

City of Mary Esther, Florida

**Annual Comprehensive Financial Report
with Compliance Matters and Responses for
the Fiscal Year Ended September 30, 2025**



**Annual Comprehensive Financial Report
of the City of Mary Esther, Florida**

**Fiscal Year Ended
September 30, 2025**

**Prepared by
Heather Day, Finance Director
Finance Department**

**The City of Mary Esther, Florida
PRINCIPAL OFFICIALS
Year Ended September 30, 2025**

CITY COUNCIL 2024-2025

Bernie Oder
April Sutton
Larry Carter
Susan Coxwell
Richard Lawson

CITY OFFICIALS

Mayor

Chris Stein

Mayor Pro-Tem

Bernie Oder

City Manager

Jared Cobb

City Clerk

Dillon Morris

City Attorney

Hayward Dykes, Jr., Esq.

I. INTRODUCTORY SECTION

- TABLE OF CONTENTS
- LETTER OF TRANSMITTAL
- GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING
- ORGANIZATIONAL CHART

**CITY OF MARY ESTHER, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Page
TITLE PAGE	
CITY OFFICIALS	
I. INTRODUCTORY SECTION	
Table of Contents	i
Letter of Transmittal - Finance Director	iii
GFOA Certificate of Achievement	ix
Organizational Chart	x
II. FINANCIAL SECTION	
Independent Auditors' Report	1
A. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
B. BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
<u><i>Governmental Funds</i></u>	
Balance Sheet	17
Reconciliation of the Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balance	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20
<u><i>Proprietary Fund – Business-Type Activities</i></u>	
Statement of Net Position	21
Statement of Revenues, Expenses and Changes in Net Position	22
Statement of Cash Flows	23
Notes to the Financial Statements	25
C. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Budgetary Comparison Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	49

**CITY OF MARY ESTHER, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	<u>Page</u>	<u>Schedule</u>
II. FINANCIAL SECTION – CONTINUED		
C. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)		
Budgetary Comparison Information - Continued		
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Discretionary Sales Tax Fund	50	
Notes to the Budgetary Comparison Schedules	51	
OPEB Information		
Schedule of Changes in Total OPEB Liability and Related Ratios	52	
III. STATISTICAL SECTION (UNAUDITED)		
Net Position by Component	53	1
Changes in Net Position	54	2
Fund Balances – Governmental Funds	56	3
Changes in Fund Balances – Governmental Funds	57	4
Assessed Value and Actual Value of Taxable Property	58	5
Property Tax Levies and Collections	59	6
Property Tax Rates Per \$1,000 of Taxable Value - Direct and Overlapping Governments	60	7
Direct and Overlapping Governmental Activities Debt	61	8
Ratios of Outstanding Debt by Type	62	9
Pledged Revenue Coverage	63	10
Principal Property Taxpayers	64	11
Demographic and Economic Statistics	65	12
Principal Employers	66	13
Operating Indicators by Function/Program	67	14
Full-Time Equivalent Employees by Function/Program	68	15
Capital Asset Statistics by Function/Program	69	16
IV. COMPLIANCE SECTION		
Schedule of Expenditures of State Financial Assistance	70	
Notes to the Schedule of Expenditures of State Financial Assistance	71	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	72	
Independent Auditors' Report on Compliance for the Major State Project and Report on Internal Control over Compliance Required by Chapter 10.550, <i>Rules of the Florida Auditor General</i>	74	
Schedule of Findings and Questioned Costs	76	
Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, <i>Rules of the</i> <i>Florida Auditor General</i>	78	
Management Letter	79	



CITY OF MARY ESTHER

195 Christobal Road, North ♦ Mary Esther Florida, 32569

Honorable Mayor, City Council Members and Citizens
City of Mary Esther, Florida

I am pleased to submit the Annual Comprehensive Financial Report (ACFR) for the City of Mary Esther, Florida, covering the fiscal year ending September 30, 2025. This document is a testament to our commitment to transparency, accountability, and effective financial stewardship.

The enclosed ACFR provides a comprehensive and detailed account of the City's financial performance, fiscal policies, and strategic initiatives during the fiscal year. This document is designed to serve as a valuable resource for our stakeholders, including members of the City Council, citizens, and external auditors.

The responsibility for the accuracy, completeness, and fairness of the financial data and disclosures within this report rests with the City of Mary Esther. We have undertaken rigorous efforts to ensure that the information presented is reliable, transparent, and in compliance with applicable accounting standards.

CITY PROFILE

The City of Mary Esther, with approximately 4,457 residents, continues to thrive as a coastal community with a rich history and a promising future. Situated east of Hurlburt Field and west of Fort Walton Beach, our city plays a vital role in the regional landscape, surrounded by the largest military base in the world, Eglin Air Force Base.

Incorporated as a Town in 1946, Mary Esther officially became a City on June 5, 1984, following approval by referendum vote of our citizens. Operating under a council-manager form of government, our City Council members play a pivotal role in shaping policies, creating ordinances, and appointing key administrative positions, including the City Manager and City Clerk.

CITY SERVICES

Our commitment to providing essential services remains unwavering. From police and fire protection to code enforcement, maintenance of city roadways, and water and sewer utilities services, the City of Mary Esther continues to enhance the quality of life for our residents. Collaborations with the Okaloosa County Sheriff's Office and the Ocean City-Wright Fire Control District further bolster public safety efforts.

The Mary Esther Public Library, a proud member of the Okaloosa County Public Library Cooperative, serves as a hub for education and cultural enrichment, offering free access to the internet, educational classes, recreational materials, and more.

INFRASTRUCTURE AND PARKS

Spanning 1.5 square miles, Mary Esther is characterized by small residential neighborhoods interspersed with ten beautiful parks, including a 14-acre nature park and a public boat ramp and pier. These parks contribute significantly to the community’s well-being, offering recreational amenities and green spaces for residents to enjoy.



Azalea Park is currently undergoing renovations, which include the addition of a nature trail, gazebo, and firepit, further enhancing the recreational opportunities available to residents.

City of Mary Esther Park	Acres	Amenities						
Azalea Park Azalea Drive	1.81							
Elliot Park Mary Esther Manor Subdivision	3.02							
North Bryn Mawr Park North End of Bryn Mawr Drive	2.69							
Oak Tree Nature Park Between Hwy. 98 and Hollywood Blvd., West of Doolittle Blvd.	13.84							
Oak Tree Park West End of N. Lorraine Drive	0.38							
Pier Park South End of Misty Water Lane	0.10							
Pryor Park South Side of City Hall, West of Christobal Road	0.61							
South Bryn Mawr Park South End of Bryn Mawr Blvd.	2.44							
South Bryn Mawr Gazebo South End of Bryn Mawr Blvd.	0.25							
Springdale Park Northwest End of Mary Esther Drive	3.67							
Total Park Acreage	28.81							



COUNTY PROFILE

Okaloosa County, our broader community, has experienced positive growth with an estimated population of 224,778, marking a 17% increase over the last decade. The region's sugar-white sand beaches and emerald-green waters attract millions of visitors annually, contributing to its economic vitality.

As of September 30, 2025, Okaloosa County's millage rate stood at 3.8308 mils, demonstrating the county's strong commitment to fiscal responsibility and strategic resource management. The county also maintained a healthy unemployment rate of 4.1%, closely aligned with Florida's statewide rate of 3.9%. This stable economic indicator highlights Okaloosa County's resilience, diverse job market, and continued growth, reinforcing its position as a leading economic center within the region.

Eglin Air Force Base, one of the world's largest military reservations, plays a crucial role in Okaloosa County's economic landscape, attracting defense contracting firms and fostering substantial employment and investments.

HISTORICAL SIGNIFICANCE

The City of Mary Esther, strategically located for easy access to local waterways, holds historical significance as one of the earliest settled areas in Northwest Florida. In 1842, Jesse Rogers and his family,



leading a substantial cattle herd from Louisiana, became the first settlers on the shores of Santa Rosa Sound. In the mid-1850s, Reverend John Newton, a minister and teacher, established the Narrows, known today as Mary Esther, where he founded the first school doubling as a church during the Civil War. On October 10, 1871, Reverend Newton also initiated the city's first post office, likely doubling as his residence.

The naming of Mary Esther has three versions, with old-timers suggesting that Reverend Newton named the community to honor his daughters and wife. Evidence in 2014 from tombstones in the local cemetery for Mary Christine Newton and Esther Newton supports the possibility that the city was named after Reverend Newton's daughters.

Thomas Jefferson Pryor, a deckhand from Greenville, Alabama, arrived in Mary Esther in 1854, marrying Ona Rogers and later becoming the town's postmaster. The Pryor family's significant role continued, with Mary Pryor serving as Postmistress from 1938 to 1972. William C. Pryor, a pioneer and educator, contributed to the city's history, eventually becoming Okaloosa County's first superintendent of schools. The Pryor family maintains a deep connection to Mary Esther, residing on the original property purchased by the city's founders in the early 1800s along the north bank of Santa Rosa Sound.

The discovery of Oak Tree Nature Park is credited to William Lazarus, featuring a 14-acre site protected under Florida Statutes. Between 1999 and 2002, the University of West Florida and community volunteers conducted a cultural resources study under the leadership of UWF Archaeology Institute professor Norma Harris, uncovering artifacts such as bone, shell, pottery shards, and stone tools.

A scenic trail, featuring two bridges over Silver Sands Creek, is adorned with markers that showcase the diverse plant and animal life, offering visitors an educational experience during their leisurely walks through this historic park. In November 2010, Eagle Scout N. Klaus, a local Boy Scout, utilized donated lumber and hardware from CH2M Hill, Inc., to construct a deck at the park's Southeast corner, providing a scenic view of the Silver Sands Creek floodplain.

The inauguration of Santa Rosa Mall in 1976 ignited a surge in commercial construction along Mary Esther Cutoff, subsequently renamed Mary Esther Boulevard, within the city's limits.

Initiated in 2013, the City's community garden at Springdale Park, spearheaded by Council member Sykes, has flourished into a thriving reality. This endeavor has not only reached full capacity at its location but has also become a catalyst for community cooperation, teamwork, and goodwill, as participants contribute their horticultural knowledge and skills to nurture the garden.



FINANCIAL POLICIES AND INTERNAL CONTROLS

The City Manager serves as the Chief Financial Officer and Chief Investment Officer, overseeing funds management and executing the City Council's investment policies. The

City Manager is responsible for the City Finance Department, ensuring compliance with Personal Conduct Standards. Budget recommendations and investment strategies are presented to the City Council based on the written investment policy, with the City Manager also suggesting eligible investment dealers and brokers, subject to Council review. The City Manager safeguards security holdings in accordance with Council policies, rules, regulations, and directives. Reporting to the City Manager, the Finance Director evaluates City investments for adherence to Council objectives, reviewing transactions, performance, asset mix, and portfolio strategy each quarter. The Finance Director advises the City Council on investment strategies and recommends specific investments for the city portfolio.

The City of Mary Esther's primary investment objectives, in order of priority, focus on ensuring the safety of principal, maintaining liquidity to meet operational needs, and optimizing return on investment within specified risk constraints and cash flow considerations.

The budget process begins with the preparation of proposed budgets by Department Managers. These requested budgets are then reviewed and revised by the City Manager and Finance Director. The City Manager is responsible for presenting a balanced budget to Council members for review and discussion during the budget workshops. In compliance with the Truth in Millage (TRIM) procedures, two public meetings are held to discuss the city's millage rate and proposed budget. The millage rate and final budget are adopted at the final budget hearing in September, prior to the start of the new fiscal year.

The city prioritizes internal control objectives to minimize the risk of fraud, waste, or abuse, recognizing that no system can entirely eliminate these risks. The City Manager leads a small senior management team, leveraging available staff to enhance internal control processes in response to evolving threats and technology. During business hours, at least one of the City Manager, City Clerk, or Finance Director is present at City Hall. Two signers, including the City Manager, Permit Technician, and City Mayor, are required for all checks. The Finance Director prepares bank reconciliations, reviewed and signed by the City Manager. A closed-circuit camera system monitors sensitive areas, with vault access limited to pre-authorized personnel. Two individuals, the City Manager and Finance Director, are involved in the payroll process, and any pay rate adjustments require the City Manager's authorization before entry into the accounting system.

ECONOMIC ENVIRONMENT AND PROJECTIONS

The City of Mary Esther stands as a beacon for businesses, supported by a skilled and diversified labor force. Military veterans and their families, comprising at least 33% of our population, contribute to the vibrant economic landscape. We actively support the Okaloosa Economic Development Council's commitment to growth and diversification through various incentives, making Mary Esther a business-friendly environment.

Defense-related activity in Okaloosa County generates a significant economic impact, contributing approximately \$5.4 billion annually through direct spending and multiplier effects. The military and defense sector supports approximately 38,000 jobs, and provides roughly \$3.9 billion in labor income that boosts household spending and the local economy. Additionally, this activity generates \$147 million in state and local tax revenue, strengthening public services and infrastructure.

LOOKING FORWARD

The city proactively manages and updates its Capital Improvement Plan each year to anticipate the maintenance and replacement of high-cost assets vital for providing transportation and utility services to residents. This approach ensures that funds are available when necessary. The plan covers various depreciable assets, including streets, sidewalks, vehicles, equipment, and buildings, assessing their life expectancy and the costs for maintenance and replacement. During the annual budget process, the City Council reviews and decides which capital assets will be repaired or replaced.

The City Council remains committed to revitalizing the city's infrastructure, including water and wastewater systems, streets, sidewalks, parks, stormwater facilities, and municipal buildings. This year, infrastructure upgrades in the Springdale Park neighborhood were completed, along with the rehabilitation of Ray's Pond near the intersection of North St. and Pryor Dr.

The Public Works Department continues to prioritize enhancements to streets, sidewalks, and parks, with many streets receiving seal coating and numerous sidewalk sections repaired. Additional street and sidewalk improvements are planned for the next fiscal year. Renovations to Azalea Park are well underway and are expected to be completed in FY26. In addition to upgrades within the park itself, the broader Azalea Park neighborhood is undergoing a comprehensive infrastructure improvement project. This initiative includes significant enhancements to the neighborhood's water and wastewater systems, streets, and stormwater.

The City is also partnering with Okaloosa County on the waterfront park project on South Christobal Rd., which is preparing to enter the construction phase and is anticipated to be completed next year. Significant renovations have also been made to the new City Hall building, with an estimated move-in date in early 2026.

Community redevelopment continues to be a central focus. The Council and staff remain committed to working with property and business owners to support redevelopment, revitalization, and beautification efforts throughout the city. Most of the Santa Rosa Mall is scheduled for demolition beginning in December 2025. Staff is working closely with the mall's owners and developers to create a comprehensive redevelopment plan that will revitalize the area, strengthen its business environment, and enhance its sense of community. This plan includes the addition of a new "big box" retailer, for which the Council is actively working to approve a development order.

INDEPENDENT AUDIT

Florida municipalities are required to undergo annual audits conducted by an independent Certified Public Accounting firm. Warren Averett has been engaged to conduct the annual audits for the City's financial reports and provide single audits, as necessary for state and federal grants, covering fiscal years ending September 30, 2025, through 2027.

The City of Mary Esther received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2024. This prestigious award has been achieved for the 15th consecutive year, demonstrating the government's commitment to publishing an ACFR that is easily readable, efficiently organized, and compliant with both generally accepted accounting principles and applicable legal requirements.

While a Certificate of Achievement is valid for one year only, we are confident that our current ACFR continues to meet the requirements of the Certificate of Achievement Program. We are submitting it to GFOA for evaluation to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The Finance Department of the City of Mary Esther, along with City Management and Department Managers, has dedicated significant efforts to compile the necessary information for this year's Annual Comprehensive Financial Report. We extend our sincere appreciation to the Economic Development Council of Okaloosa County, the Okaloosa County Tax Collector's Office, the Okaloosa County School District Finance Department, the Okaloosa County Property Appraiser's Office, the Okaloosa County Sheriff's Office, the Ocean City-Wright Fire Department, and our auditing firm, Warren Averett, for their valuable contributions and assistance in the preparation of this report.

