

**CITY OF KEYSTONE HEIGHTS
KEYSTONE HEIGHTS, FLORIDA**

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2018

REDDISH AND WHITE
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF KEYSTONE HEIGHTS
KEYSTONE HEIGHTS, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and the City Council
City of Keystone Heights, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Keystone Heights, Florida as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Keystone Heights, Florida as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and budgetary comparison information on pages 38 and 39 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keystone Heights, Florida's basic financial statements. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the individual nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019, on our consideration of the City of Keystone Heights, Florida'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 City of Keystone Heights, Florida's internal control over financial reporting and compliance.

Reddish & White, CPAs

Starke, Florida
March 21, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of Keystone Heights, Florida (the City) annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by \$6,823,648 (net position) for the fiscal year reported. The reduction from the prior year of \$160,155 is mainly due to depreciation of fixed assets for infrastructure and physical environment.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$5,101,177, include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net restricted position of \$805,171 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$917,300 represents the portion readily available without restrictions to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$1,367,957 this year. This compares to the prior year ending fund balance of \$1,064,327 an increase of \$303,631 during the current year.
- The city remains in a strong financial position.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*, which presents all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers or other general revenues.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by sales taxes and utility taxes and from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include primarily general government, transportation, and culture and recreation. Business-type activities include the operation of the City's cemetery.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported. All of the City's funds are classified as major funds.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives. The general fund's budget and actual comparison is presented as a basic financial statement.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The proprietary fund is classified as an enterprise fund. The enterprise fund essentially encompasses the same function reported as a business-type activity in the government-wide statements. The City operates a cemetery. The fund is reported on a statement of net position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

The fiduciary fund is reported at the fund financial reporting level only and reports the City's pension trust fund. Included is a statement of fiduciary net position and a statement of changes in fiduciary net position.

Notes to the Basic Financial Statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the details of the City's general fund and CRA fund revenue and expenditure actual versus budget presentations.

Financial Analysis of the City as a Whole

The City implemented the new financial reporting model used in this report beginning with the current fiscal year ended September 30, 2011. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$6,823,648. The following table provides a summary of the City's net position:

	Governmental Activities		Business-type Activities		Total		2018% of Total
	2018	2017	2018	2017	2018	2017	
Assets							
Current assets	\$ 1,378,706	\$ 1,075,331	\$ 333,493	\$ 305,597	\$ 1,712,199	\$ 1,380,928	25%
Capital assets	5,186,779	5,736,127	24,474	30,963	5,211,253	5,767,090	75%
Total assets	6,565,485	6,811,458	357,967	336,560	6,923,452	7,148,018	100%
Deferred Outflow of Resources	1,128	3,378	-	-	1,128	3,378	100%
Liabilities							
Current liabilities	83,248	83,505	146	-	83,394	83,505	83%
Long-term liabilities	17,538	84,088	-	-	17,538	84,088	17%
Total liabilities	100,786	167,593	146	-	100,932	167,593	100%
Net position							
Invested in capital assets, net of debt	5,076,703	5,596,127	24,474	30,963	5,101,177	5,627,090	76%
Restricted	534,468	461,259	270,703	205,190	805,171	666,449	12%
Unrestricted	854,656	589,857	62,644	100,407	917,300	690,264	13%
Total Net Position	\$ 6,465,827	\$ 6,647,243	\$ 357,821	\$ 336,560	\$ 6,823,648	\$ 6,983,803	100%

The city adopted GASB No. 65 in 2014. Consequently, unamortized bond refinance costs previously reported as "Other Assets", is now reported as "Deferred Outflows of Resources".

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 16.6 to 1 at September 30, 2018 as compared to 12.9 to 1 at September 30, 2017. For business type activities, there was very small current liabilities for either year. For the City overall, the current ratio is 20.5 to 1 at September 30, 2018 and 16.5 to 1 at September 30, 2017.

Net position decreased \$181,416 for governmental activities due mainly to depreciation of capital assets. The City's overall financial position decreased approximately 2.2% during fiscal year 2018 which was less than the 4% decrease in the prior year.

