principles, using the modified accrual basis of accounting. Within the financial statements, budget amounts are presented in accordance with the City's policy and the accrual amounts are presented in accordance with generally accepted accounting principles.

There were no differences between both bases of presentation during the fiscal year ended September 30, 2025. Appropriations, except open project appropriations, lapse at the end of each fiscal year.

The appropriated budget is prepared by fund, function, and department. Shifts in appropriations within fund totals may be done on the authority of the City Manager. Transfers of appropriations between funds require approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations made by the City Council) is the fund level. Budget adjustments made during the year ended September 30, 2025 were approved by the City Council.

There was no budget adopted for the IRC Grant fund, and no activity for the fund for fiscal year 2025.

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

	Special Revenue						
September 30, 2025	Local Option Gas Tax	FRDAP Trail Head Preserve LWCF	SJRWMD State Street Greenway	HC&J Stormwater Grant Park	Historic Train Village	Community Center Historic Restoration	League Revenue
ASSETS							
Cash and cash equivalents	$ **173,104**	$ -	$ -	$ -	$ -	$ -	$ -
Prepaid	-	-	-	-	-	-	-
Due from other governments	**26,746**	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Total assets	$ **199,850**	$ -	$ -	$ -	$ -	$ -	$ -
LIABILITIES							
Accounts payable	$ **18,666**	$ -	$ -	$ -	$ -	$ -	$ -
Total liabilities	**18,666**	-	-	-	-	-	-
FUND BALANCES							
Restricted	**181,184**	-	-	-	-	-	-
Unrestricted / unassigned	-	-	-	-	-	-	-
Total fund balances	**181,184**	-	-	-	-	-	-
Total liabilities and fund balances	$ **199,850**	$ -	$ -	$ -	$ -	$ -	$ -

Special Revenue									
HMGP	Broadband	CDBG 97th Street	DEO Sewer to Shrimp Farm	Stormway Greenway	Special Projects	Community Redevelopment	Microbasin	Rail Trail N. Broadway to State Park	Total
$ -	$ -	$ -	$ -	$ -	$ 4,694	$ 330,410	$ -	$ -	$ 508,208
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	26,746
-	-	-	-	-	-	91,795	-	-	91,795
-	-	-	-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ 4,694	$ 422,205	$ -	$ -	$ 626,749
$ -	$ -	$ -	$ -	$ -	$ 370	$ 312	$ -	$ -	$ 19,348
-	-	-	-	-	370	312	-	-	19,348
-	-	-	-	-	4,324	421,893	-	-	607,401
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	4,324	421,893	-	-	607,401
$ -	$ -	$ -	$ -	$ -	$ 4,694	$ 422,205	$ -	$ -	$ 626,749

City of Fellsmere, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

For the year ended September 30, 2025	Special Revenue Local Option Gas Tax	FRDAP Trail Head Preserve LWCF	SJRWMD State Street Greenway	HC&J Stormwater Grant Park	Historic Train Village	Community Center Historic Restoration	League Revenue
REVENUES							
Taxes:							
Motor fuel	**$ 150,305**	$ -	$ -	$ -	$ -	$ -	$ -
Other revenues	-	-	-	-	-	-	-
Total revenues	**150,305**	-	-	-	-	-	-
EXPENDITURES							
Current:							
Transportation	**33,598**	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Total expenditures	**33,598**	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	**116,707**	-	-	-	-	-	-
OTHER FINANCING SOURCES (USES)							
Transfers in	-	**6,082**	**16,000**	**44,587**	-	**1,195**	-
Transfers out	-	-	-	-	**(4,082)**	-	**(42,444)**
Total other financing sources (uses)	-	**6,082**	**16,000**	**44,587**	**(4,082)**	**1,195**	**(42,444)**
Net change in fund balances	**116,707**	**6,082**	**16,000**	**44,587**	**(4,082)**	**1,195**	**(42,444)**
Fund balances, beginning of year	**64,477**	**(6,082)**	**(16,000)**	**(44,587)**	**4,082**	**(1,195)**	**42,444**
Fund balances, end of year	**$ 181,184**	$ -	$ -	$ -	$ -	$ -	$ -