Respectfully Submitted,



Heather Day, Finance Director
February 20, 2026



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Mary Esther
Florida**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2024

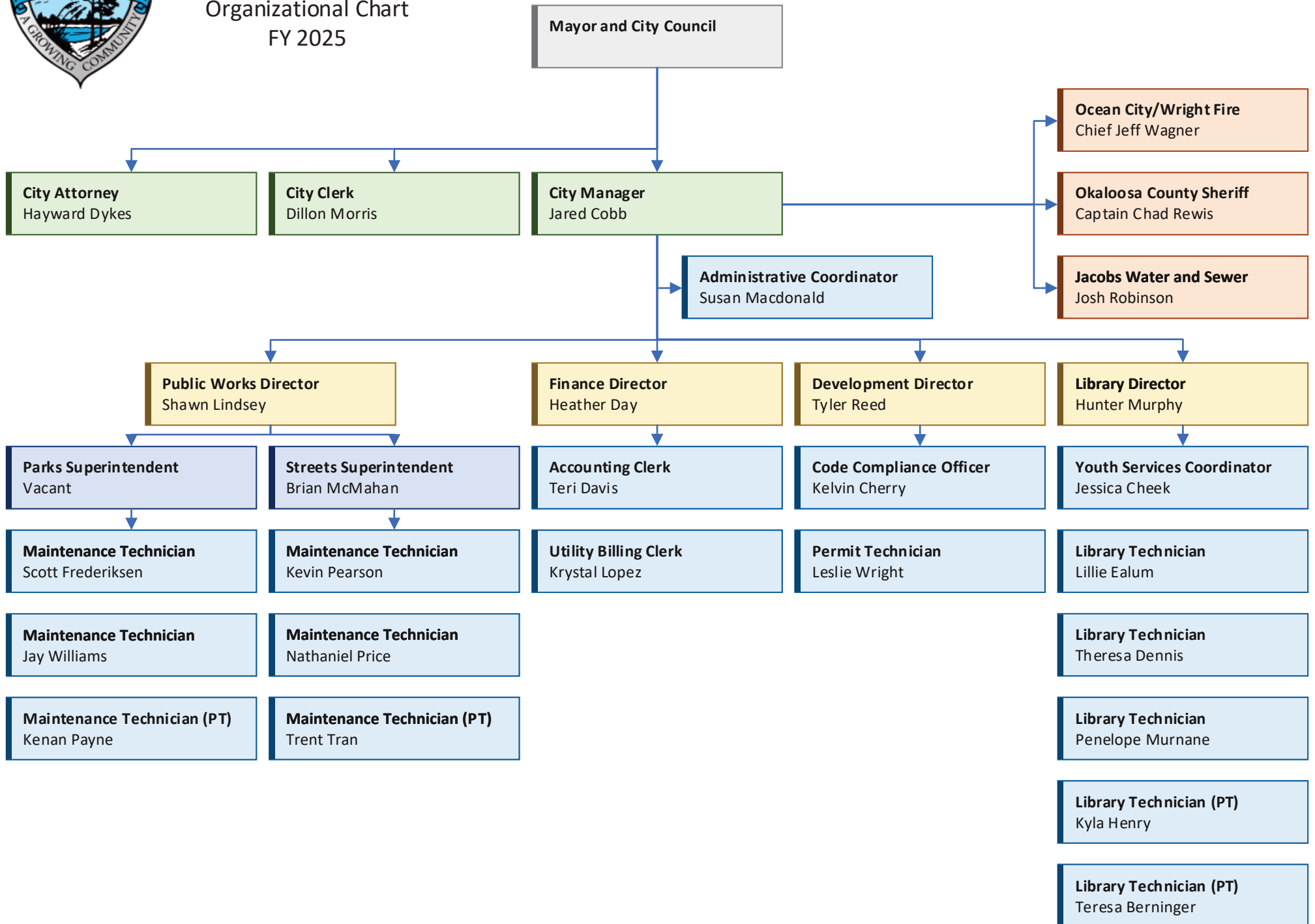
Christopher P. Morrill

Executive Director/CEO



City of Mary Esther

Organizational Chart
FY 2025



II. FINANCIAL SECTION

- INDEPENDENT AUDITORS' REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- BASIC FINANCIAL STATEMENTS
 - Government-Wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mary Esther, 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, and each major fund of the City of Mary Esther, Florida, as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' 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, the budgetary comparison information and the schedule of changes in the total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of state financial assistance, as required by Chapter 10.550, *Rules of the Florida Auditor General*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is 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 and statistical sections but does not include the basic financial statements and our auditors' 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 February 20, 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 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 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.



Fort Walton Beach, Florida
February 20, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Mary Esther, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2025.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$35.6 million (net position), and represents an increase of \$2.8 million, or 8.4%, from the prior year. Of this amount, \$18.4 million represents investments in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment) less any related debt used to acquire these assets that is still outstanding, \$2.2 million is restricted for specific purposes, and \$15.0 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position of governmental activities increased \$1.8 million, or 9.6%, and the business-type activities increased \$948 thousand, or 6.8%. The increase in governmental activities net position is primarily attributable to the large amount of capital assets purchased and constructed during fiscal year 2025 as capital outlay costs do not reduce net position in the government-wide financial statements. The increase in business-type activities net position is primarily attributable to expending American Rescue Plan Act (ARPA) grant funds on capital projects.
- As of September 30, 2025, the City's governmental funds reported ending fund balances of \$10.6 million, a decrease in fund balance of \$443 thousand, or 4.0%. Of this amount, \$5.1 million, or 48.4%, of ending fund balance (and 75.2% of the total expenditures for governmental funds), is assigned or unassigned and thus, available for spending at the City Council's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

This discussion and analysis intends 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 other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for primary government. This provides readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The statement of changes in net position 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 flow in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (including city manager, city clerk, human resources, finance, purchasing, and non-departmental expenses), public safety (including fire protection and protective inspections), transportation (including road and street maintenance), human services (animal control) and culture and recreation (parks and library). The business-type activities of the City include water and sewer utility services. The government-wide financial statements are found on pages 15-16 of this report.

Fund Financial Statements

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

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 financial requirements. The basic governmental fund financial statements are found in this report, as listed in the table of contents.

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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two governmental funds (General Fund and Discretionary Sales Tax Fund) which are considered major funds. The City adopts an annual appropriated budget for each of its major governmental funds. Budgetary comparison statements are provided to demonstrate compliance with the budgets.

Proprietary Funds

Proprietary funds include enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. To account for utility operations, the City uses an enterprise fund, the Water and Sewer Fund, which may be found on pages 21-24 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 25 of this report are the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$35.6 million (net position) for the fiscal year, as reported in Table 1.

Table 1
CITY OF MARY ESTHER, FLORIDA
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2025 AND 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 11,389,719	\$ 12,615,548	\$ 9,644,097	\$ 8,503,890	\$ 21,033,816	\$ 21,119,438
Capital assets	13,932,148	11,722,618	10,894,573	11,178,820	24,826,721	22,901,438
Total assets	25,321,867	24,338,166	20,538,670	19,682,710	45,860,537	44,020,876
Total deferred outflows of resources	57,551	62,146	-	-	57,551	62,146
Long-term liabilities outstanding	3,776,870	3,963,440	2,572,705	2,175,296	6,349,575	6,138,736
Other liabilities	725,170	1,365,537	488,323	875,957	1,213,493	2,241,494
Total liabilities	4,502,040	5,328,977	3,061,028	3,051,253	7,563,068	8,380,230
Total deferred inflows of resources	108,601	126,440	2,623,149	2,725,270	2,731,750	2,851,710
Net position						
Net investment in capital assets	10,170,545	8,760,015	8,253,617	8,612,498	18,424,162	17,372,513
Restricted	2,171,988	2,494,453	10,183	8,194	2,182,171	2,502,647
Unrestricted	8,426,244	7,690,427	6,590,693	5,285,495	15,016,937	12,975,922
Total net position	\$ 20,768,777	\$ 18,944,895	\$ 14,854,493	\$ 13,906,187	\$ 35,623,270	\$ 32,851,082

By far the largest portion of the City's net position, \$18.4 million, or 51.7%, reflects its investment in capital assets (e.g., land, infrastructure, buildings, 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.

An additional portion of the City's net position of \$2.2 million, or 6.1%, represents resources that are subject to external restrictions on how they may be used. The City's unrestricted net position of \$15.0 million may be used to meet the government's ongoing obligations to citizens and creditors.

The overall increase in the City's net position was \$2.8 million, or 8.4%, during fiscal year 2025. Governmental activities increased by \$1.8 million and business-type activities increased by \$948 thousand.

GOVERNMENTAL ACTIVITIES

Reported in Table 2 are the key elements of this change in net position.

Table 2
CITY OF MARY ESTHER, FLORIDA
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2025 AND 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
REVENUES						
Program revenues						
Charges for services	\$ 63,885	\$ 74,426	\$ 3,324,845	\$ 3,140,241	\$ 3,388,730	\$ 3,214,667
Operating grants and contributions	389,195	74,366	-	-	389,195	74,366
Capital grants and contributions	696,662	1,458,811	360,341	461,781	1,057,003	1,920,592
General revenues						
Property taxes	2,254,568	2,129,476	-	-	2,254,568	2,129,476
Other taxes	2,230,666	2,291,279	-	-	2,230,666	2,291,279
Other revenue	850,602	824,160	559,101	424,194	1,409,703	1,248,354
TOTAL REVENUES	6,485,578	6,852,518	4,244,287	4,026,216	10,729,865	10,878,734
EXPENSES						
Governmental activities						
General government	1,510,720	1,187,133	-	-	1,510,720	1,187,133
Public safety	1,648,732	1,554,329	-	-	1,648,732	1,554,329
Physical environment	148,012	103,717	-	-	148,012	103,717
Transportation	379,659	242,955	-	-	379,659	242,955
Culture and recreation	882,297	799,457	-	-	882,297	799,457
Debt service interest	172,130	162,701	-	-	172,130	162,701
Business-type activities						
Water and sewer	-	-	3,216,127	2,999,276	3,216,127	2,999,276
TOTAL EXPENSES	4,741,550	4,050,292	3,216,127	2,999,276	7,957,677	7,049,568
TRANSFERS	79,854	-	(79,854)	-	-	-
CHANGE IN NET POSITION	1,823,882	2,802,226	948,306	1,026,940	2,772,188	3,829,166
NET POSITION AT BEGINNING OF YEAR	18,944,895	16,142,669	13,906,187	12,879,247	32,851,082	29,021,916
NET POSITION AT END OF YEAR	\$ 20,768,777	\$ 18,944,895	\$ 14,854,493	\$ 13,906,187	\$ 35,623,270	\$ 32,851,082

FINANCIAL IMPACTS

Normal Impacts

There are eight basic impacts on revenues and expenses as reflected below:

Revenues

- **Economic Condition:** This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Council Approved Rate Adjustments:** While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (e.g., water, impact fees, recreation user fees, etc.).
- **Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring):** Certain recurring revenues (state revenue sharing) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- **Market Impacts on Investment Income:** The current market conditions have a significant influence on the City's investment income causing it to fluctuate greatly.

Expenses

- **Introduction of New Programs:** Within functional expense categories (e.g., police, fire, public works, community development, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- **Authorized Position Adjustments:** Changes in service demand may cause the City Council to change authorized staffing. Staffing costs (salary and related benefits) represent approximately 28% of the City's operating costs.
- **Salary Adjustments:** The ability to attract and retain human and intellectual resources requires the City to strive for a competitive salary range position in the marketplace.
- **Inflation:** While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil and parts. Some fluctuations may experience commodity specific increases.

Current Year Impacts – Governmental Activities

- Capital grants and contributions decreased by \$762 thousand, which is a result of nonrecurring Community Development Block Grant (CDBG) funding received in the prior year to make certain capital improvements to the Springdale Park Neighborhood.
- Operating grants and contributions increased by \$315 thousand, which is a result of the City applying American Rescue Plan Act (ARPA) grant funds toward public safety expenses.
- General government expense increased by \$323 thousand, which is the result of several factors, most notably, an increase in professional services along with an increase in payroll and employee benefit costs.

Chart 1
Expenses and Program Revenue – Governmental Activities

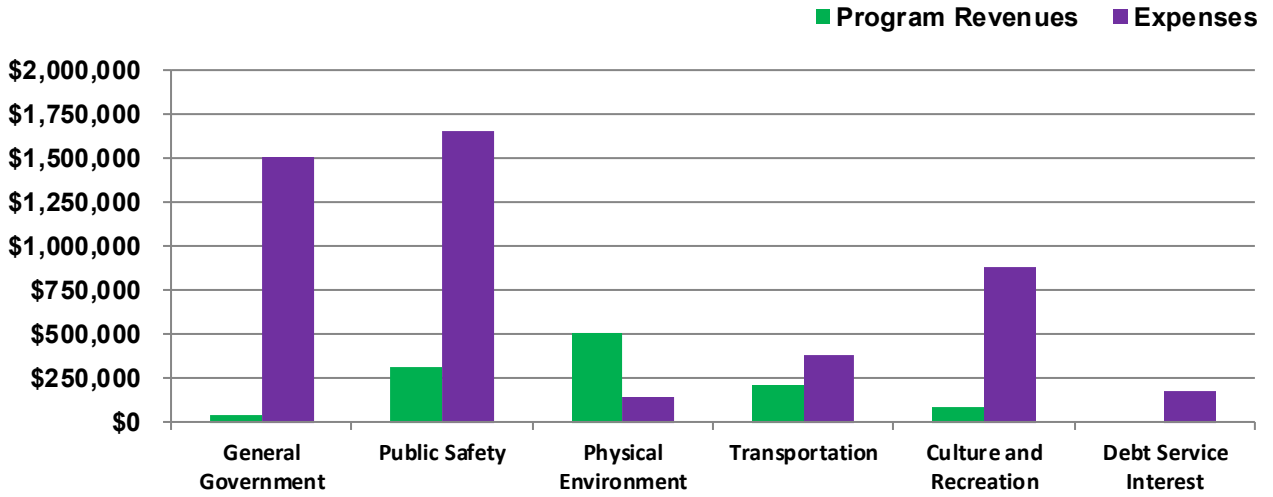
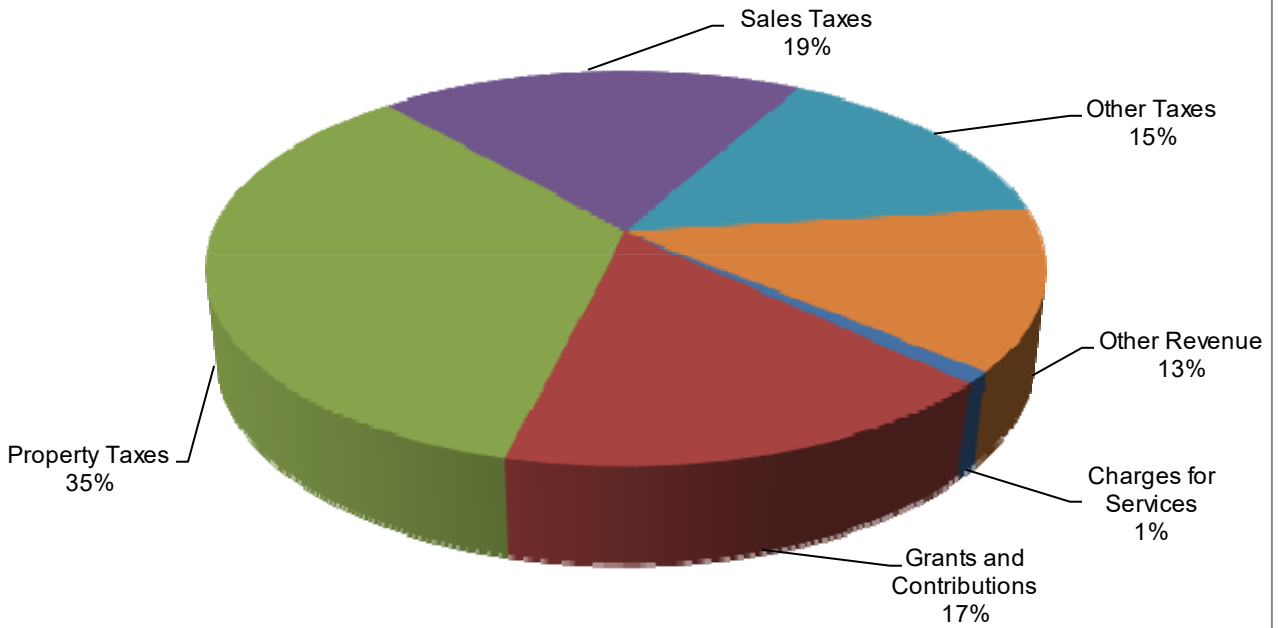
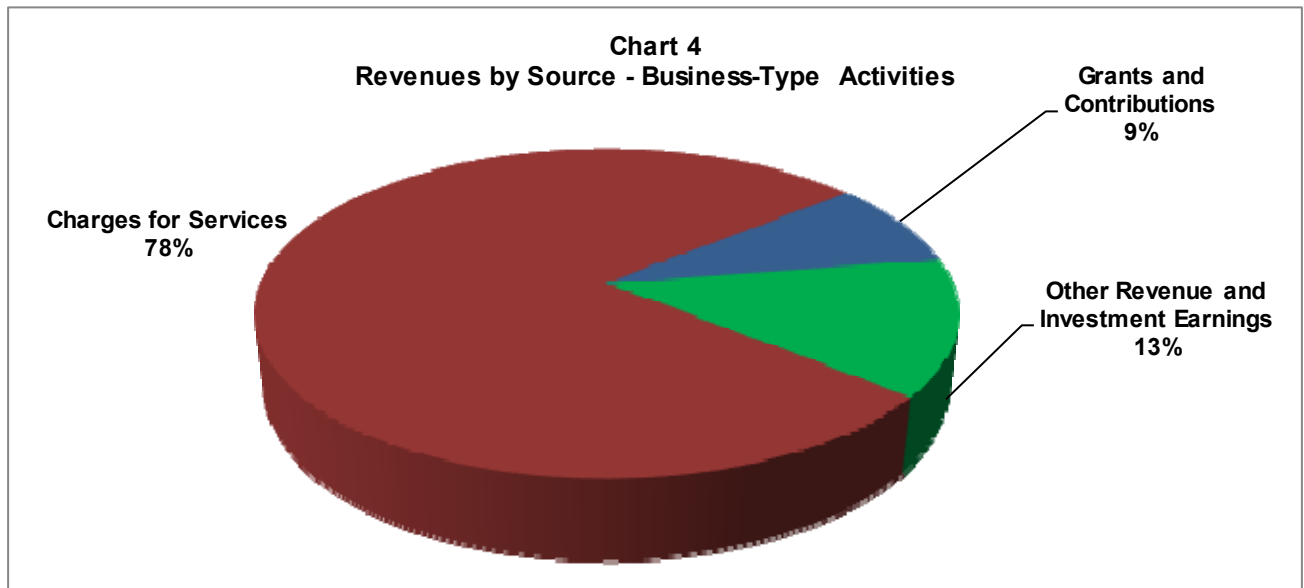
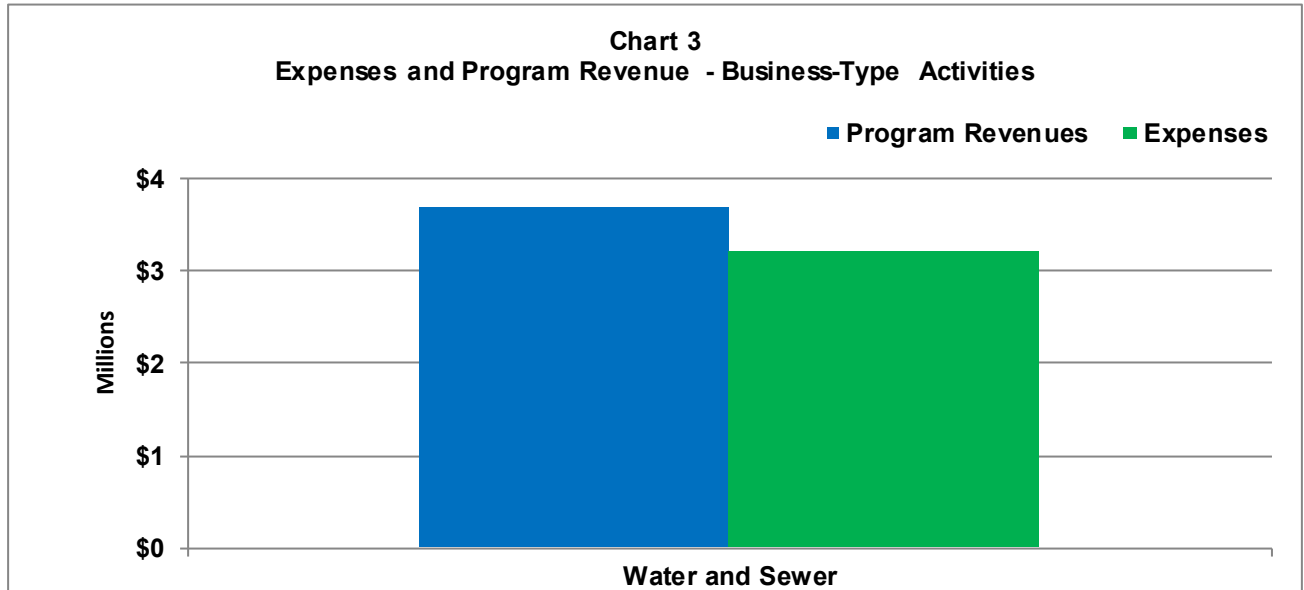