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

Summary of Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program:						
Charges for services	\$ 9,897	\$ 9,310	\$ 42,823	\$ 30,873	\$ 52,720	\$ 40,183
Grants	154,400	114,251	-	-	154,400	114,251
General:						
Taxes	851,792	794,988	-	-	851,792	794,988
Other State-shared	58,343	56,778	-	-	58,343	56,778
Other	59,778	52,998	1,234	985	61,012	53,983
Total revenues	<u>1,134,210</u>	<u>1,028,325</u>	<u>44,057</u>	<u>31,858</u>	<u>1,178,267</u>	<u>1,060,183</u>
Program Expenses:						
General government	346,727	322,227	-	-	346,727	322,227
Public safety	2,580	4,941	-	-	2,580	4,941
Physical environment	237,694	237,694	-	-	237,694	237,694
Transportation	617,738	615,088	-	-	617,738	615,088
Economic environment	60,023	84,003	-	-	60,023	84,003
Human services	4,994	6,012	-	-	4,994	6,012
Culture and recreation	41,518	42,879	-	-	41,518	42,879
Interest	4,352	3,054	-	-	4,352	3,054
Cemetery	-	-	22,796	19,091	22,796	19,091
Total expenses	<u>1,315,626</u>	<u>1,315,898</u>	<u>22,796</u>	<u>19,091</u>	<u>1,338,422</u>	<u>1,334,989</u>
Transfers	-	-	-	-	-	-
Excess (deficiency)	(181,416)	(287,573)	21,261	12,767	(160,155)	(274,806)
Beginning net position	<u>6,647,243</u>	<u>6,934,816</u>	<u>336,560</u>	<u>323,793</u>	<u>6,983,803</u>	<u>7,258,609</u>
Ending net position	<u>\$ 6,465,827</u>	<u>\$ 6,647,243</u>	<u>\$ 357,821</u>	<u>\$ 336,560</u>	<u>\$ 6,823,648</u>	<u>\$ 6,983,803</u>

GOVERNMENTAL REVENUES

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 primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.) and fees (franchise, occupational license, etc.) to finance governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

For the business-type and certain governmental activities, the user (of services) pays a related fee (or charge) associated therewith.

Based upon the above funding structure, the City relies primarily upon the property ad valorem tax, state revenues such as infrastructure funds, local option gas sales tax, Florida sales tax, utilities service tax, franchise fees, and local communication service tax.

Besides one time grants, one of the City's largest revenue streams is discretionary sales taxes, which support governmental infrastructure operations. These taxes provided \$231,673 of the City's total governmental revenues as compared to \$222,108 in fiscal year 2017. Franchise fees and utility taxes provided \$216,508 of the City's total governmental revenues as compared to 213,065 in fiscal year 2017. Property taxes provided \$233,142 of the City's total governmental revenues as compared to 203,993 in fiscal year 2017. Program revenues typically cover only 10% of governmental operating expenses. This means that the government's taxpayers and the City's other general governmental revenues fund 90% of the governmental activities. As a result, the general economy and the City businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

The transportation and physical environment functions comprise a significant part of the total government activities expenditures. The physical environment includes the annual charge of \$237,000 in depreciation. The transportation function includes more than \$339,000 in depreciation and \$70,000 in debt service costs.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
General government	\$ 346,727	\$ 322,227	\$ (338,486)	\$ (314,995)
Public safety	2,580	4,941	(2,253)	(4,588)
Physical environment	237,694	237,694	(237,694)	(237,694)
Transportation	617,738	615,088	(493,592)	(500,837)
Economic environment	60,023	84,003	(29,769)	(84,003)
Human services	4,994	6,012	(4,994)	(6,012)
Culture and recreation	41,518	42,879	(40,189)	(41,154)
Interest	4,352	3,054	(4,352)	(3,054)
Total	\$ 1,315,626	\$ 1,315,898	\$ (1,151,329)	\$ (1,192,337)

BUSINESS-TYPE ACTIVITIES

The City operated one enterprise fund, the cemetery fund.