HMGP	Broadband	CDBG 97th Street	DEO Sewer to Shrimp Farm	Stormway Greenway	Special Projects	Community Redevelopment	Microbasin	Rail Trail N. Broadway to State Park	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 150,305
-	-	-	-	-	-	65,927	-	-	65,927
-	-	-	-	-	-	65,927	-	-	216,232
-	-	-	-	-	7,365	6,949	-	-	47,912
-	-	-	-	-	-	225	-	-	225
-	-	-	-	-	7,365	7,174	-	-	48,137
-	-	-	-	-	(7,365)	58,753	-	-	168,095
365,139	8,673	214,279	36,891	97,622	-	91,795	66,488	116,608	1,065,359
-	-	-	-	-	-	-	-	-	(46,526)
365,139	8,673	214,279	36,891	97,622	-	91,795	66,488	116,608	1,018,833
365,139	8,673	214,279	36,891	97,622	(7,365)	150,548	66,488	116,608	1,186,928
(365,139)	(8,673)	(214,279)	(36,891)	(97,622)	11,689	271,345	(66,488)	(116,608)	(579,527)
$ -	$ -	$ -	$ -	$ -	$ 4,324	$ 421,893	$ -	$ -	$ 607,401

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for Community Redevelopment Agency

Florida Statutes Section 10.554(1)(i)6-8

Year ended September 30, 2025	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Other revenue	**$ 191,872**	**$ 191,872**	**$ 65,927**	**$ (125,945)**
Total revenues	**191,872**	**191,872**	**65,927**	**(125,945)**
Expenditures				
Current:				
Physical environment	**42,100**	**42,100**	**-**	**42,100**
Transportation	**28,850**	**28,850**	**6,949**	**21,901**
Culture and recreation	**700**	**-**	**225**	**(225)**
Capital outlay	**233,000**	**-**	**-**	**-**
Total expenditures	**304,650**	**70,950**	**7,174**	**63,776**
Excess of revenues over expenditures	**(112,778)**	**120,922**	**58,753**	**(62,169)**
Other financing sources (uses)				
Transfers in	**165,000**	**165,000**	**91,795**	**(73,205)**
Transfers out	**52,222**	**52,222**	**-**	**(52,222)**
Total other financing sources (uses)	**217,222**	**217,222**	**91,795**	**(125,427)**
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	**104,444**	**338,144**	**150,548**	**(187,596)**
Fund balances (deficits), beginning of year	**271,345**	**271,345**	**271,345**	**-**
Fund balances (deficits), end of year	**$ 375,789**	**$ 609,489**	**$ 421,893**	**$ (187,596)**

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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*

The Honorable Mayor and Members of the City Council
of the City of Fellsmere, Florida

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fellsmere, 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 August 31, 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fellsmere, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Fellsmere, Florida's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Fellsmere, Florida's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Fellsmere, Florida's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
August 31, 2026

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor and Members of the City Council
of the City of Fellsmere, Florida

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Fellsmere, Florida's (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
August 31, 2026

SECTION I–SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _X_ yes __ no
- Significant deficiency(es) identified? __ yes _X_ none noted

Noncompliance material to financial statements noted? __ yes _X_ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ yes _X_ no
- Significant deficiency(es) identified? ___ yes _X_ none noted

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a)? ___ yes _X_ none noted

Identification of major federal programs:

Federal ALN	Federal Program or Cluster
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and B programs was $1,000,000 for major federal programs.

Auditee qualified as a low-risk auditee for federal purposes? ___ yes _X_ no

SECTION II–FINANCIAL STATEMENT FINDINGS

2025-001 TRIAL BALANCE

Condition: The final trial balance was not properly reviewed prior to providing it to the auditors. During the audit, the City provided numerous journal entries to correct the trial balance for schedules that did not reconcile to the trial balance. Controls surrounding cash collections, bank reconciliations, and year end accruals were not operating effectively during the year. There was no supporting documentation for all of the transactions.

Criteria: Under Government Auditing Standards (GAGAS) and Generally Accepted Accounting Principles (GAAP) for governmental entities, management is responsible for maintaining accurate financial records and providing reliable trial balances for the preparation of financial statements. Accurate beginning fund balances are essential for ensuring that current-year financial statements are complete, consistent, and in agreement with prior-year audited results. Internal control standards outlined by COSO emphasize the need for management to maintain accurate accounting records and perform reconciliation procedures to ensure the reliability of financial reporting.

Cause: The inaccuracies in the trial balances appear to result from inadequate review and reconciliation procedures during the year, and the year-end close process. Bank reconciliations and control regarding cash receipts were not performed during the year. The City did not perform sufficient procedures during financial statement close process to ensure that balances were accurate, complete, and tied out to supporting documentation before providing the to the auditors. City staff also had difficulty finding support for every transaction. Staffing turnover and changes in accounting software contributed to these errors.

Potential Effect of Condition: There were over 20 adjustments made by the City that were proposed by the auditors due to inaccuracies in revenue, receivables, debt, compensated absences, inventory, fixed assets, capital outlay, cash, interfund balances, payables, expenses, and interest earnings.