Chart 2
Revenues by Source – Governmental Activities



Current Year Impacts – Business-Type Activities

- Charges for services increased by \$185 thousand, or 5.9%. This increase is attributed to the increase in rates during 2025.
- Other revenue increased by \$135 thousand, or 31.8%, which is primarily attributed to insurance settlement proceeds related to damages sustained by contractors installing fiber optic lines throughout the City.
- Water and sewer expenses increased by \$217 thousand, or 7.2%, which is primarily attributable to an increase in payroll and related employee benefit costs.



FINANCIAL ANALYSIS OF THE GOVERNMENT'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 on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. As of September 30, 2025, the City's General Fund reported ending fund balance of \$8.6 million, a decrease in fund balance of \$139 thousand from the prior year. The decrease in fund balance was primarily driven by expenditures incurred for the renovation of the future City Hall building as well as debt service related to the revenue note issued in the prior year.

The Discretionary Sales Tax (DST) Fund is a special revenue fund that is used to account for proceeds received from discretionary sales taxes that are restricted by taxpayer referendum as a local option tax. As of September 30, 2025, the fund reported ending fund balance of \$2.0 million, a decrease of \$303 thousand from the prior year. The decrease in fund balance is attributable to nonrecurring capital outlay expenditures related to the completion of the Springdale Park Neighborhood improvements.

As a measure of the liquidity in the governmental funds, it may be useful to compare both unassigned and assigned fund balance and total fund balance to total expenditures. Unassigned and assigned fund balances represent 75.2% of the total expenditures in the governmental funds, while total fund balances represent 155.3% of total expenditures in the governmental funds. Unassigned and assigned fund balances represent approximately 9 months of expenditures for the governmental funds.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the proprietary funds totaled \$6.6 million at the end of fiscal year 2025. Total net position for proprietary funds increased \$948 thousand, or 6.8%, during 2025.

BUDGETARY HIGHLIGHTS

General Fund

- Actual expenditures fell short of budgetary expectations by \$3.0 million, which is primarily attributable to delays in the commencement (and progress) of planned capital projects.
- Actual revenues exceeded budgetary expectations by \$27 thousand, which is primarily attributable to conservative budgeting practices used by management for revenues.

CAPITAL ASSETS AND LONG-TERM LIABILITIES OUTSTANDING

Capital Assets

The City's investments in capital assets for its governmental and business-type activities as of September 30, 2025, amounts to \$24.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads and highways, etc. The total increase in the City's investment in capital assets for the current fiscal year was \$1.9 million, or 8.4%, with an overall 18.8% increase for governmental activities and a 2.5% decrease for business-type activities, all of which is summarized in Table 3 below.

Table 3
CITY OF MARY ESTHER, FLORIDA
CAPITAL ASSETS
(Net of Accumulated Depreciation)
AS OF SEPTEMBER 30, 2025 AND 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 6,111,851	\$ 6,111,851	\$ 77,878	\$ 77,878	\$ 6,189,729	\$ 6,189,729
Buildings	1,938,514	1,895,513	58,891	62,558	1,997,405	1,958,071
Improvements other than buildings	4,704,141	1,389,180	9,748,758	6,174,106	14,452,899	7,563,286
Machinery and equipment	345,878	109,014	769,091	799,793	1,114,969	908,807
Subscription assets	21,237	46,723	10,663	23,461	31,900	70,184
Construction in progress	810,527	2,170,337	229,292	4,041,024	1,039,819	6,211,361
Total	\$ 13,932,148	\$ 11,722,618	\$ 10,894,573	\$ 11,178,820	\$ 24,826,721	\$ 22,901,438

Additional information on the capital assets of the City can be found in Note 6 of this report.

Debt

As of September 30, 2025, the City reported outstanding long-term debt from revenue notes and State Revolving Fund loans totaling \$6.2 million. The debt is secured by pledged non-ad valorem revenues of the City. The City has no general obligation or special assessment debt. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts greater than one year, the City is required to conduct a voter referendum process for approval of this type of debt. The City's outstanding long-term liabilities are summarized in Table 4 below.

Table 4
CITY OF MARY ESTHER, FLORIDA
LONG-TERM LIABILITIES OUTSTANDING
AS OF SEPTEMBER 30, 2025 AND 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenue note	\$ 3,559,603	\$ 3,733,828	\$ -	\$ -	\$ 3,559,603	\$ 3,733,828
State Revolving Fund loans	-	-	2,622,970	2,170,409	2,622,970	2,170,409
Subscription liabilities	33,791	33,791	16,968	16,968	50,759	50,759
Compensated absences	196,813	119,674	50,531	29,428	247,344	149,102
Total	\$ 3,790,207	\$ 3,887,293	\$ 2,690,469	\$ 2,216,805	\$ 6,480,676	\$ 6,104,098

Additional information on the City's long-term liabilities can be found in Note 9 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and a limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (occupational licenses) for their governmental activities. There is a limited number of state shared revenues and recurring and non-recurring grants from both the state and federal governments, which provide funding for specific programs, projects, or activities. For the business-type activities and certain governmental activities (permitting and recreational programs), the user pays a related fee or charge associated with the service.

The level of taxes, fees, and charges for services (including development related impact fees) has an impact on the City's specific competitive ability to encourage development and redevelopment (office, retail, residential and industrial) for those businesses that choose to locate in our jurisdiction. As the City has limited growth potential, it places great emphasis on redevelopment, and it is essential for the continued financial and economic health of our community.

The military has a significant presence in the City's community with Eglin Air Force Base and Hurlburt Field employing over 72,000 military and civilian personnel. These installations are essential to the continued long-term economic vitality of this area. Combined, the military and defense-related industries have a \$20.6 billion annual impact on Northwest Florida's economy, according to the *Florida Defense Industry Economic Impact Analysis*.

Regional economic indicators were also considered in preparing the fiscal year 2026 budget for the City:

- The local unemployment rate was 4.1%, which represents a 0.9% increase from September 2024. The State of Florida's unemployment rate was 3.9%, which represents an approximate 0.6% increase from September 2024. The unemployment rate will impact the City's fee and usage-based revenues and shared portions of the State of Florida's usage-based taxes.
- The Florida Department of Revenue's Office of Tax Research has updated its estimates of tax distributions the City is expected to receive for the upcoming fiscal year. The table below summarizes the fiscal year 2026 revenue estimates compared to the actual revenues reported for fiscal year 2025.

Revenue Source	FY2026	FY2025	Variance (\$)	Variance (%)
	Estimate	Actual		
Municipal Revenue Sharing	\$ 225,909	\$ 230,294	\$ (4,385)	-1.9%
Half-Cent Sales Tax	508,114	524,082	(15,968)	-3.0%
Communications Service Tax	201,868	215,224	(13,356)	-6.2%

- Moderate increases in property tax revenues are anticipated by most regional municipalities. Property tax revenues in Mary Esther are expected to increase by 4.3% as compared to roll year 2024 due to an increase in the assessed value of taxable property.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general financial overview of the City for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, City of Mary Esther, 195 Christobal Road North, Mary Esther, Florida 32569. The City's website address is www.cityofmaryesther.com.

**CITY OF MARY ESTHER, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,702,154	\$ 5,713,558	\$ 10,415,712
Investments	3,013,837	356,300	3,370,137
Receivables, net	62,548	703,872	766,420
Due from other governments	121,293	-	121,293
Prepaid items	6,287	-	6,287
Restricted assets			
Cash and cash equivalents	3,328,301	148,343	3,476,644
Other assets			
Leases receivable	-	2,722,024	2,722,024
Other, net	155,299	-	155,299
Capital assets			
Non-depreciable	6,922,378	307,170	7,229,548
Depreciable, net	7,009,770	10,587,403	17,597,173
TOTAL ASSETS	25,321,867	20,538,670	45,860,537
DEFERRED OUTFLOW OF RESOURCES	57,551	-	57,551
LIABILITIES			
Accounts payable	536,795	160,421	697,216
Accrued liabilities	49,241	8,968	58,209
Accrued interest	1,532	3,010	4,542
Unearned revenues	-	60,000	60,000
Payable from restricted assets			
Customer deposits	-	138,160	138,160
Non-current liabilities			
Due within one year			
Compensated absences	103,811	25,427	129,238
Subscription liabilities	33,791	16,968	50,759
State Revolving Fund loans payable	-	75,369	75,369
Due in more than one year			
Compensated absences	93,002	25,104	118,106
State Revolving Fund loans payable	-	2,547,601	2,547,601
Revenue note payable	3,559,603	-	3,559,603
Other post-employment benefits	124,265	-	124,265
TOTAL LIABILITIES	4,502,040	3,061,028	7,563,068
DEFERRED INFLOWS OF RESOURCES	108,601	2,623,149	2,731,750
NET POSITION			
Net investment in capital assets	10,170,545	8,253,617	18,424,162
Restricted for:			
Capital expansion projects	164,118	10,183	174,301
Government infrastructure	2,001,863	-	2,001,863
Other purposes	6,007	-	6,007
Unrestricted	8,426,244	6,590,693	15,016,937
TOTAL NET POSITION	\$ 20,768,777	\$ 14,854,493	\$ 35,623,270

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 1,510,720	\$ 29,256	\$ 8,446	\$ -	\$ (1,473,018)	\$ -	\$ (1,473,018)
Public safety	1,648,732	9,634	296,785	2,233	(1,340,080)	-	(1,340,080)
Physical environment	148,012	-	-	501,600	353,588	-	353,588
Transportation	379,659	22,495	-	192,529	(164,635)	-	(164,635)
Culture and recreation	882,297	2,500	83,964	300	(795,533)	-	(795,533)
Debt service interest	172,130	-	-	-	(172,130)	-	(172,130)
Total governmental activities	<u>4,741,550</u>	<u>63,885</u>	<u>389,195</u>	<u>696,662</u>	<u>(3,591,808)</u>	<u>-</u>	<u>(3,591,808)</u>
Business-type activities							
Water and sewer	3,216,127	3,324,845	-	360,341	-	469,059	469,059
Total primary government	<u>\$ 7,957,677</u>	<u>\$ 3,388,730</u>	<u>\$ 389,195</u>	<u>\$ 1,057,003</u>	<u>(3,591,808)</u>	<u>469,059</u>	<u>(3,122,749)</u>
General revenues							
Taxes							
Property taxes					2,254,568	-	2,254,568
Sales taxes					1,266,153	-	1,266,153
Utility service taxes					629,003	-	629,003
Other taxes					335,510	-	335,510
Intergovernmental					325,988	-	325,988
Gain on sale of assets					16,450	-	16,450
Miscellaneous					10,400	180,610	191,010
Investment earnings					497,764	378,491	876,255
Transfers					79,854	(79,854)	-
Total general revenues and transfers					<u>5,415,690</u>	<u>479,247</u>	<u>5,894,937</u>
CHANGE IN NET POSITION					<u>1,823,882</u>	<u>948,306</u>	<u>2,772,188</u>
NET POSITION AT BEGINNING OF YEAR					<u>18,944,895</u>	<u>13,906,187</u>	<u>32,851,082</u>
NET POSITION AT END OF YEAR					<u>\$ 20,768,777</u>	<u>\$ 14,854,493</u>	<u>\$ 35,623,270</u>

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2025**

	General Fund	Discretionary Sales Tax Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,739,466	\$ 1,964,551	\$ 6,704,017
Investments	3,013,837	-	3,013,837
Receivables, net	62,548	-	62,548
Due from other governments	83,981	37,312	121,293
Prepaid items	6,287	-	6,287
Restricted assets:			
Cash and cash equivalents	1,326,438	-	1,326,438
TOTAL ASSETS	\$ 9,232,557	\$ 2,001,863	\$ 11,234,420
LIABILITIES			
Accounts payable	\$ 536,795	\$ -	\$ 536,795
Accrued liabilities	49,241	-	49,241
Total liabilities	586,036	-	586,036
DEFERRED INFLOWS OF RESOURCES	59,469	-	59,469
FUND BALANCE			
Nonspendable	6,287	-	6,287
Restricted	1,326,438	2,001,863	3,328,301
Committed	2,127,498	-	2,127,498
Assigned	2,300,739	-	2,300,739
Unassigned	2,826,090	-	2,826,090
Total fund balances	8,587,052	2,001,863	10,588,915
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 9,232,557	\$ 2,001,863	\$ 11,234,420

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITIOIN
SEPTEMBER 30, 2025**

Fund balance, total governmental funds (page 17)	\$	10,588,915
--	----	------------

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental non-depreciable assets	6,922,378	
Governmental depreciable assets	11,353,844	
Less accumulated depreciation	<u>(4,344,074)</u>	
		13,932,148

Other long-term assets are not financial resources and therefore are not reported in the governmental funds.