Cemetery Fund – In fiscal 2018, cemetery lot sales (net of commissions) were up \$13,500 or over 93% from fiscal year 2017. As a result, the Cemetery fund reported operating income of \$21,261, an increase of \$8,494 from the prior year. This fund reported \$357,821 in net position, or an increase of over 6% from the prior fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Fund – General Fund

The general fund is reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing

requirements. At September 30, 2018, the general fund reported ending fund balance of \$1,285,601 or an increase of \$244,299 from last year. The unrestricted amount of \$694,488 is available for continuing City service requirements.

Revenues – Overall, total revenues increased approximately \$86,797 from the prior year, primarily due to the increase in tax revenues of approximately \$54,000, and CDBG grant revenues of approximately \$30,000.

Expenditures – Overall, total expenditures decreased approximately \$133,000 from the prior year.

General government expenditures increased approximately \$29,000 due primarily to an increase in legal fees of \$6,000 and by an increase in personnel costs of approximately \$22,000.

Transportation expenditures decreased by approximately \$194,000 primarily due to the decrease in capital related expenditures of \$210,500, offset by slight increases in other transportation related expenditures.

Human services, public safety, and culture and recreation costs remained close to their prior year amounts.

As a result, the General Fund's ending fund balance increased \$244,299 from the September 30, 2017 balance. This increase was due to the favorable results compared to the budgeted forecast by over \$256,000.

Budgetary Highlights – General Fund

Budget Amendments - The budget was amended during the current fiscal year primarily to catch up on the transfer of funds to the CRA fund by \$13,375, and to reflect the increase in council salaries of \$1,100.

Revenues - The City realized only 66% of its total budgeted revenues for the year as only \$30,000 of the \$650,000 CDBG funds were realized during the year.

Total tax revenue was 104% of the budget. Most other revenue recognized was within the budget parameters.

Expenditures – Overall, the City spent less than 50% of its total budgeted expenditures. This was due primarily to \$135,000 in transportation capital outlay costs that were budgeted but did not occur and approximately \$616,000 in CDBG grant expenditures budgeted but not expended.

The general government department reflected a favorable budget of over \$40,000 as the personal services sector budget was over \$14,900 compared to actual, the operating expenditures budgeted were over \$13,500 compared to actual, and the general comprehensive planning operating expenses budgeted were over \$9,500 compared to actual.

The transportation department reflected a favorable budget variance of over \$121,000. This was due primarily to the favorable outcome in the capital outlay costs of over \$135,000 offset by an unfavorable outcome in the personal services of \$13,600.

The culture and recreation department reflected a favorable budget variance of over \$28,400. This was due primarily to a favorable outcome in the festivals and concerts operating and personal costs budgeted of over \$3,500 and over \$24,100 in operating costs of the parks and recreation expenditures (this includes the lake replenishment costs).

Most other expenditures were within the budget parameters.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2018, was \$5,186,779 and \$24,474, respectively. There was a 10% decrease for governmental activities and a 21% increase for business-type activities. Overall, there was a decrease of 10% for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year.

The following table provides a summary of capital asset activity.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Nondepreciable assets:						
Land	\$ 644,312	\$ 644,312	\$ 6,000	\$ 6,000	\$ 650,312	\$ 650,312
Construction in progress	15,480	15,480	-	-	15,480	15,480
Total nondepreciable	659,792	659,792	6,000	6,000	665,792	665,792
Depreciable assets:						
Buildings and improvements	5,289,518	5,289,518	74,412	74,412	5,363,930	5,363,930
Vehicles and equipment	490,401	462,665	44,007	44,007	534,408	506,672
Infrastructure	8,593,390	8,558,031	-	-	8,593,390	8,558,031
Total depreciable assets	14,373,309	14,310,214	118,419	118,419	14,491,728	14,428,633
Less accumulated depreciation	9,846,322	9,233,879	99,945	93,456	9,946,267	9,327,335
Book value - depreciable assets	4,526,987	5,076,335	18,474	24,963	4,545,461	5,101,298
Percentage depreciated	69%	65%	84%	79%	69%	65%
Book value - all assets	\$ 5,186,779	\$ 5,736,127	\$ 24,474	\$ 30,963	\$ 5,211,253	\$ 5,767,090

At September 30, 2018, the depreciable capital assets for governmental activities were 69% depreciated. This compares to 65% at the September 30, 2017. Since the changes in percentages are similar, this is a generally a positive indicator that the City is replacing its capital assets at the same rate they are being depreciated.