Recommendation: The City needs to implement controls over cash receipts being recorded, bank reconciliations, and formalized year- end close procedures. Review and verify accuracy of trial balances before submission to auditors, including reconciling supporting schedules to the general ledger. Assign responsibility to a senior finance official to approve trial balances and review for reasonableness prior to providing the trial balance to the auditors. Provide staff training on year- end close procedures and reconciliation techniques to prevent similar issues in future audits. The City should continue to attach supporting documentation in Aclarian to transactions as they have been doing for the last several months of 2025.

Management Response: Management concurs with the recommendation. The City recognizes the importance of strengthening internal controls over cash receipts, bank reconciliations, and year-end close procedures to ensure accuracy and completeness of financial reporting.

To address these areas, the Finance Department will implement the following corrective actions:

1. Strengthen Cash Receipt Controls: Establish and document standardized procedures for recording, reconciling, and reviewing all cash receipts to endure timely and accurate posting.
2. Enhance Bank Reconciliation Process: Perform monthly bank reconciliations with documented supervisory review and approval to ensure all variances are promptly identified and resolved.
3. Formalize Year-End Close Procedures: Develop a comprehensive year-end close checklist and timeline to guide staff through key steps, including trial balance review, reconciliation of supporting schedules, and variance analysis.
4. Assign Oversight Responsibilities: Designate a senior financial official to review and approve trial balances for accuracy and reasonableness prior to submission to the auditors.
5. Staff Training and Development: Provide targeted training on reconciliation techniques, closing procedures, and documentation standards to improve consistency and reduce the risk of errors.
6. Maintain Documentation in Aclarian: Continue the practice of attaching supporting documentation in Aclarian for all transactions, ensuring transparency and audit readiness.

SECTION III–FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV- PRIOR FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2024-001 TRIAL BALANCE

Status: Repeated as 2025-001

2024-002 SUSPENSION AND DEBARMENT
ALN 21.027 COVID-19 Coronavirus State and Local Fiscal Recovery Funds
Department of the Treasury
Grant # Y5082
2021 funding

Status: Cleared

City of Fellsmere, Florida
Schedule of Expenditures of Federal Awards
Fiscal Year Ended September 30, 2025

Federal Agency, Pass-through Entity, Federal Program	**Assistance Listing No.**	**Contract/Grant Number**	**Expenditures**	**Transfers to Subrecipients**
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through the State of Florida Department of Commerce				
Community Development Block Grants/ State's Program and Non-Entitlement Grants	14.228	IR016	$ 180,657	$ -
Total U.S Department of Housing and Urban Development			180,657	-
U.S. DEPARTMENT OF TREASURY				
Passed through State of Florida Department of Environmental Protection				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	MN037	1,511,563	-
Total U.S. Department of Treasury			1,511,563	-
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the Florida Department of Transportation:				
Highway Planning and Construction	20.205	G-2723	198	
Total U.S. Department of Transportation			198	-
U.S. DEPARTMENT OF JUSTICE				
Passed through Florida Department of Law Enforcement (FDLE)	16.738	C-JG176		
Edward Byrne Memorial Justice Assistance Grant (JAG)			14,494	-
Total U.S. Department of Justice			14,494	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,706,912	$ -

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A
The Schedule of Expenditures of Federal Awards is a summary of the activity of the City's Federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

NOTE B
The Uniform Guidance allows a City to elect a 15% de minimis indirect cost rate. For the year ended September 30, 2025, the City elected not to use the rate.

NOTE C
The City did not receive any federal noncash assistance, insurance, loans, or loan guarantees during the year ended September 30, 2025.

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CITY MANAGER
Armando G. Martinez, Sr.
City of Fellsmere

City of Fellsmere

MAYOR
Jessica Salgado
City of Fellsmere

Corrective Action Plan

2025-001 Trial Balance

Recommendation: The City needs to implement controls over cash receipts being recorded, bank reconciliations, and formalized year-end close procedures. Review and verify accuracy of trial balances before submission to auditors, including reconciling supporting schedules to the general ledger. Assign responsibility to a senior finance official to approve trial balances and review for reasonableness prior to providing the trial balance to the auditors. Provide staff training on year-end close procedures and reconciliation techniques to prevent similar issues in future audits. The City should continue to attach supporting documentation in Aclarian to transactions as they have been for the last several months of 2025 and in 2026.

Corrective Action: Management concurs with the recommendation. The City recognizes the importance of strengthening internal controls over cash receipts, bank reconciliations, and year-end close procedures to ensure accuracy and completeness of financial reporting.