Other long-term assets, net		155,299
-----------------------------	--	---------

Deferred inflows of resources and deferred outflow of resources related to OPEB are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.

Deferred outflows of resources	57,551	
Deferred inflows of resources	<u>(49,132)</u>	
		8,419

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Subscription liabilities	(33,791)	
Accrued interest on subscription liabilities	(1,532)	
OPEB liabilities	(124,265)	
Compensated absences	(196,813)	
Revenue note payable	<u>(3,559,603)</u>	
		<u>(3,916,004)</u>

Net position of governmental activities (page 15)	\$	<u><u>20,768,777</u></u>
---	----	--------------------------

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	<u>General Fund</u>	<u>Discretionary Sales Tax Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 3,177,300	\$ -	\$ 3,177,300
Licenses, fees, and permits	258,776	-	258,776
Intergovernmental	1,720,995	551,660	2,272,655
Charges for services	36,069	-	36,069
Fines	8,554	-	8,554
Miscellaneous	419,515	123,369	542,884
Total revenues	<u>5,621,209</u>	<u>675,029</u>	<u>6,296,238</u>
EXPENDITURES			
Current			
General government	1,199,530	-	1,199,530
Public safety	1,602,060	-	1,602,060
Physical environment	148,012	-	148,012
Transportation	301,281	-	301,281
Culture and recreation	841,011	-	841,011
Capital outlay	1,402,273	978,134	2,380,407
Debt service			
Principal	174,225	-	174,225
Interest	172,130	-	172,130
Total expenditures	<u>5,840,522</u>	<u>978,134</u>	<u>6,818,656</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(219,313)</u>	<u>(303,105)</u>	<u>(522,418)</u>
OTHER FINANCING SOURCES			
Transfers in	79,854	-	79,854
NET CHANGE IN FUND BALANCE	(139,459)	(303,105)	(442,564)
FUND BALANCE AT BEGINNING OF YEAR	<u>8,726,511</u>	<u>2,304,968</u>	<u>11,031,479</u>
FUND BALANCE AT END OF YEAR	<u>\$ 8,587,052</u>	<u>\$ 2,001,863</u>	<u>\$ 10,588,915</u>

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Net change in fund balance of governmental funds (page 19) \$ (442,564)

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 depreciated over the estimated useful lives of the assets.

Capital outlay	2,380,407	
Less depreciation expense	<u>(360,155)</u>	
		2,020,252

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown as income in the governmental financial statements and a gain or loss is reported in the statement of activities.

Cost of capital assets disposed/transferred	(153,464)	
Accumulated depreciation associated with disposals/transfers	<u>153,402</u>	
		(62)

Contributions of capital assets that will be used in operations are not reported in the governmental funds; however, such capital assets are reported as revenue in the statement of activities at their estimated acquisition value on the date of the contribution.

Estimated acquisition value of contributed capital assets		189,340
---	--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payment on revenue note		174,225
-----------------------------------	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in other long-term assets	(38,826)	
Change in other post-employment benefits liability and related deferrals	73	
Change in accrued interest on subscription liabilities	(1,417)	
Change in long-term compensated absences	<u>(77,139)</u>	
		<u>(117,309)</u>

Change in net position of governmental activities (page 16) \$ 1,823,882

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 AS OF SEPTEMBER 30, 2025**

	Water and Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,713,558
Investments	356,300
Receivables, net	703,872
Leases receivable	75,149
Restricted assets – cash and cash equivalents	148,343
Total current assets	6,997,222
Noncurrent assets	
Leases receivable	2,646,875
Capital assets	
Non-depreciable	307,170
Depreciable, net	10,587,403
Total noncurrent assets	13,541,448
TOTAL ASSETS	20,538,670
LIABILITIES	
Current liabilities	
Accounts payable	160,421
Accrued interest payable	3,010
Accrued liabilities	8,968
Compensated absences	25,427
Unearned revenues	60,000
State Revolving Fund loans payable	75,369
Subscription liabilities	16,968
Payable from restricted assets	
Customer deposits	138,160
Total current liabilities	488,323
Non-current liabilities	
State Revolving Fund loans payable	2,547,601
Compensated absences	25,104
Total non-current liabilities	2,572,705
TOTAL LIABILITIES	3,061,028
DEFERRED INFLOW OF RESOURCES	
Leases	2,623,149
NET POSITION	
Net investment in capital assets	8,253,617
Restricted - capital expansion projects	10,183
Unrestricted	6,590,693
TOTAL NET POSITION	\$ 14,854,493

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,220,706
OPERATING EXPENSES	
Personnel	326,948
Operating	2,402,068
Depreciation	484,351
Total operating expenses	3,213,367
OPERATING INCOME	7,339
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(2,366)
Leases	104,139
Interest and investment income	378,491
Loss on disposal of capital assets	(394)
Miscellaneous	180,610
Total non-operating revenues (expenses)	660,480
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	667,819
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital grants and contributions	355,851
Impact fees	1,990
Tap fees	2,500
Transfers out	(79,854)
Total capital contributions and transfers	280,487
CHANGE IN NET POSITION	948,306
NET POSITION AT BEGINNING OF YEAR	13,906,187
NET POSITION AT END OF YEAR	\$ 14,854,493

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 3,131,096
Payments to suppliers and contractors	(2,672,652)
Payments to employees	(304,164)
Miscellaneous income	180,610
	334,890
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	(79,854)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions of capital assets	(151,238)
Proceeds from sale of capital assets	1,740
Proceeds from impact and tap fees	4,490
Proceeds from capital grants and contributions	87,913
Proceeds from state revolving fund loans	469,255
Principal payments on state revolving fund loans	(16,694)
Interest paid	(2,851)
	392,615
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	378,491
Purchases of investments	(15,921)
	362,570
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,010,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,851,680
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,861,901
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF	
Cash and cash equivalents	\$ 5,713,558
Restricted assets - cash and cash equivalents	148,343
	\$ 5,861,901

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	Water and Sewer Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 7,339
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	484,351
Miscellaneous revenue	180,610
Bad debt	3,744
Decrease (increase) in assets:	
Accounts receivable	(223,724)
Prepaid expenses	42,163
Leases receivable, net	65,770
Increase (decrease) in liabilities:	
Customer deposits	4,600
Accounts payable	(312,747)
Accrued liabilities	1,681
Compensated absences	21,103
Unearned revenues	60,000
Net cash provided by operating activities	\$ 334,890
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Contributed services on capital projects	\$ 51,000
Loss on disposal of capital assets	\$ (394)

See notes to the financial statements.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY

Description of City

The City of Mary Esther, Florida (the City) was established as a town under the laws of the State of Florida in 1946. In 1984, after referendum vote by the citizens of the City, the Council approved ordinance number 84-3 to incorporate Mary Esther as a City. The City operates under a council form of government and provides the following services: public safety (fire control and protective inspections), transportation (road and street facilities), human services (animal control), culture and recreation (library, parks, and recreation), physical environment (community development), utility (water and sewer) and general government.

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

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

The Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB guidance for determining financial accountability of potential component units in evaluating all potential component units. Accordingly, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2025, the City had no component units required to be presented in the City's financial statements.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which significantly rely on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from government-wide financial statements.

Major individual governmental funds and the enterprise fund are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, in accordance with accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

The following is the current property tax calendar:

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

Discounts of 1% are granted for each month taxes are paid prior to March 1st.

Revenue recognition criteria for property taxes requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2025 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

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

Basis of Presentation

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. The City also recognizes, as operating revenues, the portion of tap fees intended to recover the cost of connecting customers to the system.

Operating expenses for enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

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

Governmental

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

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

Discretionary Sales Tax Fund – This is a special revenue fund used to account for proceeds received from discretionary sales taxes that are restricted by the taxpayer referendum that authorized the local option taxes for expenditures towards capital infrastructure related projects.

Proprietary

Proprietary funds focus on the determination of fund net position, changes in fund net position, and cash flows. The City's proprietary fund is an enterprise fund, as fees are charged to external users for services. The following is a description of the City's major proprietary fund:

Water and Sewer Fund – this fund accounts for the operations and activities of the City's water and sewer system.

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

Cash and Cash Equivalents

Each fund's cash on hand, demand deposits, certificates of deposit, and short-term investments are considered cash and cash equivalents. For purposes of these statements, certificates of deposit with maturities of two years or less when purchased, and highly liquid debt instruments, with a maturity of three months or less when purchased, are considered to be cash equivalents.

Deposits and Investments

The City is authorized under the City's investment policy to invest and reinvest surplus public funds in its control or possession, in accordance with resolutions to be adopted from time to time and in accordance with Sections 218.40 through 218.45, Florida Statutes. According to its policy, the City's primary objectives in priority order are: 1) safety, 2) liquidity, and 3) return on investment. The policy prohibits the following investments and investment practices:

1. Purchases on margin or short sales.
2. Derivative securities that are, in effect, a leveraged bet on future movements of interest rates or some price index. Collateralized mortgage obligations, because of their complexity and prepayment rate uncertainties, are prohibited.
3. Lending securities with an agreement to buy them back after a stated period of time (reverse purchased agreements from the perspective of the public body).

Investments for the city are reported at fair value (generally based on quoted market prices) except for the Florida PRIME investment pool, which is reported at amortized cost.

CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

All proprietary fund receivables are shown net of an allowance for uncollectible accounts. The City's estimate is based on historical collection experience and a review of the current status of accounts receivable. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off. At September 30, 2025, an allowance for doubtful accounts of \$9,058 was recorded in the Water and Sewer Fund.

The City recognizes a lease receivable and a deferred inflow of resources for noncancellable leases in which the City is the lessor. At the commencement of the lease, the City measures the lease receivable at the present value of payments expected to be received during the lease term. The deferred inflow of resources is measured at the initial amount of the lease receivable adjusted for lease payments received at or before the lease commencement date. In subsequent periods, the lease receivable is reduced by the principal portion of lease payments received and the deferred inflow of resources is recognized as revenue over the life of the lease term.

Restricted Assets

Restricted assets are maintained in both the governmental and business-type activities. Deposits received from customers of the water and sewer system are restricted to use as payment of the final customer bill or is returned to the customer upon settlement of the final bill. Impact fees from customers are also restricted in the General Fund and the Water and Sewer Fund for future capital expansion projects. Additionally, financial assets from discretionary sales taxes are classified as restricted assets because their use is limited by taxpayer referendum.

Prepaid Items

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

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost more than the following:

Land	\$	1
Buildings	\$	1,000
Improvements other than buildings	\$	1,000
Machinery and equipment	\$	1,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. 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 in the proprietary fund as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalizable value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-10 years
Subscription assets	3-5 years

Subscription-Based Information Technology Arrangements (SBITA's)

The City records a subscription asset and a related subscription liability for subscription-based information technology arrangements at the commencement of the agreement. The subscription liability is measured at the present value of payments expected to be made during the subscription term. The subscription asset is measured at the initial amount of the subscription liability adjusted for any payments made at or before the beginning of the subscription term. The City monitors changes in circumstances that would require remeasurement of subscription assets and liabilities.

Compensated Absences

The City records a compensated absences liability for leave that 1) can be carried forward to future reporting periods; 2) was earned based on service that the employee has already provided; and 3) is more likely than not to be used, paid, or otherwise settled with the City. The compensated absences liability is measured using the pay rates in effect as of the financial statement date, including directly and incrementally associated salary-related employer taxes and benefits. Changes to pay rates will be recognized in future periods as those changes occur. The City uses a first-in, first-out (FIFO) flow assumption for calculating the portion of the liability due within one year.

CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

Long-Term Obligations

In the government-wide financial statements and proprietary fund type 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. Note premiums and discounts are deferred and amortized over the life of the notes using the effective and straight-line interest methods. Note issuance costs are expensed as they are incurred. Notes payable are reported net of the applicable premium or discount.

Total Other Post-Employment Benefits (OPEB) Liability

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The OPEB liability is typically liquidated by the General Fund. See Note 10 for additional information about the City's other postemployment benefit plan.

Classifications of Fund Balance

GASB Statement No. 54 establishes fund balance classifications using a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Fund balance classifications are comprised of the following:

- Nonspendable – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed – includes amounts that can only be used for the specific purposes determined by a formal action, Ordinance, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally, which is an Ordinance.
- Assigned – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by the City Council to assign amounts to be used for specific purposes. The City's fund balance policy does not explicitly specify who is authorized to establish fund balance assignments. Only the City Council has the authority to establish fund balance assignments.
- Unassigned – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The General Fund's formal fund balance policy establishes a stabilization arrangement that commits 20% of annual budgeted expenditures and can only be reversed through a formal action of the City Council.

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

Net Position

Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. The net investment in capital assets represents net position related to property, plant and equipment, net of any related debt. Restricted net position represents the net position restricted by state legislation.

The City considers restricted amounts to be spent first when both restricted and unrestricted net position is available.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. See Note 5 for additional information on the City's deferred outflows 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 assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. See Note 5 for additional information on the City's deferred inflows of resources.

Change in Accounting Principle

Effective October 1, 2024, the City adopted the provisions of GASB Statement No. 101, *Compensated Absences* (GASBS 101). This pronouncement establishes a unified model for recognition and measurement of liabilities associated with compensated absences, including vacation, sick leave and other paid time off. GASBS 101 is expected to result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation and can be applied consistently to different types of leave offered by governmental employers.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

As part of the implementation process, the City has evaluated whether leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means by assessing relevant factors, such as the City's employment policies related to compensated absences; historical information about the use, payment, or forfeiture of compensated absences; and known information that would indicate that historical information may not be representative of future trends or patterns. GASBS 101 was retroactively implemented and had no effect on fund balance or net position previously presented.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation. Such reclassifications have no effect on total fund balances or net position previously reported.

Subsequent Events

Subsequent events were evaluated through February 20, 2026, which is the date the financial statements were issued, for possible recognition or disclosure in the financial statements.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

Annual appropriated budgets are adopted for the General Fund, Discretionary Sales Tax Fund, and the Water and Sewer Fund. The annual budgets for the General Fund and Discretionary Sales Tax Fund are adopted using the modified accrual basis of accounting, which is in accordance with GAAP for governmental fund types. The Water and Sewer Fund budget is adopted on the full accrual basis, which is consistent with GAAP for proprietary fund types. Every appropriation, except an appropriation for a capital expenditure, lapses at the end of the year to the extent it has not been expended or encumbered.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. As stated above, encumbrance accounting is employed in governmental funds. Any purchase order or contract outstanding at year-end does not constitute an expenditure but is reported as an assignment of fund balance. The City had no encumbrances reported as assigned fund balance for the year ended September 30, 2025.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

3. DEPOSITS AND INVESTMENTS

Deposits

The investment of surplus funds is governed by provisions of Section 218.415, Florida Statutes, as to the type of investments that can be made. Deposits may be exposed to custodial credit risk, which is the risk that, in the event of a bank failure, the government's deposits may not be returned.

The City manages its custodial credit risk by maintaining its deposits with *Qualified Public Depositories* as defined in Chapter 280, Florida Statutes. The provisions of this statute allow *Qualified Public Depositories* to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All *Qualified Public Depositories* must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all *Qualified Public Depositories*.

The City had \$13,892,074 of deposits with financial institutions on September 30, 2025, all of which were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial credit risk.

Investments

As of September 30, 2025, the City's investments consist of pooled accounts with Florida PRIME and FLCLASS, external intergovernmental investment pools. The types of investments which can be made by the City are restricted by state statutes and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1.

The following is a summary of the City's investments:

<i>Investments – Governmental and Business-Type Activities</i>					
	General Fund	Water and Sewer Fund	Total	S&P Rating	Average Maturity
Florida PRIME	\$ 2,460,844	\$ 356,300	\$ 2,817,144	AAAm	47 days
FLCLASS	552,993	-	552,993	AAAm	42 days
Total investments	\$ 3,013,837	\$ 356,300	\$ 3,370,137		

CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

Funds are placed with the State Board of Administration (SBA) for participation in the Florida PRIME Investment Pool (Florida PRIME), created by Chapter 218, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The City's investment in Florida PRIME, a Security and Exchange Commission (SEC) Rule 2a7-like external investment pool is reported at amortized cost, which is not materially different from fair value. Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1 per share, provided that such funds meet certain conditions.