However, it is important to point out that since September 30, 2007, depreciable capital assets for governmental activities have steadily changed from 33% depreciated at September 30, 2007 to 69% depreciated at September 30, 2018. This steady change is due principally to the maturing of the wastewater system (relatively new in 2007), and to a lesser extent, prudent management of capital asset renewal decisions. The reduction in capital renewal was in an effort to mitigate the impact on the City's capital and operating reserves due to the loss of the Interlocal Agreement with Clay County and the recent extended downturn in general economic conditions as discussed below under "*Economic Conditions Affecting the City*".

With the City's business type activities, the percentage of capital assets depreciated increased to 84%, as no additions were made during the year.

Long-term Debt

At the end of the fiscal year, the City had revenue bonds outstanding totaling \$70,000. During the year, the City paid the scheduled payments on the revenue bond.

The amount of long-term debt outstanding at September 30, 2018 and 2017 is as follows:

Outstanding Long-term Debt

	<u>Governmental Activities</u>		
	<u>September 30,</u>		<u>%</u>
	<u>2018</u>	<u>2017</u>	
Revenue bonds	\$ 70,000	\$ 140,000	-50%
Compensated absences	<u>20,038</u>	<u>16,588</u>	21%
Total	<u>\$ 90,038</u>	<u>\$ 156,588</u>	-43%

In this fiscal year, compensated absences increased primarily due to the stabilization of the workforce. The amount of debt and related interest estimated to be repaid in fiscal year 2018 was approximately \$74,300. See Note 8 for additional information about the City's long-term debt.

Economic Conditions Affecting the City

The unemployment rate for Clay County, which the City is part of, was 2.7 % down from 3.2% for the prior fiscal. The state has been recovering economically, which does affect most revenue streams to our small City.

Recently, the City undertook a multi-year effort to improve operating efficiency, dramatically reduce operating expenses (more than 30%), and prudently manage capital asset renewal (recapitalization) decisions. These efforts, supplemented by prudent but modest tax increases, have directly resulted in the strengthening of the City's capital and operating reserve profile.

In 2011, the City developed and implemented a comprehensive bi-annual citywide pavement condition review and observational analysis, and now maintains a comprehensive roadway recapitalization plan of which is actively executed and current. In 2015, the City has initiated development of a similar comprehensive non-roadway recapitalization plan covering all other depreciable assets.