To address these areas, the Finance Department will implement the following corrective actions:

1. Strengthen Cash Receipt Controls: Establish and document standardized procedures for recording, reconciling, and reviewing all cash receipts to endure timely and accurate posting.
2. Enhance Bank Reconciliation Process: Perform monthly bank reconciliations with documented supervisory review and approval to ensure all variances are promptly identified and resolved.
3. Formalize Year-End Close Procedures: Develop a comprehensive year-end close checklist and timeline to guide staff through key steps, including trial balance review, reconciliation of supporting schedules, and variance analysis.
4. Assign Oversight Responsibilities: Designate a senior financial official to review and approve trial balances for accuracy and reasonableness prior to submission to the auditors.
5. Staff Training and Development: Provide targeted training on reconciliation techniques, closing procedures, and documentation standards to improve consistency and reduce the risk of errors.
6. Maintain Documentation in Aclarian: Continue the practice of attaching supporting documentation in Aclarian for all transactions, ensuring transparency and audit readiness.

Management anticipates that these measures will improve the reliability of financial data, enhance audit preparedness, and prevent recurrence of similar issues in future audits.

The responsible party is Jesse Thurman, Finance Director. The findings will be corrected by September 2026.

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

The Honorable Mayor and Members of the City Council
of the City of Fellsmere, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Fellsmere, Florida (the "City") as of and for the fiscal year ended September 30, 2025, and have issued our report thereon dated August 31, 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, the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Chapter 10.550, Rules of the Florida Auditor General.

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 the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance, Schedule of Findings and Questioned Costs, and Independent Accountants' Report on Compliance with Local Government Investment Policies on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated August 31, 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 annual financial audit report. The status of each finding and recommendation made in the preceding annual financial audit report, is noted below:

Original No.	Description	Status
2024-001	Trial Balance	Repeated as 2025-001
2024-003	Bids	Cleared
2024-004	Budget Compliance	Cleared

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 legal authority of the City of Fellsmere, Florida as well as its blended component unit is disclosed in the notes to the financial statements.

Financial Condition and Management

Section 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 of Fellsmere, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City of Fellsmere, Florida 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 of Fellsmere, Florida. It is management's responsibility to monitor the City of Fellsmere, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Property Assessed Clean Energy (**PACE**) **Programs** (**Unaudited**)

As required by Section 10.554(1)(i)6.a., Rules of the Auditor General, the City of Fellsmere, Florida not operate a PACE program pursuant to Section 163.081 or Section 163.082, Florida Statutes, within the City of Fellsmere, Florida's geographical boundaries during the fiscal year under audit.

Special District Component Units

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Specific Information (Unaudited)

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)6, Rules of the Auditor General, the City of Fellsmere Community Redevelopment Agency reported the schedule below. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)7, Rules of the Auditor General, the City of Fellsmere Community Redevelopment Agency reported:

a.	Total number of District employees compensated in the last pay period of the District's fiscal year	**None**
b.	Total number of independent contractors to whom nonemployee compensation was paid in the last month of the District's fiscal year	**None**
c.	All compensation earned by or awarded to employees, whether paid or accrued	**None**
d.	All compensation earned by or awarded to nonemployee independent contractors, whether paid or accrued	**None**
e.	Each construction project with a total cost of at least $65,000 approved by the District that is scheduled to begin after October 1 of the fiscal year being reported, together with the expenditures of for such projects.	**None**
f.	A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the CRA amends a final adopted budget under Section 189.016(6), Florida Statutes	**See page 80**

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)8, Rules of the Auditor General, the City of Fellsmere Community Redevelopment Agency reported:

a.	The millage rate or rates imposed by the District	**5.2210 mills**
b.	The total amount of ad valorem taxes collected by or on behalf of the District	**$65,927**
c.	The total amount of outstanding bonds issued by the District and the terms of such bonds	**None**

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)9, Rules of the Auditor General, does not apply as the City of Fellsmere Community Redevelopment Agency did not impose any special assessments.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or fraud, waste of abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not identify any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the 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.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
August 31, 2026

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INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES

The Honorable Mayor and Members of the City Council
of the City of Fellsmere, Florida

We have examined the City of Fellsmere, Florida's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2025. Management of the City of Fellsmere, Florida is responsible for the City of Fellsmere, Florida's compliance with the specified requirements. Our responsibility is to express an opinion on the City of Fellsmere, Florida's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City of Fellsmere, Florida complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City of Fellsmere, Florida complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including as assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence 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 engagement.

Our examination does not provide a legal determination on the City of Fellsmere, Florida's compliance with specified requirements.

In our opinion, the City of Fellsmere, Florida complied with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2025, in all material respects.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
August 31, 2026