The City also participates in the Florida Cooperative Liquid Asset Securities System (FLCLASS). This investment pool is a stable NAV Government Investment Pool established under Section 218.415, Florida Statutes; and is an intergovernmental investment authorized pursuant to the Florida Interlocal Cooperation Act of 1969. The City's investment in FLCLASS is reported at fair value. Since the fair value of the City's investment is reported at NAV per share, it is not required to be categorized within the fair value hierarchy in accordance with GASB Statement No. 72.

As of September 30, 2025, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

Concentration of Credit Risk – The City's investment policy encourages diversification but does not specify limits on the amount that may be invested in any one issuer. As of September 30, 2025, all the City's investments were held in Florida PRIME or FLCLASS pooled accounts.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City has adopted a policy for custodial credit risk authorizing the Finance Director to maintain a list of financial institutions approved for investment services. In addition, a list of approved security brokers/dealers selected by credit worthiness authorized in the State of Florida will be utilized for investment purposes. Also, only brokers and dealers (or their agents) included on the Federal Reserve Bank of New York's List of Primary Government Security Dealers will be identified as authorized by policy. Other non-primary dealers may be used, provided that the dealer is approved by City Council, City Manager, and Finance Director. A memo indicating such approval is required to be retained in the investment files.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The City manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

4. RECEIVABLES

Receivables and amounts due from other governments on September 30, 2025, were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	<u>Total</u>
	<u>General Fund</u>	<u>Discretionary Sales Tax Fund</u>	<u>Water and Sewer Fund</u>	
	Taxes	\$ 58,573	\$ -	
Accounts	4,354	-	712,930	717,284
Less allowance for doubtful accounts	(379)	-	(9,058)	(9,437)
Total receivables, net	<u>62,548</u>	<u>-</u>	<u>703,872</u>	<u>766,420</u>
Due from other governments	<u>83,981</u>	<u>37,312</u>	<u>-</u>	<u>121,293</u>
Leases receivable	<u>-</u>	<u>-</u>	<u>2,722,024</u>	<u>2,722,024</u>
Total	<u>\$ 146,529</u>	<u>\$ 37,312</u>	<u>\$ 3,425,896</u>	<u>\$ 3,609,737</u>

Due from Other Governments

Amounts due from other governments primarily consist of half-cent sales taxes, discretionary sales taxes, local option fuel taxes, telecommunications service taxes, and various grant awards.

5. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows and inflows of resources as of September 30, 2025, are summarized as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
			<u>Water and Sewer Fund</u>
Deferred outflows of resources			
Changes in assumptions related to OPEB plan	\$ -	\$ 27,656	\$ -
Differences between expected and actual experience on OPEB plan actuarial assumptions	<u>-</u>	<u>29,895</u>	<u>-</u>
Total deferred outflows of resources	<u>\$ -</u>	<u>\$ 57,551</u>	<u>\$ -</u>

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Business-Type Activities Water and Sewer Fund</u>
Deferred inflows of resources			
Changes in assumptions related to OPEB plan	\$ -	\$ 42,969	\$ -
Differences between expected and actual experience on OPEB plan actuarial assumptions	-	6,163	-
Business license taxes collected for subsequent fiscal year	59,469	59,469	-
Leases	-	-	2,623,149
Total deferred inflows of resources	<u>\$ 59,469</u>	<u>\$ 108,601</u>	<u>\$ 2,623,149</u>

6. CHANGES IN CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 6,111,851	\$ -	\$ -	\$ 6,111,851
Construction in progress	2,170,337	482,946	(1,842,756)	810,527
Total capital assets not being depreciated	<u>8,282,188</u>	<u>482,946</u>	<u>(1,842,756)</u>	<u>6,922,378</u>
Capital assets being depreciated				
Buildings	2,799,011	107,971	-	2,906,982
Improvements other than buildings	3,278,426	1,676,351	1,834,747	6,789,524
Machinery and equipment	1,402,619	302,479	(145,455)	1,559,643
Subscription assets	97,695	-	-	97,695
Total capital assets being depreciated	<u>7,577,751</u>	<u>2,086,801</u>	<u>1,689,292</u>	<u>11,353,844</u>
Less accumulated depreciation				
Buildings	(903,498)	(64,970)	-	(968,468)
Improvements other than buildings	(1,889,246)	(204,084)	7,947	(2,085,383)
Machinery and equipment	(1,293,605)	(65,615)	145,455	(1,213,765)
Subscription assets	(50,972)	(25,486)	-	(76,458)
Total accumulated depreciation	<u>(4,137,321)</u>	<u>(360,155)</u>	<u>153,402</u>	<u>(4,344,074)</u>
Total capital assets being depreciated, net	<u>3,440,430</u>	<u>1,726,646</u>	<u>1,842,694</u>	<u>7,009,770</u>
Governmental activities, net	<u>\$ 11,722,618</u>	<u>\$ 2,209,592</u>	<u>\$ (62)</u>	<u>\$ 13,932,148</u>

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 77,878	\$ -	\$ -	\$ 77,878
Construction in progress	4,041,024	15,975	(3,827,707)	229,292
Total capital assets not being depreciated	<u>4,118,902</u>	<u>15,975</u>	<u>(3,827,707)</u>	<u>307,170</u>
Capital assets being depreciated				
Buildings	137,294	-	-	137,294
Improvements other than buildings	15,607,392	133,025	3,827,707	19,568,124
Machinery and equipment	1,995,377	53,238	(16,031)	2,032,584
Subscription assets	49,057	-	-	49,057
Total capital assets being depreciated	<u>17,789,120</u>	<u>186,263</u>	<u>3,811,676</u>	<u>21,787,059</u>
Less accumulated depreciation				
Buildings	(74,736)	(3,667)	-	(78,403)
Improvements other than buildings	(9,433,286)	(386,080)	-	(9,819,366)
Machinery and equipment	(1,195,584)	(81,806)	13,897	(1,263,493)
Subscription assets	(25,596)	(12,798)	-	(38,394)
Total accumulated depreciation	<u>(10,729,202)</u>	<u>(484,351)</u>	<u>13,897</u>	<u>(11,199,656)</u>
Total capital assets being depreciated, net	<u>7,059,918</u>	<u>(298,088)</u>	<u>3,825,573</u>	<u>10,587,403</u>
Business-type activities, net	<u><u>\$ 11,178,820</u></u>	<u><u>\$ (282,113)</u></u>	<u><u>\$ (2,134)</u></u>	<u><u>\$ 10,894,573</u></u>

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

Governmental activities	
General government	\$ 232,707
Public safety	7,846
Transportation	78,378
Culture and recreation	41,224
Total depreciation/amortization expense - governmental activities	<u><u>\$ 360,155</u></u>
Business-type activities	
Water and sewer	<u><u>\$ 484,351</u></u>

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

7. DEFINED CONTRIBUTION PLAN

The City offers its employees an Employee Thrift Plan (the Plan), a defined contribution plan created in accordance with Internal Revenue Code Section 401(a) and 501(a), as amended from time to time. The Plan is administered by Mass Mutual. The City Council has the authority for establishing Plan provisions, and contribution requirements under the Plan. To be eligible for the Plan, employees must be a minimum of 18 years of age, work at least 1,000 hours during the year, and work for the City at least 6 months. As long as the employee completes the required paperwork, the City's contribution to the Plan is an amount equal to 6% of the eligible portion of the participant's compensation, during the plan year. In addition, the City contributes on behalf of each participant who makes a contribution to the Plan \$1 for every \$1 of said contributions to the Plan in increments of 1% of compensation, up to 8%. Any forfeiture during the year may be used to fund the City's contribution requirement.

The vesting percentage of City contributions is determined in accordance with the following schedule:

<u>Number of Years of Service Credit for Purposes of Vesting</u>	<u>Vested Percentage</u>
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 years	100%

During fiscal year 2025, the City remitted its required contributions totaling \$136,050. The total value of plan investments on September 30, 2025, was \$1,072,253.

8. CELLULAR TOWER LEASES

Lessor

The City leases real property to various unrelated parties for maintaining cellular communication towers. The City is a lessor under five real property leases.

The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term, including options reasonably certain to be exercised. The lease terms range from 10 to 35 years, with years remaining ranging from 6 to 23 years, and the discount rate to calculate the present value of the lease payments is 4.94%.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

The total amount of inflows of resources recognized and reflected in the financial statements were as follows:

Inflows of Resources - Leases	Water and Sewer Fund
Lease revenue	\$ 104,139
Interest	135,409
Total inflows of resources - leases	\$ 239,548

9. LONG-TERM DEBT

Changes in Long-Term Debt

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

	Beginning Balance	Additions ⁽¹⁾	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 119,674	\$ 77,139	\$ -	\$ 196,813	\$ 103,811
<i>Direct borrowings</i>					
Capital improvement revenue note, Series 2024	3,733,828	-	(174,225)	3,559,603	-
Subscription liability - software	33,791	-	-	33,791	33,791
Total governmental activities	\$ 3,887,293	\$ 77,139	\$ (174,225)	\$ 3,790,207	\$ 137,602
Business-type activities					
Compensated absences	\$ 29,428	\$ 21,103	\$ -	\$ 50,531	\$ 25,427
<i>Direct borrowings</i>					
State Revolving Fund Loan CW-460200	136,210	-	(7,394)	128,816	7,466
State Revolving Fund Loan CW-460201	301,021	93,051	-	394,072	-
State Revolving Fund Loan DW-460210	69,625	-	(9,300)	60,325	10,010
State Revolving Fund Loan DW-460211	1,663,553	284,702	-	1,948,255	57,893
State Revolving Fund Loan LS-460240	-	91,502	-	91,502	-
Subscription liability - software	16,968	-	-	16,968	16,968
Total business-type activities	\$ 2,216,805	\$ 490,358	\$ (16,694)	\$ 2,690,469	\$ 117,764

⁽¹⁾ Changes in the compensated absences liability are reported on a net basis.

CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

Description of Long-Term Debt Outstanding

Governmental Activities – Direct Borrowings

\$3,843,324 Capital Improvement Revenue Note, Series 2024; semi-annual payments ranging from \$5,161 to \$298,108, including interest at 4.61% through maturity in October 2043; The City has pledged non-ad valorem revenues to secure the note. Proceeds are to be used to purchase and renovate the new City Hall building and to fund the City's share of the new Christobal Waterfront Park project costs discussed further in Note 14 to the financial statements. At the end of fiscal year 2025, the City had not yet expended approximately \$1.2 million of the proceeds received from the issuance of long-term debt. There are no significant finance-related consequences in the event of default or termination, and there are no subjective acceleration clauses.

The City has a subscription-based information technology arrangement with a software vendor. The City's subscription liability is measured using the present value of subscription payments expected to be remitted to the vendor during the subscription term, including options reasonably certain to be exercised. The agreement requires annual base payments of \$35,083 throughout the subscription term which expires in July 2026. The discount rate used to calculate the present value of the subscription payments was 4.10%, which is the City's estimated incremental borrowing rate for vehicles, equipment, and similar assets. The carrying value of the subscription asset is disclosed in Note 6 to the financial statements. In the event of default (non-payment), the lender may revoke the City's license to the underlying software. This agreement does not contain any subjective acceleration clauses.

Business-Type Activities – Direct Borrowings

\$154,218 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual payments of \$4,368 including interest at 2.11% through September 2041. Proceeds were used for design and engineering services related to developing the City's water and sewer master plan. The City has pledged net revenues of the City's water and sewer system to secure the loan.

\$394,071 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual interest free payments of \$126,825 beginning September 2027. Proceeds were used for design and engineering services related to rehabilitation of the City's water distribution system. The City has pledged net revenues of the City's water and sewer system to secure the loan.

\$99,478 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual payments of \$5,404 including interest at 2.24% through September 2031. Proceeds were used for design and engineering services related to rehabilitation of the City's water distribution system. The City has pledged net revenues of the City's water and sewer system to secure the loan.

\$1,948,225 State of Florida Department of Environmental Protection Revolving Loan Fund; semi-annual interest free payments of \$51,116 beginning November 2025. Proceeds were used for design and engineering services related to rehabilitation of the City's water distribution system. The City has pledged net revenues of the City's water and sewer system to secure the loan.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

\$179,416 U.S. Department of Environmental Protection Revolving Loan Fund; semi-annual interest free payments of \$8,984 beginning April 2029. Proceeds were used for design and engineering services related to rehabilitation of the City’s water distribution system. The City has pledged net revenues of the City’s water and sewer system to secure the loan.

For the State of Florida Department of Environmental Protection Revolving Loan Fund issuances, in the event of default (non-payment), the lender may notify financial market credit rating agencies, file suit for past due amounts, and accelerate repayment of unpaid principal to as much as 1.667 times the financing rate. These loans do not contain any subjective acceleration clauses.

The City has a subscription-based information technology arrangement with a software vendor. The City’s subscription liability is measured using the present value of subscription payments expected to be remitted to the vendor during the subscription term, including options reasonably certain to be exercised. The agreement requires annual base payments of \$17,617 throughout the subscription term which expires in July 2026. The discount rate used to calculate the present value of the subscription payments was 4.10%, which is the City’s estimated incremental borrowing rate for vehicles, equipment, and similar assets. The carrying value of the subscription asset is disclosed in Note 6 to the financial statements. In the event of default (non-payment), the lender may revoke the City’s license to the underlying software. This agreement does not contain any subjective acceleration clauses.

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2025, follows:

Year Ending September 30,	Governmental Activities			
	Revenue Note		Subscription Liabilities	
	Principal	Interest	Principal	Interest
2026	\$ -	\$ -	\$ 33,791	\$ 1,532
2027	182,257	159,897	-	-
2028	190,660	151,301	-	-
2029	199,449	142,309	-	-
2030	208,644	132,903	-	-
2031-2035	1,084,536	510,101	-	-
2036-2040	855,961	295,385	-	-
2041-2045	838,096	79,448	-	-
Total	\$ 3,559,603	\$ 1,471,344	\$ 33,791	\$ 1,532

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

Year Ending September 30,	Business-Type Activities			
	State Revolving Fund Loans		Subscription Liabilities	
	Principal	Interest	Principal	Interest
2026	\$ 75,369	\$ 8,080	\$ 16,968	\$ 769
2027	241,607	7,563	-	-
2028	369,009	6,987	-	-
2029	138,524	6,405	-	-
2030	134,501	5,813	-	-
2031-2035	605,767	21,782	-	-
2036-2040	542,254	12,590	-	-
2041-2044	515,939	3,981	-	-
Total	<u>\$ 2,622,970</u>	<u>\$ 73,201</u>	<u>\$ 16,968</u>	<u>\$ 769</u>

10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City provides dental and life insurance benefits to eligible employees upon retirement through a single-employer defined benefit health care plan (the Plan). The Plan is administered by the City, and the authority to establish or amend the Plan rests with the City Council. The City pays 100% of the retiree's dental insurance premium but not the premium for dependent coverage. The City also pays the premium for life insurance coverage after retirement. Employees are covered by a retirement system whose retirement eligibility provisions require the attainment of age 55 or completion of 25 years of service. The Plan does not issue a separate report.

Plan Membership as of September 30, 2025

Inactive plan members or beneficiaries currently receivable benefits	9
Active plan members	<u>20</u>
	<u>29</u>

Benefits Provided

The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are not eligible for medical coverage. All employees of the City are eligible to receive postretirement health care benefits.