As economic recovery continues, the City's management believes the current capital and operating reserves to be prudent and reasonable in ensuring stable governmental operations and timely capital asset renewal.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City at city@Keystoneheights.us or call 352-473-4807.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airpark Authority
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$567,811	\$54,820	\$622,631	\$144,525
Investments in Time Certificates of Deposits	230,945	0	230,945	4,273
Accounts Receivable, Net	14,070	0	14,070	2,658
Prepaid Expenses	18,154	0	18,154	0
Inventory	0	11,440	11,440	31,116
Due from Other Governments	18,912	0	18,912	0
Restricted Assets				
Cash and Cash Equivalents	232,737	74,845	307,582	0
Investments in Time Certificates of Deposits	271,477	195,858	467,335	0
Due from Other Governments	21,130	0	21,130	30,976
Internal Balances	3,470	(3,470)	0	0
Total Current Assets	<u>1,378,706</u>	<u>333,493</u>	<u>1,712,199</u>	<u>213,548</u>
Capital Assets	<u>5,186,779</u>	<u>24,474</u>	<u>5,211,253</u>	<u>6,561,144</u>
Other Assets				
Timber	0	0	0	86,999
TOTAL ASSETS	<u>6,565,485</u>	<u>357,967</u>	<u>6,923,452</u>	<u>6,861,691</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized Bond Refinance Costs	<u>1,128</u>	<u>0</u>	<u>1,128</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$6,566,613</u>	<u>\$357,967</u>	<u>\$6,924,580</u>	<u>\$6,861,691</u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$10,748	\$146	\$10,894	\$601,633
Unearned Rent	0	0	0	12,722
Deposits	0	0	0	9,330
Long Term Obligations, Current Portion	<u>72,500</u>	<u>0</u>	<u>72,500</u>	<u>12,531</u>
Total Current Liabilities	<u>83,248</u>	<u>146</u>	<u>83,394</u>	<u>636,216</u>
Long Term Obligations, Noncurrent Portion	<u>17,538</u>	<u>0</u>	<u>17,538</u>	<u>63,411</u>
TOTAL LIABILITIES	<u>100,786</u>	<u>146</u>	<u>100,932</u>	<u>699,627</u>
NET POSITION				
Net Invested in Capital Assets	5,076,703	24,474	5,101,177	6,485,202
Restricted for:				
Perpetual Care	0	270,703	270,703	0
Infrastructure	452,112	0	452,112	30,976
Community Redevelopment	82,356	0	82,356	0
Unrestricted	<u>854,656</u>	<u>62,644</u>	<u>917,300</u>	<u>(354,114)</u>
TOTAL NET POSITION	<u>\$6,465,827</u>	<u>\$357,821</u>	<u>\$6,823,648</u>	<u>\$6,162,064</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Unit	
				Governmental Activities	Business-Type Activities	Total	Airpark Authority	
Functions/Programs								
Government Activities:								
General Government	\$346,727	\$8,241	\$0	\$0	(\$338,486)	\$0	(\$338,486)	
Public Safety	2,580	327	0	0	(2,253)	0	(2,253)	
Physical Environment	237,694	0	0	0	(237,694)	0	(237,694)	
Transportation	617,738	0	74,212	49,934	(493,592)	0	(493,592)	
Economic Environment	60,023	0	0	30,254	(29,769)	0	(29,769)	
Human Services	4,994	0	0	0	(4,994)	0	(4,994)	
Culture and Recreation	41,518	1,329	0	0	(40,189)	0	(40,189)	
Interest on Long-term Debt	4,352	0	0	0	(4,352)	0	(4,352)	
Total Governmental Activities	<u>1,315,626</u>	<u>9,897</u>	<u>74,212</u>	<u>80,188</u>	<u>(1,151,329)</u>	<u>0</u>	<u>(1,151,329)</u>	
Business-type Activities:								
Cemetery	<u>22,796</u>	<u>42,823</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,027</u>	<u>20,027</u>	
Total Business-type Activities	<u>22,796</u>	<u>42,823</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,027</u>	<u>20,027</u>	
Total Primary Government	<u>1,338,422</u>	<u>52,720</u>	<u>74,212</u>	<u>80,188</u>	<u>(1,151,329)</u>	<u>20,027</u>	<u>(1,131,302)</u>	
Component Unit								
Airpark Authority	<u>\$1,212,161</u>	<u>\$573,568</u>	<u>\$0</u>	<u>\$572,222</u>			<u>(\$66,371)</u>	
General Revenues:								
Taxes:								
Property				233,142	0	233,142	0	
Discretionary Sales Surtax				231,673	0	231,673	0	
Franchise Fees and Utility Taxes				216,508	0	216,508	0	
Half Cent Sales Tax				76,201	0	76,201	0	
Local Option Gas Tax				94,268	0	94,268	0	
State Revenue Sharing				58,343	0	58,343	0	
Investment Income				3,976	1,234	5,210	236	
Miscellaneous				55,802	0	55,802	3,317	
Total General Revenues				<u>969,913</u>	<u>1,234</u>	<u>971,147</u>	<u>3,553</u>	
Change in Net Assets				(181,416)	21,261	(160,155)	(62,818)	
Net Position, Beginning of Year				<u>6,647,243</u>	<u>336,560</u>	<u>6,983,803</u>	<u>6,224,882</u>	
Net Position, Ending of Year				<u>\$6,465,827</u>	<u>\$357,821</u>	<u>\$6,823,648</u>	<u>\$6,162,064</u>	