Total OPEB Liability

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2025, using the actuarial assumptions shown on the next page.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

Prior measurement date	September 30, 2024
Measurement date	September 30, 2025
Valuation date	October 1, 2023
	Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported.
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Amortization period	Average remaining service life of actives and retirees
Asset valuation method	Fair value
Inflation	3.0% annually
Healthcare trend	4.0% dental
Salary increases	3.0% annually
Prior discount rate	3.81%
Discount rate	4.90%
Retirement age	Employees are covered by retirement system whose retirement eligibility provisions attainment of age 55 and completion of 25 years of service. Based on past experience, it has been assumed that entitlement to benefits will commence 5 years after eligibility provisions are attained.
Mortality	120% of Pub-2010 for General Employees and Healthy Retirees with MP-2021 scale
Turnover	Age specific table with an average of 10% when applied to the active census.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

Change in Total OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Total OPEB Liability
	(a)	(b)	(a) - (b)
Balances at September 30, 2024	\$ 139,857	\$ -	\$ 139,857
Changes for the year:			
Service cost	2,344	-	2,344
Interest	5,373	-	5,373
Differences between expected and actual experience	2,626	-	2,626
Changes of assumptions	(18,927)	-	(18,927)
Benefit payments	(7,008)	-	(7,008)
Net changes	(15,592)	-	(15,592)
Balances at September 30, 2025	<u>\$ 124,265</u>	<u>\$ -</u>	<u>\$ 124,265</u>

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

	1% Decrease	Current Discount Rate	1% Increase
	3.90%	4.90%	5.90%
Total OPEB liability	\$ 141,801	\$ 124,265	\$ 109,889

Sensitivity of Total OPEB Liability to Changes in the Healthcare Trend Rate

	1% Decrease	Current Rate	1% Increase
	3.00%	4.00%	5.00%
Total OPEB liability	\$ 115,930	\$ 124,265	\$ 134,453

OPEB Plan Fiduciary Net Position

The plan is unfunded, so the OPEB plan's fiduciary net position is \$0. There are no OPEB assets accumulated in a GASB compliant trust to pay for related plan benefits.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2025, the City recognized OPEB expense of \$6,935. On September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,895	\$ 6,163
Changes of assumptions	27,656	42,969
Total	\$ 57,551	\$ 49,132

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:

2026	\$ (780)
2027	(780)
2028	(780)
2029	(780)
2030	(2,635)
Thereafter	14,174
	\$ 8,419

11. RISK MANAGEMENT

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

12. INTERFUND TRANSFERS

The transfers out of the Water and Sewer Fund of \$79,854 to the General Fund were made to offset a portion of the debt service for the new City Hall building representing the anticipated portion of use of the facility for utility services once the renovations are completed in fiscal year 2026.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

13. GOVERNMENTAL FUND BALANCES

As of September 30, 2025, the City's governmental fund balances were classified as follows:

	<u>General Fund</u>	<u>Discretionary Sales Tax Fund</u>	<u>Total Governmental Funds</u>
<i>Nonspendable</i>			
Inventory	\$ 6,287	\$ -	\$ 6,287
<i>Restricted for</i>			
Capital expansion projects	164,118		164,118
City Hall building renovations	346,970		346,970
Christobal Waterfront Park improvements	809,343		809,343
Government infrastructure projects		2,001,863	2,001,863
Other purposes	6,007		6,007
Total restricted	<u>1,326,438</u>	<u>2,001,863</u>	<u>3,328,301</u>
<i>Committed for natural disaster relief</i>	<u>2,127,498</u>	<u>-</u>	<u>2,127,498</u>
<i>Assigned for</i>			
FY2026 appropriations	2,298,674	-	2,298,674
Other purposes	2,065	-	2,065
Total assigned	<u>2,300,739</u>	<u>-</u>	<u>2,300,739</u>
<i>Unassigned</i>	<u>2,826,090</u>	<u>-</u>	<u>2,826,090</u>
Total fund balances	<u>\$ 8,587,052</u>	<u>\$ 2,001,863</u>	<u>\$ 10,588,915</u>

14. COMMITMENTS AND CONTINGENCIES

Grants

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

Water and Sewer System Management Contract

The City has a contract for operation, maintenance, and management services for its water and sewer system with Operations Management International (OMI). The contract expires in September 2026, and the City's commitment under the contract for the subsequent fiscal year is \$1,474,397.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2025**

Law Enforcement Services Contract

The City has a contract for law enforcement services with the Okaloosa County Sheriff's Department. The contract expires in September 2026, and the City's commitment under the contract for the subsequent fiscal year is \$321,061.

Fire Department Service Contract

In 2019, the City Council approved an interlocal agreement with the Ocean City-Wright Fire Control District (OCWFCD) to provide fire protection and emergency medical services to residents of the City. The agreement took effect in October 2019 and calls for quarterly payments through September 2029. The base contract amount for the fiscal year ended September 30, 2025, was \$1,187,893. For subsequent contract years, the base rate will be adjusted in accordance with the consumer price index (CPI) subject to a 3% cap.

As part of this agreement, OCWFCD executed a lease for the City's fire station effective October 2019. The lease expires in September 2029 and calls for base annual rent of \$1. Additionally, ownership of the City's tools, equipment, safety gear, vehicles, and apparatuses was transferred to OCWFCD for use in fire protection operations during the term of the contract. The undepreciated value of the equipment transferred to OCWFCD is reported as other assets in the statement of net position and is being amortized over the life of the contract.

Christobal Waterfront Park – Joint Project

In August 2023, the City entered into a cost-sharing interlocal agreement with Okaloosa County, Florida (the County) for a project to jointly develop a waterfront park. Under the terms of the agreement, the City and the County will equally share the costs of the project, which are estimated to be \$3.0 million. The City has pledged its allocation of tourist development taxes collected by the County on its behalf in subsequent years to fund a significant portion of its share of the project costs. The City's share of remaining project costs will be funded by proceeds from the Capital Improvement Revenue Note, Series 2024.

During the year ended September 30, 2025, demolition, permitting fees, design fees and park development costs were incurred for the waterfront park site in the total amount of \$176,304. Accordingly, for the year ended September 30, 2025, the City has reported capital outlay expenditures of \$88,152 in the General Fund for its share of the project costs. The City's share of total costs incurred for the project through September 30, 2025, were \$817,788. Upon completion of the project, the County will convey the land and property, and the responsibility for its maintenance, to the City.

Construction Contract for City Hall Building Renovations

In December 2024, the City Council entered into an agreement with a construction contractor to renovate the new City Hall building purchased in February 2024. The total contract amount is \$563,784 and is funded with the proceeds from the Capital Improvement Revenue Note, Series 2024. As of September 30, 2025, the City incurred costs related to the project in the amount of \$232,477. The work on the project is expected to be completed in fiscal year 2026.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MARY ESTHER, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,212,983	\$ 3,212,983	\$ 3,177,300	\$ (35,683)
Licenses, fees, and permits	332,600	332,600	258,776	(73,824)
Intergovernmental	1,700,500	1,700,500	1,720,995	20,495
Charges for services	66,359	66,359	36,069	(30,290)
Fines and forfeits	10,000	10,000	8,554	(1,446)
Miscellaneous	271,500	271,500	419,515	148,015
Total revenues	<u>5,593,942</u>	<u>5,593,942</u>	<u>5,621,209</u>	<u>27,267</u>
EXPENDITURES				
Current				
General government	1,418,580	1,429,662	1,199,530	230,132
Public safety	1,708,449	1,708,647	1,602,060	106,587
Physical environment	182,046	182,265	148,012	34,253
Transportation	335,596	350,677	301,281	49,396
Culture and recreation	934,950	935,550	841,011	94,539
Capital outlay	4,167,840	3,934,773	1,402,273	2,532,500
Debt service	310,234	346,355	346,355	-
Total expenditures	<u>9,057,695</u>	<u>8,887,929</u>	<u>5,840,522</u>	<u>3,047,407</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(3,463,753)</u>	<u>(3,293,987)</u>	<u>(219,313)</u>	<u>3,074,674</u>
OTHER FINANCING SOURCES				
Transfers in	943,092	943,092	79,854	(863,238)
Total other financing sources	<u>943,092</u>	<u>943,092</u>	<u>79,854</u>	<u>(863,238)</u>
NET CHANGE IN FUND BALANCE	(2,520,661)	(2,350,895)	(139,459)	2,211,436
FUND BALANCE – BEGINNING OF YEAR	<u>8,172,468</u>	<u>8,724,667</u>	<u>8,726,511</u>	<u>1,844</u>
FUND BALANCE – END OF YEAR	<u>\$ 5,651,807</u>	<u>\$ 6,373,772</u>	<u>\$ 8,587,052</u>	<u>\$ 2,213,280</u>

See notes to the budgetary comparison schedules.

**CITY OF MARY ESTHER, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
DISCRETIONARY SALES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 551,660	\$ 51,660
Miscellaneous	50,000	50,000	123,369	73,369
Total revenues	<u>550,000</u>	<u>550,000</u>	<u>675,029</u>	<u>125,029</u>
EXPENDITURES				
Capital outlay	-	-	978,134	(978,134)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>550,000</u>	<u>550,000</u>	<u>(303,105)</u>	<u>(853,105)</u>
OTHER FINANCING USES				
Transfers out	(863,238)	(1,144,295)	-	1,144,295
NET CHANGE IN FUND BALANCE	(313,238)	(594,295)	(303,105)	291,190
FUND BALANCE – BEGINNING OF YEAR	<u>1,878,067</u>	<u>2,304,968</u>	<u>2,304,968</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 1,564,829</u>	<u>\$ 1,710,673</u>	<u>\$ 2,001,863</u>	<u>\$ 291,190</u>

See notes to the budgetary comparison schedules.

**CITY OF MARY ESTHER, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Budgetary data reflected in the accompanying schedules of revenues, expenditures, and changes in fund balance – budget and actual are established by the following procedures:

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and revenue sources.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between programs (line-items) within a department, office or agency within any fund. However, any revisions that alter the total budgeted expenditures of any fund must be approved by the City Council.
5. Budgeted amounts have been amended by the City Council or by City Manager in accordance with applicable City ordinances.
6. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year-end are reported as assignment of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**CITY OF MARY ESTHER, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS (UNAUDITED)**

Total OPEB Liability	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 2,344	\$ 741	\$ 735	\$ 1,275	\$ 1,214	\$ 1,128	\$ 523	\$ 507
Interest	5,373	4,956	4,821	3,635	3,647	4,049	5,197	5,113
Difference between expected and actual experience	2,626	15,927	4,014	(11,093)	4,738	1,031	3,637	11,625
Changes in assumptions and other inputs	(18,927)	4,061	(1,008)	(35,786)	1,413	13,223	25,013	(8,218)
Benefit payments	<u>(7,008)</u>	<u>(6,643)</u>	<u>(7,302)</u>	<u>(6,921)</u>	<u>(7,002)</u>	<u>(6,637)</u>	<u>(6,789)</u>	<u>(6,789)</u>
Net change in total OPEB liability	(15,592)	19,042	1,260	(48,890)	4,010	12,794	27,581	2,238
Total OPEB liability – beginning	<u>139,857</u>	<u>120,815</u>	<u>119,555</u>	<u>168,445</u>	<u>164,435</u>	<u>151,641</u>	<u>124,060</u>	<u>121,822</u>
Total OPEB liability – ending	<u>\$ 124,265</u>	<u>\$ 139,857</u>	<u>\$ 120,815</u>	<u>\$ 119,555</u>	<u>\$ 168,445</u>	<u>\$ 164,435</u>	<u>\$ 151,641</u>	<u>\$ 124,060</u>
 Covered employee payroll	 \$ 1,265,105	 \$ 1,228,257	 \$ 840,457	 \$ 815,978	 \$ 749,883	 \$ 728,042	 \$ 1,031,833	 \$ 1,001,780
 Total OPEB liability as a percentage of covered employee payroll	 9.82%	 11.39%	 14.37%	 14.65%	 22.46%	 22.59%	 14.70%	 12.38%

Notes to Schedule

Changes of Assumptions – The following discount rate assumption was used for each measurement date:

2025 - 4.90%
2024 - 3.81%
2023 - 4.09%
2022 - 4.02%
2021 - 2.15%
2020 - 2.21%
2019 - 2.66%
2018 - 4.18%

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

** There are no OPEB plan assets accumulated in a GASB compliant trust to pay for related plan benefits.

III. STATISTICAL SECTION

This section of the City's annual comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the annual comprehensive financial report for the relevant year.

City of Mary Esther, Florida
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year*									
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 8,267	\$ 8,282	\$ 8,012	\$ 7,705	\$ 7,099	\$ 6,911	\$ 6,771	\$ 7,504	\$ 8,760	\$ 10,171
Restricted	-	-	-	482	671	1,155	1,766	2,195	2,495	2,172
Unrestricted	<u>1,292</u>	<u>1,594</u>	<u>2,167</u>	<u>2,917</u>	<u>4,019</u>	<u>4,994</u>	<u>5,684</u>	<u>6,443</u>	<u>7,690</u>	<u>8,426</u>
Total governmental activities net position	<u>\$ 9,559</u>	<u>\$ 9,876</u>	<u>\$ 10,179</u>	<u>\$ 11,104</u>	<u>\$ 11,789</u>	<u>\$ 13,060</u>	<u>\$ 14,221</u>	<u>\$ 16,142</u>	<u>\$ 18,945</u>	<u>\$ 20,769</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 8,001	\$ 7,892	\$ 7,729	\$ 7,431	\$ 7,439	\$ 7,687	\$ 7,714	\$ 8,864	\$ 8,612	\$ 8,253
Restricted	-	-	-	82	3	5	7	8	8	10
Unrestricted	<u>1,028</u>	<u>1,162</u>	<u>1,339</u>	<u>1,628</u>	<u>2,402</u>	<u>2,875</u>	<u>3,714</u>	<u>4,007</u>	<u>5,286</u>	<u>6,591</u>
Total business-type activities net position	<u>\$ 9,029</u>	<u>\$ 9,054</u>	<u>\$ 9,068</u>	<u>\$ 9,141</u>	<u>\$ 9,844</u>	<u>\$ 10,567</u>	<u>\$ 11,435</u>	<u>\$ 12,879</u>	<u>\$ 13,906</u>	<u>\$ 14,854</u>
Primary government										
Invested in capital assets, net of related debt	\$ 16,268	\$ 16,174	\$ 15,741	\$ 15,136	\$ 14,538	\$ 14,598	\$ 14,485	\$ 16,368	\$ 17,372	\$ 18,424
Restricted	-	-	-	564	674	1,160	1,773	2,203	2,503	2,182
Unrestricted	<u>2,320</u>	<u>2,756</u>	<u>3,506</u>	<u>4,545</u>	<u>6,421</u>	<u>7,869</u>	<u>9,398</u>	<u>10,450</u>	<u>12,976</u>	<u>15,017</u>
Total primary government net position	<u>\$ 18,588</u>	<u>\$ 18,930</u>	<u>\$ 19,247</u>	<u>\$ 20,245</u>	<u>\$ 21,633</u>	<u>\$ 23,627</u>	<u>\$ 25,656</u>	<u>\$ 29,021</u>	<u>\$ 32,851</u>	<u>\$ 35,623</u>

*Amounts shown should be multiplied by 1,000
Source: Audited Financial Statements

**City of Mary Esther, Florida
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)**

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Expenses										
Governmental activities										
General government	\$ 628,258	\$ 764,696	\$ 775,739	\$ 925,389	\$ 1,153,899	\$ 1,009,345	\$ 939,409	\$ 1,032,690	\$ 1,187,133	\$ 1,510,720
Public safety	1,231,606	1,452,135	1,173,968	1,215,727	1,397,022	1,426,918	1,460,749	1,465,151	1,554,329	1,648,732
Physical environment	-	-	-	-	-	-	57,473	75,179	103,717	148,012
Transportation	427,770	448,873	434,462	407,587	427,272	480,385	211,782	244,156	242,955	379,659
Human services	2,644	3,000	2,335	4,145	1,005	-	-	-	-	-
Culture and recreation	301,825	361,790	386,544	412,488	385,617	391,647	540,836	641,247	799,457	882,297
Debt service interest	-	-	-	-	-	-	-	3,615	162,701	172,130
Unallocated depreciation/loss on disposal	281,248	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	<u>2,873,351</u>	<u>3,030,494</u>	<u>2,773,048</u>	<u>2,965,336</u>	<u>3,364,815</u>	<u>3,308,295</u>	<u>3,210,249</u>	<u>3,462,038</u>	<u>4,050,292</u>	<u>4,741,550</u>
Business-type activities										
Water and sewer	2,031,425	2,176,661	2,302,718	2,345,114	2,420,334	2,690,308	2,897,543	2,951,143	2,999,276	3,216,127
Total business-type activities expenses	<u>2,031,425</u>	<u>2,176,661</u>	<u>2,302,718</u>	<u>2,345,114</u>	<u>2,420,334</u>	<u>2,690,308</u>	<u>2,897,543</u>	<u>2,951,143</u>	<u>2,999,276</u>	<u>3,216,127</u>
Total primary government expenses	<u>\$ 4,904,776</u>	<u>\$ 5,207,155</u>	<u>\$ 5,075,766</u>	<u>\$ 5,310,450</u>	<u>\$ 5,785,149</u>	<u>\$ 5,998,603</u>	<u>\$ 6,107,792</u>	<u>\$ 6,413,181</u>	<u>\$ 7,049,568</u>	<u>\$ 7,957,677</u>
Program Revenues										
Governmental activities										
Charges for services										
General government	\$ 205,482	\$ 364,467	\$ 216,320	\$ 303,685	\$ 300,434	\$ 358,955	\$ 45,912	\$ 54,438	\$ 34,697	\$ 29,256
Public safety	12,195	7,544	10,796	15,544	14,433	10,368	6,984	13,582	14,551	9,634
Transportation	67,295	72,119	67,770	42,013	43,158	44,332	45,575	13,467	21,839	22,495
Culture and recreation	7,864	4,304	4,406	3,934	3,510	2,195	4,289	4,398	3,339	2,500
Operating grants and contributions	47,125	59,070	88,190	105,549	567,713	354,262	71,628	157,072	74,366	389,195
Capital grants and contributions	835,263	278,108	27,591	239,996	7,830	8,330	46,835	91,520	1,458,811	696,662
Total governmental activities program revenues	<u>1,175,224</u>	<u>785,612</u>	<u>415,073</u>	<u>710,721</u>	<u>937,078</u>	<u>778,442</u>	<u>221,223</u>	<u>334,477</u>	<u>1,607,603</u>	<u>1,149,742</u>
Business-type activities										
Charges for services										
Water and sewer	1,907,454	2,168,119	2,212,327	2,269,101	2,485,042	2,823,750	3,174,669	3,185,063	3,140,241	3,322,828
Operating grants and contributions	-	-	90,650	-	-	-	41,931	-	-	-
Capital grants and contributions	-	14,000	6,500	85,450	175,100	312,200	222,602	825,352	461,781	360,341
Total business-type activities program revenues	<u>1,907,454</u>	<u>2,182,119</u>	<u>2,309,477</u>	<u>2,354,551</u>	<u>2,660,142</u>	<u>3,135,950</u>	<u>3,439,202</u>	<u>4,010,415</u>	<u>3,602,022</u>	<u>3,683,169</u>
Total primary government program revenues	<u>\$ 3,082,678</u>	<u>\$ 2,967,731</u>	<u>\$ 2,724,550</u>	<u>\$ 3,065,272</u>	<u>\$ 3,597,220</u>	<u>\$ 3,914,392</u>	<u>\$ 3,660,425</u>	<u>\$ 4,344,892</u>	<u>\$ 5,209,625</u>	<u>\$ 4,832,911</u>

Continued...