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2018

	General Fund	Other Governmental Fund	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$567,811	\$0	\$567,811
Cash and Cash Equivalents - Restricted	159,505	73,231	232,736
Investments	230,945	0	230,945
Investments - Restricted	271,477	0	271,477
Prepaid Expenses	18,154	0	18,154
Accounts Receivable, Net	14,070	0	14,070
Due from Other Funds	9,110	14,765	23,875
Due from Other Governments	18,912	0	18,912
Due from Other Governments - Restricted	21,130	0	21,130
Total Assets	<u>\$1,311,114</u>	<u>\$87,996</u>	<u>\$1,399,110</u>
Liabilities and Fund Balances			
Liabilities			
Current Liabilities			
Accounts Payable	8,414	0	8,414
Due to Other Funds	14,765	5,640	20,405
Accrued Expenses	2,334	0	2,334
Total Liabilities	<u>25,513</u>	<u>5,640</u>	<u>31,153</u>
FUND BALANCES			
Non-Spendable	18,154	0	18,154
Restricted	452,112	82,356	534,468
Assigned	120,847	0	120,847
Unassigned	694,488	0	694,488
Total Fund Balances	<u>1,285,601</u>	<u>82,356</u>	<u>1,367,957</u>
Total Liabilities and Fund Balances	<u>\$1,311,114</u>	<u>\$87,996</u>	<u>\$1,399,110</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION SEPTEMBER 30, 2018

Total Fund Balance - Total Governmental Funds	\$1,367,957
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$15,033,101, net of accumulated depreciation of \$9,846,322, are not financial resources and, therefore, are not reported in the funds.	5,186,779
Bond Refinance Costs of \$18,378, net of accumulated amortization of \$15,000, are not financial resources and, therefore, are not reported in the funds	1,128
Long-term liabilities are not due and payable in the current period and accordingly, are not reported in the governmental funds.	<u>(90,037)</u>
Total Net Position of Governmental Activities	<u>\$6,465,827</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Other Governmental Fund	Total
Revenues			
Taxes	\$775,591	\$0	\$775,591
Licenses and Permits	7,422	0	7,422
Intergovernmental Programs	239,011	49,934	288,945
Charges for Services	2,148	0	2,148
Fines and Forfeitures	327	0	327
Miscellaneous Revenue	18,029	10,093	28,122
Interfund Charges	31,842	0	31,842
Total Revenues	<u>1,074,370</u>	<u>60,027</u>	<u>1,134,396</u>
Expenditures			
Current:			
General Government	388,026	0	388,026
Public Safety	2,580	0	2,580
Transportation	194,129	0	194,129
Economic Environment	33,953	20,724	54,677
Human Services	4,994	0	4,994
Culture and Recreation	27,041	0	27,041
Capital Outlay:			
General Government	5,235	0	5,235
Transportation	72,956	0	72,956
Economic Environment	0	5,346	5,346
Culture and Recreation	1,250	0	1,250
Debt Service:			
Transportation	74,532	0	74,532
Total Expenditures	<u>804,696</u>	<u>26,070</u>	<u>830,766</u>
Revenues Over (Under) Expenditures	<u>269,674</u>	<u>33,957</u>	<u>303,631</u>
NET CHANGE IN FUND BALANCE	269,674		
Other Financing Sources (Uses)			
Transfers In (Out)	(25,375)	25,375	0
Total Other Financing Sources	<u>(25,375)</u>	<u>25,375</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	244,299	59,332	303,631
Fund Balance, Beginning of Year	<u>1,041,302</u>	<u>23,024</u>	<u>1,064,326</u>
Fund Balance, End of Year	<u>\$1,285,601</u>	<u>\$82,356</u>	<u>\$1,367,957</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$303,631
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount depreciation of \$615,619 exceeds net capital outlays of \$66,272.	(549,347)
Governmental funds report bond refinance cost as expenditures. However, in the statement of activities, the cost of those assets is amortized over the life of the bond and is reported as amortization expense. This is the amount amortization of \$2,250, on bond refinance costs of 18,378 incurred in the prior year	(2,250)
Compensated absences are recorded recorded when paid in the governmental funds. This is the amount the compensated absences increased during the year	(3,450)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes current financial resources. This amount is the effect of these differences in the treatment of long-term debt.	<u>70,000</u>
Change in Net Position of Governmental Activities	<u><u>(\$181,416)</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF NET POSITION - PROPRIETARY FUND SEPTEMBER 30, 2018

Assets

Current Assets

Cash and Cash Equivalents	\$54,820
Cash and Cash Equivalents - Restricted	74,845
Investments - Restricted	195,858
Inventory	11,440
Total Current Assets	<u>336,963</u>

Capital Assets, Net of

Accumulated Depreciation	<u>24,474</u>
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Total Assets	<u><u>\$361,437</u></u>
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Liabilities and Net Position

Liabilities

Current Liabilities

Accounts Payable	\$146
Due to Other Funds	3,470
Total Current Liabilities	<u>3,616</u>

Net Position

Net Investment in Capital Assets	24,474
Restricted for Perpetual Care	270,703
Unrestricted	62,644
Total Net Position	<u>357,821</u>

Total Liabilities and Net Position	<u><u>\$361,437</u></u>
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See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED SEPTEMBER 30, 2018

Operating Revenues	
Charges for Services	
Cemetery Lot Sales (Net of Commissions of \$3,990)	\$27,310
Rental Income	15,513
Total Operating Revenues	<u>42,823</u>
Operating Expenses	
Administrative Expense	5,909
Depreciation	6,489
Accounting and Auditing	2,470
Cost of Cemetery Lots Sold	1,340
Utilities	1,538
Legal Fees	1,418
Supplies	904
Repairs and Maintenance	2,728
Total Operating Expenses	<u>22,796</u>
Operating Income (Loss)	<u>20,027</u>
Nonoperating Revenues and Expense	
Investment Income	1,234
Total Nonoperating Revenues and Expenses	<u>1,234</u>
Increase (Decrease) in Net Position	21,261
Net Position, Beginning of Year	<u>336,560</u>
Net Position, End of Year	<u><u>\$357,821</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

Cash Flows from Operating Activities	
Receipts from Customers	\$42,823
Payments to Suppliers of Goods and Services	(8,912)
Payments for Interfund Personnel Services	(2,439)
Net Cash Provided (Used) by Operating Activities	<u>31,472</u>
Cash Flows from Investing Activities	
Increase in Investments	(51,018)
Interest Received	1,234
Other	0
Net Cash Provided by (Used) by Investing Activities	<u>(49,784)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,312)
Cash and Cash Equivalents, Beginning of Year	<u>147,977</u>
Cash and Cash Equivalents, End of Year	<u>\$129,665</u>
Cash and Cash Equivalents, Unrestricted	\$54,820
Cash and Cash Equivalents, Restricted	74,845
	<u>\$129,665</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$20,027
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	6,489
Change in Current Assets and Current Liabilities	
Inventory	1,340
Accounts Payable	146
Due to Other Funds	3,470
Net Cash Provided (Used) By Operating Activities	<u>\$31,472</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA
EMPLOYEE PENSION FUND
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2018

Assets	
Investments	\$124,670
Total Assets	<u>\$124,670</u>
Liabilities and Net Position	
Liabilities	<u>\$0</u>
Net Position	
Held in Trust for Pension Benefits	<u>\$124,670</u>
Total Net Position	<u>\$124,670</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA
EMPLOYEE PENSION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Additions	
Contributions:	
Employer	\$9,433
Employees	9,433
Net Investment Income (loss)	<u>11,840</u>
Total Additions	<u>30,706</u>
Deductions	
Benefit Payments	<u>2,416</u>
Total Deductions	<u>2,416</u>
Change in Net Position	<u>28,290</u>
Net Position Held in Trust for Pension Benefits, Beginning of Year	<u>96,380</u>
Net Position Held in Trust for Pension Benefits, End of Year	<u><u>\$124,670</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The City of Keystone Heights (the "City") is a political subdivision of the state of Florida located in Clay County. The City was established in 1925 as a municipality under the legal authority of the Laws of Florida. The legislative branch of the City is composed of a five member elected city council. The city council is governed by the city charter, and by state and local laws and regulations. The city council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the city manager.

The City's major operations include general government services, road and street maintenance, parks and beaches, and the operation of a cemetery. In addition, the City is responsible for waste and disposal services provided by a private company. The City's basic financial statements include the accounts of all City operations.

In determining the financial reporting entity, the City complies with the provisions of GASB, and includes all component units of which the City is either able to impose its will on the entity or a financial benefit or burden exists.