**City of Mary Esther, Florida
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)**

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net (Expenses) Revenues										
Governmental activities	\$ (1,698,127)	\$ (2,244,882)	\$ (2,357,975)	\$ (2,254,615)	\$ (2,427,737)	\$ (2,529,853)	\$ (2,989,026)	\$ (3,127,561)	\$ (2,442,689)	\$ (3,591,808)
Business-type activities	(123,971)	5,458	6,759	9,437	239,808	445,642	541,659	1,059,272	602,746	467,042
Total primary government net expense	<u>\$ (1,822,098)</u>	<u>\$ (2,239,424)</u>	<u>\$ (2,351,216)</u>	<u>\$ (2,245,178)</u>	<u>\$ (2,187,929)</u>	<u>\$ (2,084,211)</u>	<u>\$ (2,447,367)</u>	<u>\$ (2,068,289)</u>	<u>\$ (1,839,943)</u>	<u>\$ (3,124,766)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	\$ 904,952	\$ 1,026,840	\$ 1,150,825	\$ 1,175,646	\$ 1,451,359	\$ 1,522,104	\$ 1,620,681	\$ 1,968,163	\$ 2,129,476	\$ 2,254,568
Sales taxes	518,053	533,776	563,890	875,315	953,897	1,177,693	1,237,199	1,189,708	1,237,394	1,266,153
Utility service taxes	497,107	494,613	509,667	557,404	623,740	639,775	675,825	643,751	592,119	629,003
Other taxes	353,991	334,031	339,137	329,036	320,181	325,594	345,428	703,823	527,670	335,510
Intergovernmental	137,755	147,143	154,858	162,448	152,772	179,006	228,306	235,535	231,251	325,988
Gain on sale of asset	2,868	4,016	3,424	1,160	-	-	-	2,221	-	16,450
Miscellaneous	15,491	13,579	16,075	31,550	10,875	39,516	17,890	3,371	7,756	10,400
Investment earnings	7,405	7,802	31,636	47,109	41,369	17,280	24,540	302,474	519,249	497,764
Transfers	3,295	-	-	-	(441,267)	(100,000)	-	-	-	79,854
Total governmental activities	<u>2,440,917</u>	<u>2,561,800</u>	<u>2,769,512</u>	<u>3,179,668</u>	<u>3,112,926</u>	<u>3,800,968</u>	<u>4,149,869</u>	<u>5,049,046</u>	<u>5,244,915</u>	<u>5,415,690</u>
Business-type activities										
Miscellaneous	157,778	16,905	1,907	47,305	7,600	166,632	212,580	121,942	72,051	180,610
Gain on disposal of asset	-	-	-	-	-	-	2,350	-	-	-
Investment earnings	1,865	3,088	5,511	16,536	13,945	10,218	12,703	145,039	213,308	243,082
Interest income - leases	-	-	-	-	-	-	98,807	118,384	138,835	137,426
Transfers	(3,295)	-	-	-	441,267	100,000	-	-	-	(79,854)
Total business-type activities	<u>156,348</u>	<u>19,993</u>	<u>7,418</u>	<u>63,841</u>	<u>462,812</u>	<u>276,850</u>	<u>326,440</u>	<u>385,365</u>	<u>424,194</u>	<u>481,264</u>
Total primary government	<u>\$ 2,597,265</u>	<u>\$ 2,581,793</u>	<u>\$ 2,776,930</u>	<u>\$ 3,243,509</u>	<u>\$ 3,575,738</u>	<u>\$ 4,077,818</u>	<u>\$ 4,476,309</u>	<u>\$ 5,434,411</u>	<u>\$ 5,669,109</u>	<u>\$ 5,896,954</u>
Change in Net Position										
Governmental activities	\$ 742,790	\$ 316,918	\$ 411,537	\$ 925,053	\$ 685,189	\$ 1,271,115	\$ 1,160,843	\$ 1,921,485	\$ 2,802,226	\$ 1,823,882
Business-type activities	32,377	25,451	14,177	73,278	702,620	722,492	868,099	1,444,637	1,026,940	948,306
Total primary government	<u>\$ 775,167</u>	<u>\$ 342,369</u>	<u>\$ 425,714</u>	<u>\$ 998,331</u>	<u>\$ 1,387,809</u>	<u>\$ 1,993,607</u>	<u>\$ 2,028,942</u>	<u>\$ 3,366,122</u>	<u>\$ 3,829,166</u>	<u>\$ 2,772,188</u>

**City of Mary Esther Florida
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Fund										
Nonspendable	\$ 23,762	\$ 2,940	\$ 2,036	\$ 309	\$ 3,592	\$ 31,417	\$ 31,632	\$ 2,640	\$ 4,997	\$ 6,287
Restricted	-	-	-	239,543	247,373	262,866	367,274	307,202	1,609,866	1,326,438
Committed	604,613	598,875	565,189	657,717	640,579	1,060,701	1,246,788	2,330,610	1,813,711	2,127,498
Assigned	66,779	187	141,267	141,267	-	822,575	832,070	2,427,547	2,531,521	2,300,739
Unassigned	735,030	1,133,320	1,695,305	2,333,397	3,282,501	3,030,224	3,502,958	1,660,206	2,766,416	2,826,090
Total General Fund	<u>1,430,184</u>	<u>1,735,322</u>	<u>2,403,797</u>	<u>3,372,233</u>	<u>4,174,045</u>	<u>5,207,783</u>	<u>5,980,722</u>	<u>6,728,205</u>	<u>8,726,511</u>	<u>8,587,052</u>
Discretionary Sales Tax Fund										
Restricted	-	-	-	242,271	423,456	892,949	1,398,730	1,888,262	2,304,968	2,001,863
Total all governmental funds	<u>\$ 1,430,184</u>	<u>\$ 1,735,322</u>	<u>\$ 2,403,797</u>	<u>\$ 3,614,504</u>	<u>\$ 4,597,501</u>	<u>\$ 6,100,732</u>	<u>\$ 7,379,452</u>	<u>\$ 8,616,467</u>	<u>\$ 11,031,479</u>	<u>\$ 8,587,052</u>

* Source: City's annual comprehensive financial reports for the relevant year

Note: The City established the Discretionary Sales Tax Fund in fiscal year 2019.

City of Mary Esther, Florida
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues										
Taxes	\$ 1,697,781	\$ 1,817,837	\$ 1,957,923	\$ 2,029,408	\$ 2,363,845	\$ 2,473,814	\$ 2,597,044	\$ 2,926,561	\$ 3,018,479	\$ 3,177,300
Licenses, fees and permits	257,505	240,538	243,309	506,322	242,996	259,373	293,156	265,791	377,791	258,776
Intergovernmental	1,373,923	832,403	644,564	949,028	1,490,446	1,503,944	1,369,473	1,811,821	2,863,565	2,272,655
Charges for services	229,305	264,017	255,646	284,610	317,752	361,614	59,861	30,268	39,710	36,069
Fines	31,568	163,096	20,428	27,520	16,306	19,369	7,828	41,016	19,722	8,554
Miscellaneous	19,896	25,505	59,291	93,501	59,926	61,296	43,730	308,259	533,251	542,884
Total revenues	3,609,978	3,343,396	3,181,161	3,890,389	4,491,271	4,679,410	4,371,092	5,383,716	6,852,518	6,296,238
Expenditures										
General government	623,843	617,706	638,422	802,802	799,801	853,159	855,747	854,705	956,463	1,199,530
Public safety	1,231,606	1,317,749	1,039,792	1,096,625	1,348,483	1,379,935	1,413,673	1,418,479	1,507,900	1,602,060
Physical environment	-	-	-	-	-	-	57,473	75,179	103,717	148,012
Transportation	427,770	386,592	374,517	338,736	352,430	405,718	154,395	196,948	201,740	301,281
Human services	2,644	3,000	2,335	4,145	1,005	-	-	-	-	-
Culture and recreation	301,825	311,142	342,340	350,042	350,092	355,228	504,086	604,388	753,313	841,011
Capital outlay	1,009,166	406,085	118,704	87,332	215,196	82,139	106,998	961,919	4,453,064	2,380,407
Debt Service										
Principal	-	-	-	-	-	-	-	31,468	141,932	174,225
Interest	-	-	-	-	-	-	-	3,615	116,676	172,130
Other	-	-	-	-	-	-	-	-	46,025	-
Total expenditures	3,596,854	3,042,274	2,516,110	2,679,682	3,067,007	3,076,179	3,092,372	4,146,701	8,280,830	6,818,656
Excess of revenues over (under) expenditures	13,124	301,122	665,051	1,210,707	1,424,264	1,603,231	1,278,720	1,237,015	(1,428,312)	(522,418)
Other Financing Sources (Uses)										
Transfers in	3,295	-	-	-	-	-	-	-	-	79,854
Transfers out	-	-	-	-	(441,267)	(100,000)	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-	-	-	-	3,843,324	-
Proceeds from sale of assets	2,868	4,016	3,424	-	-	-	-	-	-	-
Total other financing sources (uses)	6,163	4,016	3,424	-	(441,267)	(100,000)	-	-	3,843,324	79,854
Net change in fund balances	\$ 19,287	\$ 305,138	\$ 668,475	\$ 1,210,707	\$ 982,997	\$ 1,503,231	\$ 1,278,720	\$ 1,237,015	\$ 2,415,012	\$ (442,564)
Debt service as a percentage of noncapital expenditures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	8.0%	7.8%

**City of Mary Esther, Florida
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
 (UNAUDITED)
 Last Ten Fiscal Years**

Fiscal Year Ended September 30	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value	Total Direct Tax Rate
	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value		
2016	\$258,648,526	\$ 304,292,384	\$ 14,213,196	\$16,721,407	\$ 272,861,722	\$ 321,013,791	85%	3.8880
2017	\$265,698,860	\$ 312,586,894	\$ 13,527,257	\$15,914,420	\$ 279,226,117	\$ 328,501,314	85%	4.2347
2018	\$272,827,106	\$ 320,973,066	\$ 13,808,898	\$16,245,762	\$ 286,636,004	\$ 337,218,828	85%	4.2347
2019	\$284,134,531	\$ 334,275,919	\$ 14,564,031	\$17,134,154	\$ 298,698,562	\$ 351,410,073	85%	5.0261
2020	\$298,856,409	\$ 351,595,775	\$ 13,743,311	\$16,168,601	\$ 312,599,720	\$ 367,764,376	85%	5.0261
2021	\$316,881,960	\$ 372,802,306	\$ 14,312,047	\$16,837,702	\$ 331,194,007	\$ 389,640,008	85%	5.0261
2022	\$389,132,527	\$ 457,802,973	\$ 15,728,083	\$18,503,627	\$ 404,860,610	\$ 476,306,600	85%	5.0261
2023	\$419,694,928	\$ 493,758,739	\$ 18,302,262	\$21,532,073	\$ 437,997,190	\$ 515,290,812	85%	5.0261
2024	\$442,558,127	\$ 520,656,620	\$ 21,421,416	\$25,201,666	\$ 463,979,543	\$ 545,858,286	85%	5.0261
2025	\$453,747,022	\$ 533,820,026	\$ 25,390,068	\$29,870,668	\$ 479,137,090	\$ 563,690,694	85%	5.0261

Source: Okaloosa County Property Appraiser's Office

* The 2025 tax roll is the basis for fiscal year 2026 property tax revenues

**City of Mary Esther Florida
PROPERTY TAX LEVIES AND COLLECTIONS
(UNAUDITED)
Last Ten Fiscal Years**

Tax Levy Year	Taxes Levied for the Fiscal Year	Collected within the Levy Fiscal Year		Collections in Subsequent Years	Total Collections to Date	
		<i>(By March 31 of Year After Levy)</i> Amount	Percentage of Levy		Amount	Percentage of Levy
2016	\$ 1,064,789	\$ 956,506	89.83%	\$ 69,871	\$ 1,026,377	96.39%
2017	\$ 1,186,060	\$ 1,098,585	92.62%	\$ 42,637	\$ 1,141,222	96.22%
2018	\$ 1,235,484	\$ 1,141,557	92.40%	\$ 33,868	\$ 1,175,425	95.14%
2019	\$ 1,501,501	\$ 1,420,290	94.59%	\$ 31,154	\$ 1,451,444	96.67%
2020	\$ 1,568,410	\$ 1,492,482	95.16%	\$ 25,328	\$ 1,517,810	96.77%
2021	\$ 1,661,873	\$ 1,582,868	95.25%	\$ 26,260	\$ 1,609,128	96.83%
2022	\$ 2,037,280	\$ 1,917,556	94.12%	\$ 49,886	\$ 1,967,442	96.57%
2023	\$ 2,199,350	\$ 2,061,199	93.72%	\$ 67,684	\$ 2,128,883	96.80%
2024	\$ 2,332,508	\$ 2,186,846	93.76%	\$ 66,601	\$ 2,253,447	96.61%
2025	\$ 2,407,785	*	*	*	*	*

*Not Available

Source: Okaloosa County Property Appraiser and Okaloosa County Tax Collector

Note: Fiscal year 2025 property tax revenues are derived from the 2024 tax levy

City of Mary Esther, Florida
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
PER \$1,000 OF ASSESSED VALUE
(UNAUDITED)
Last Ten Fiscal Years

Fiscal Year	City Rate	Overlapping Rates ¹			Total Millage
	Operating Millage	Okaloosa County	Northwest Florida Water	School District	
2016	3.8880	3.4308	0.0366	6.9070	14.2624
2017	4.2347	3.8308	0.0353	6.5880	14.6888
2018	4.2347	3.8308	0.0338	6.3610	14.4603
2019	5.0261	3.8308	0.0327	6.2060	15.0956
2020	5.0261	3.8308	0.0311	6.0350	14.9230
2021	5.0261	3.8308	0.0294	5.9430	14.8293
2022	5.0261	3.8308	0.0261	5.5790	14.4620
2023	5.0261	3.8308	0.0234	5.4770	14.3573
2024	5.0261	3.8308	0.0218	5.3790	14.2577
2025	5.0261	3.8308	0.0207	5.3770	14.2546

Source: Okaloosa County Property Appraiser's Office

¹ Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all statistical property owners; for example, although the county property tax rates apply to all City property owners, the Flood Control District rates apply only to approximately one-third of City property owners whose property is located within that district's geographic boundaries.

**City of Mary Esther Florida
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2025**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping Debt			
Okaloosa County			
Revenue Bonds	\$ 113,108,435	1.51%	\$ 1,705,950
Revenue Notes	\$ 13,617,857	1.51%	\$ 205,390
Financing Contracts	\$ 11,597	1.51%	\$ 175
Okaloosa County School District			
Certificates of Participation	\$ 2,161,000	1.21%	\$ 26,148
Financing Contracts	\$ 249,758,726	1.21%	\$ 3,022,081
Lease and Subscription Liabilities	\$ 59,802,829	1.21%	\$ 723,614
Subtotal: Overlapping Debt	<u>\$ 438,460,444</u>		<u>\$ 5,683,358</u>
City Direct Debt			
Revenue Notes	\$ 3,559,603	100.00%	\$ 3,559,603
Subscription Liabilities	\$ 33,791	100.00%	\$ 33,791
Subtotal: Direct Debt	<u>\$ 3,593,394</u>		<u>\$ 3,593,394</u>
Total Direct and Overlapping Debt	<u>\$ 442,053,838</u>		<u>\$ 9,276,752</u>
Taxable Value of All Okaloosa County Property:	\$ 30,762,915,431		

Sources: Okaloosa County, Okaloosa County School Board

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Mary Esther. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

City of Mary Esther Florida
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita Debt
	Capital Improvement Revenue Note	Subscription Liabilities	Water and Sewer State Revolving Fund Loans	Subscription Liabilities			
2016	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2017	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2018	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2019	\$ -	\$ -	\$ 47,400	\$ -	\$ 47,400	0.02%	\$ 12
2020	\$ -	\$ -	\$ 60,000	\$ -	\$ 60,000	0.04%	\$ 15
2021	\$ -	\$ -	\$ 259,378	\$ -	\$ 259,378	0.20%	\$ 64
2022	\$ -	\$ 97,695	\$ 425,375	\$ 49,057	\$ 572,127	0.38%	\$ 130
2023	\$ -	\$ 66,227	\$ 1,071,899	\$ 33,255	\$ 1,171,381	0.62%	\$ 256
2024	\$ 3,733,828	\$ 33,791	\$ 2,170,409	\$ 16,968	\$ 5,954,996	2.75%	\$ 1,325
2025	\$ 3,559,603	\$ 33,791	\$ 2,622,970	\$ 16,968	\$ 6,233,332	3.22%	\$ 1,399

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Note: Beginning in FY2023, the City implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Sources: Office of Economic & Demographic Research

City of Mary Esther, Florida
PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Pledged Revenues	Plus Utility Service Fee and Franchise Fee Revenues	Less Operating Expenses	Net Available Revenue	Water and Sewer Debt Service		Total Coverage
					Principal	Interest	
2016	\$ 1,907,454	\$ -	\$ 1,673,444	\$ 234,010	\$ -	\$ -	N/A
2017	\$ 2,013,363	\$ -	\$ 1,783,940	\$ 229,423	\$ -	\$ -	N/A
2018	\$ 2,050,951	\$ -	\$ 1,885,776	\$ 165,175	\$ -	\$ -	N/A
2019	\$ 2,188,039	\$ -	\$ 1,917,066	\$ 270,973	\$ -	\$ -	N/A
2020	\$ 2,332,551	\$ -	\$ 1,982,835	\$ 349,716	\$ -	\$ -	N/A
2021	\$ 2,662,060	\$ -	\$ 2,207,534	\$ 454,526	\$ -	\$ 8,521	53.34
2022	\$ 3,090,157	\$ -	\$ 2,489,256	\$ 600,901	\$ 15,938	\$ 3,860	30.35
2023	\$ 3,093,906	\$ -	\$ 2,502,256	\$ 591,650	\$ 16,170	\$ 3,261	30.45
2024	\$ 3,045,641	\$ -	\$ 2,566,488	\$ 479,153	\$ 16,418	\$ 6,061	21.32
2025	\$ 3,220,706	\$ -	\$ 2,729,016	\$ 491,690	\$ 16,694	\$ 2,851	25.16

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

**City of Mary Esther, Florida
PRINCIPAL PROPERTY TAXPAYERS
(UNAUDITED)
Current and Ten Years Ago**

Taxpayer	2025			2016		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Renaissance Mary Esther LLC	\$ 35,586,483	1	7.43%			
SRM-SPE LLC	11,620,849	2	2.43%	\$ 25,944,140	1	9.51%
Peacock Hotel LLC	6,842,050	3	1.43%			
Florida Power & Light (Gulf Power Company)	6,807,204	4	1.42%	3,092,086	4	1.13%
Target Corp T-0740	5,446,951	5	1.14%			
Crimson Fish Prop of NW FL, LLC	4,026,978	6	0.84%	1,493,343	10	0.55%
McCoy, Harold Jr. & Knowles, Dona O'Bryan	3,479,384	7	0.73%			
Mary Esther LLC	3,310,630	8	0.69%			
Powell Gillis E Jr. & Cheryl C	2,734,831	9	0.57%			
Stor Marfl Mary LLC	2,716,357	10	0.57%			
Mary Esther Shopping Center				3,693,919	2	1.35%
Dayton Hudson Co.				3,616,031	3	1.33%
Mercantile Properties Inc.				2,943,747	5	1.08%
Mary Esther Leasing Inc.				2,693,827	6	0.99%
Hood, Preston A. and Ann O.				2,325,091	7	0.85%
Belk, Inc.				1,905,129	8	0.70%
Moore, William M.				1,659,969	9	0.61%
Total	\$ 82,571,717		17.23%	\$ 49,367,282		18.09%
Total Taxable Assessed Value of Other Taxpayers	\$ 396,565,373		82.77%	\$ 223,494,440		81.91%
Total Taxable Assessed Value	\$ 479,137,090		100.00%	\$ 272,861,722		100.00%

Source: Okaloosa County Property Appraiser's Office

DEMOGRAPHIC ECONOMIC INFORMATION - Table 12

City of Mary Esther, Florida
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

<u>Year</u>	<u>City Population</u>	<u>County Population</u>	<u>Per Capita Personal Income (x \$1,000)</u>	<u>Mary Esther Total Personal Income</u>	<u>City of Mary Esther Population as % of County</u>	<u>Okaloosa County School Enrollment</u>	<u>Okaloosa County Unemployment Rate</u>
2016	3,905	191,582	32.3	\$126,131,500	2.04%	30,639	4.1%
2017	3,973	194,111	36.8	\$146,206,400	2.05%	31,718	3.3%
2018	3,971	196,775	56.2	\$223,170,200	2.02%	33,503	3.5%
2019	4,013	200,171	56.2	\$225,530,600	2.00%	32,432	2.3%
2020	4,038	202,656	34.0	\$137,292,000	1.99%	32,118	4.0%
2021	4,027	211,961	33.0	\$132,891,000	1.90%	32,519	3.2%
2022	4,396	214,335	34.4	\$151,222,400	2.05%	33,000	2.2%
2023	4,571	217,882	41.2	\$188,325,200	2.10%	32,413	2.7%
2024	4,493	220,603	48.2	\$216,562,600	2.04%	32,426	3.2%
2025	4,457	224,778	43.4	\$193,433,800	1.98%	34,011	4.1%

Sources: Population estimate as of April 1st provided by the Office of Economic & Demographic Research. School enrollment data provided by the Okaloosa County School Board.

**City of Mary Esther, Florida
PRINCIPAL EMPLOYERS - CURRENT YEAR
(UNAUDITED)
Current and Ten Years Ago**

<u>Employer</u>	<u>2025</u>			<u>2016</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
Target	122	1	0.10%	116	1	0.13%
Mary Esther Elementary	60	2	0.05%			
Piggly Wiggly	42	3	0.04%	34	5	0.04%
Panera Bread	38	4	0.03%			
McDonald's	31	5	0.03%	42	2	0.05%
J.C. Seafood House	27	6	0.02%			
City of Mary Esther	24	7	0.02%	34	5	0.04%
Wendy's	23	8	0.02%	25	7	0.03%
Starbuck's	20	9	0.02%			
CVS Pharmacy	17	10	0.01%			
Old Navy				40	3	0.05%
JC Penney				35	4	0.04%
Animal Hospital				24	8	0.03%
Eglin Federal Credit Union				21	9	0.02%
Securitas				20	10	0.02%
Total	<u>404</u>		<u>0.34%</u>	<u>391</u>		<u>0.45%</u>
Total County Employment	<u>117,874</u>			<u>87,717</u>		

Employee counts include full and part time.
Sources: Survey of Local Businesses by City Staff

City of Mary Esther, Florida
OPERATING INDICATORS BY FUNCTION/PROGRAM
(UNAUDITED)
Last Ten Fiscal Years

OPERATING INFORMATION - Table 14

Function/Program	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Police										
Physical arrests	214	151	120	116	108	137	197	93	123	138
Traffic violations	1,536	1,253	479	769	909	801	815	753	835	767
Fire										
Emergency responses	1,018	1,075	1,082	838	997	1,011	1,020	1,052	915	923
Annual inspections	312	295	61	27	365	222	281	367	318	445
Re-inspections	56	10	2	7	186	174	135	105	123	186
Plan reviews	33	19	4	-	-	34	33	31	19	23
Site inspections	88	22	10	-	-	-	-	12	3	13
Permits issued	9	3	-	-	-	-	-	-	-	-
New Inspections	25	24	6	1	29	33	23	33	20	26
Building										
Permits issued	232	161	202	184	160	307	259	151	53	78
Library										
Items in collection	28,822	30,456	32,362	33,902	34,044	34,044	34,668	35,151	33,186	30,491
Water										
New connections	361	356	309	339	299	329	278	335	345	341
Average daily consumption (x1,000)	327	288	282	287	277	292	354	344	320	306

Sources: Various City departments, Jacobs OMI for Water section, OCSO for Police section, and OCWFD for Fire section

Note: Indicators are not available for the general government function.

City of Mary Esther, Florida
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
General government										
Executive	1	1	1	1	1	1	1	1	1	1
Financial and administrative	6	6	6	6	6	6	6	6	5	5
Planning	1	2	2	2	2	2	2	1	3	3
Public safety										
Fire	13	13	11	-	-	-	-	-	-	-
Maintenance	7	4	4	4	4	4	4	6	8	8
Library	6	6	5	5	5	6	6	6	6	6
Total	<u>34</u>	<u>32</u>	<u>29</u>	<u>18</u>	<u>18</u>	<u>19</u>	<u>19</u>	<u>20</u>	<u>23</u>	<u>23</u>

Source: City Budget Department

City of Mary Esther, Florida
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
(UNAUDITED)
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Police (contracted with Okaloosa County Sheriff's Office)										
Patrol units assigned	4	4	-	2	2	2	2	2	2	2
Fire stations	1	1	1	1	1	1	1	1	1	1
Other public works										
Paved streets (miles) ¹	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19
Streetlights	373	373	373	373	373	373	373	373	373	373
Parks and recreation										
Acreage	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.8	28
Neighborhood parks	7	7	7	7	7	7	7	7	7	7
Community parks	2	2	2	2	2	2	2	2	2	2
Other parks	1	1	1	1	1	1	1	1	1	1
Water ²										
Water mains (miles)	18	18	18	18	18	18	18	18	18	18
Fire hydrants	169	170	170	170	182	182	182	182	182	182
Number of service connections	1,991	1,963	1,967	1,954	1,974	2,133	1,987	1,949	1,943	1,948
Storage capacity (thousands of gallons)	776	776	776	776	776	776	776	776	766	776
Wastewater ²										
Miles of sanitary sewers	24	24	24	24	24	24	24	24	24	24
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	1,854	1,963	1,963	1,940	1,951	2,109	1,967	1,945	1,945	1,952

Sources: City departments managers

¹ Department of Transportation

² Jacobs Engineering

IV. COMPLIANCE SECTION

- COMPLIANCE MATTERS
- MANAGEMENT LETTER
- RESPONSES TO MANAGEMENT LETTER

**CITY OF MARY ESTHER, FLORIDA
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

State Agency Pass-Through Entity State Project	CSFA No.	Contract / Grant Number	Expenditures	Passed Through to Subrecipients
Florida Department of Environmental Protection				
Direct programs:				
Statewide Water Quality Restoration Projects	37.039	LPA0573	\$ 500,000	\$ -
Drinking Water Facility Construction	37.076	DW-460211	278,597	-
Wastewater Treatment Facility Construction	37.077	CW-460201	93,050	-
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			\$ 871,647	\$ -

See notes to the schedule of expenditures of state financial assistance.

**CITY OF MARY ESTHER, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the City of Mary Esther, Florida (the City) for the year ended September 30, 2025. The information in this Schedule is presented in accordance with the requirements of Chapter 10.550, *Rules of the Florida Auditor General*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Chapter 10.550, *Rules of the Florida Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. STATE REVOLVING FUND LOAN PROJECTS

The City has entered into various loan agreements with the State Revolving Fund (SRF) administered by the Florida Department of Environmental Protection (FDEP) for the rehabilitation of water and sewer treatment facilities and related improvements. Expenditures reported on the Schedule related to this project are considered expended when the funds are drawn down, which occurs upon approval of loan draw requests by FDEP, regardless of when the underlying expenditure is incurred under the modified accrual basis of accounting. As a result, a portion of the project expenditures for the state financial assistance reported in the Schedule were incurred in a prior period, but the related loan draw requests for such expenditures were not approved by FDEP until the fiscal year ended September 30, 2025. As of September 30, 2025, the City reported total outstanding SRF loan balances of \$2,662,970, which includes one SRF loan that is considered to be a federal award program.

**INDEPENDENT AUDITORS' 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**

To the City Council
City of Mary Esther, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Mary Esther, 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 February 20, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

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



Fort Walton Beach, Florida
February 20, 2026

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR STATE PROJECT
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
CHAPTER 10.550, RULES OF THE FLORIDA AUDITOR GENERAL**

To the City Council
City of Mary Esther, Florida

Report on Compliance for the Major State Project

We have audited the City of Mary Esther, Florida's (the City) compliance with the types of compliance requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on the City's major state project for the year ended September 30, 2025. The City's major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state projects applicable to its state projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major state project based on our audit of the types of compliance requirements referred to above. 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 Chapter 10.550, *Rules of the Florida Auditor General*. Those standards and Chapter 10.550, *Rules of the Florida Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major State Project

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 the of its major state project for the year ended September 30, 2025.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Florida Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's 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 state project 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 state project 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 state project 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 results of that testing based on the requirements of Chapter 10.550, *Rules of the Florida Auditor General*. Accordingly, this report is not suitable for any other purpose.

Warren Averett, LLC

Fort Walton Beach, Florida
February 20, 2026

**CITY OF MARY ESTHER, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

State Financial Assistance

Internal control over major state project:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major state project: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Chapter 10.557, *Rules of the Florida Auditor General*? _____ Yes X No

Identification of major state project:

CSFA No.	Name of State Project
37.039	Statewide Water Quality Restoration Projects

Dollar threshold used to distinguish between type A and type B projects for state financial assistance: \$ 300,000

**CITY OF MARY ESTHER, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

II. FINANCIAL STATEMENT FINDINGS

There were no findings which were required to be reported in accordance with *Government Auditing Standards*.

III. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

There were no findings which were required to be reported in accordance with Chapter 10.557, *Rules of the Florida Auditor General*.

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

To the Honorable Mayor and
Members of the City Council

We have examined the City of Mary Esther, Florida's (the City) compliance with Section 218.415, Florida Statutes, with regard to investments for the year ended September 30, 2025.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including the assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

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

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

In our opinion, the City complied, in all material respects, with the specified requirements for the year ended September 30, 2025.

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



Fort Walton Beach, Florida
February 20, 2026

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the financial statements of the City of Mary Esther, Florida (the City), as of and for the fiscal year ended September 30, 2025, and have issued our report thereon dated February 20, 2026.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Florida Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for the Major State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountants' Report 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 Florida Auditor General*. Disclosures in those reports and schedule, which are dated February 20, 2026, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Florida 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. There were no such findings or recommendations made in the preceding financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Florida Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The official title and legal authority are disclosed in Note 1 to the financial statements. There are no component units related to the City.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Florida Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), *Rules of the Florida Auditor General*, we applied financial condition assessment procedures for the City as of September 30, 2025. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Property Assessed Clean Energy (PACE) Programs

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

Special District Component Units

Section 10.554(1)(i)2., *Rules of the Florida 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.

Additional Matters

Section 10.554(1)(i)3., *Rules of Florida Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or 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 note 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, 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.

We greatly appreciate the assistance and cooperation extended to us during our audit.

Warren Averett, LLC

Fort Walton Beach, Florida
February 20, 2026

IMPACT FEE AFFIDAVIT

BEFORE ME, the undersigned authority, personally appeared Jared Cobb, who being duly sworn, deposes and says on oath that:

1. I am the Chief Financial Officer of the City of Mary Esther which is a local governmental entity of the State of Florida.
2. The governing body of the City of Mary Esther adopted Resolution No. 2015-04 implementing an impact fee.
3. The City of Mary Esther has complied and, as of the date of this Affidavit, remains in compliance with Section 163.31801, Florida Statutes.


FURTHER AFFIANT SAYETH NAUGHT.



Jared Cobb, City Manager

STATE OF FLORIDA
COUNTY OF OKALOOSA

SWORN TO AND SUBSCRIBED before me this 3 day
of MARCH 2026.



NOTARY PUBLIC
Print Name Leslie J. Wright

Personally know or produced identification _____

Type of identification produced: _____

My Commission Expires: April 27, 2026