The Keystone Heights Community Redevelopment Agency, a blended component unit of the City, which was established in 1996 and made operational in 2006, is considered part of the primary government and is accounted for in a special revenue fund. The Keystone Heights' fire department is not a part of the reporting entity.

A discretely presented component unit is a separate legal entity that meets the component unit criteria described above but does not meet the criteria for blending (as its operations are significantly different than the primary government's operations).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The component unit that is discretely presented in the City's reporting entity is described below:

The Keystone Airpark Authority (the Airpark) is a dependent special district created to manage the Keystone Heights airport. The Airpark was established by the City under City Ordinance 91-194, and is governed by a seven member board appointed by the City Council. The Airpark maintains separate accounting records and budgets. It is reported as an enterprise fund and complete separate financial statements for the Airpark may be obtained from its administrative office located at 7100 Airport Road, Starke, Florida. The fiscal year end for the Airpark is September 30.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures / expenses. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the financial reporting entity are described below.

Governmental Funds

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. This fund is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund - The Keystone Heights Community Redevelopment Agency is considered part of the primary government and is accounted for in a special revenue fund.

Proprietary Funds

The City has one proprietary fund, the cemetery fund. The cemetery fund is used to account for the revenues and expenses resulting from activities of the cemetery owned by the City.

Fiduciary Fund

The City has one fiduciary fund, the employee pension fund. The City acts as a trustee for the pension plan participants.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

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. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. For this purpose, the City considers taxes and licenses and other revenues to be available if they are collected within 60 days of the end of the current fiscal period. The revenues susceptible to accrual are taxes, franchise fees, and intergovernmental revenues. Expenditures generally are recorded when the related fund liability is incurred, except expenditures related to debt service expenditures and compensated absences which are recorded only when payment is due.

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 sales of cemetery lots and a land lease for a communication tower. Operating expenses for the enterprise funds include the cost of sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

For purposes of the statement of cash flows, highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The cash balances consist of checking accounts, money market accounts, and time certificates of deposit with an original maturity of three months or less.

All monies collected by the City are required to be deposited in accordance with the laws of the State of Florida. Section 218.415 (17), Florida Statutes, authorizes the City to invest in the Local Government Surplus Funds Trust, direct obligations of the United States Government, obligations unconditionally guaranteed by the United States Government, time deposits and savings accounts of Florida Qualified Depositories, obligations of Federal Farm Credit Banks, and obligations of the Federal National Mortgage Association.

All cash and investments in time certificates of deposits of the City are covered by Federal depository insurance or by collateral held by the City's custodial bank which is pledged to a state trust fund that provides security in accordance with the Florida Security for Deposits Act, Chapter 280, for amounts held in excess of the FDIC coverage. The Florida Security for Public Deposits Act establishes guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City has not adopted a formal deposit and investment policy that limits the City's allowable deposits and investments. However, the City limits its investments to time certificates of deposit with maturities ranging from three months to one year.

Receivables

Receivables are recorded at their estimated net realizable value. Accordingly, they have been adjusted for all known doubtful accounts.

Interfund Receivables and Payables

Interfund receivables and payables, if any, are the result of the City, through its general fund, providing administrative support to the enterprise fund and to the special revenue fund. These funds reimburse the general fund on a monthly basis.

Inventory

Cemetery lot inventory consists of unsold lots at the Keystone Heights Cemetery. Lots are valued at the lower of cost or market. Fuel inventory of the component unit is valued at the lower of cost or market.

Capital Assets

Capital assets include property, plant equipment, and infrastructure (e.g. roads) and are reported in applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Capital assets purchased or constructed are carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at their estimated fair market value at the time received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are expensed as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. For assets constructed with governmental fund resources, interest during construction is not capitalized. Property, plant, and equipment of the City and component unit are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and Improvements	10 - 40
Vehicles and Equipment	5 – 15
Infrastructure	20 - 30

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

It is the City's policy regarding vacation and sick time to permit employees to accumulate earned but unused vacation and sick time, subject to maximum limitations. The liability for these compensated absences is reported as long-term debt in the governmental-wide financial statements.

Fund Equity Classifications

Government-wide, Proprietary, and Trust Fund Statements

Equity is classified as net position and displayed in 3 components:

Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – consist of all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The City's policy is to consider restricted resources as expended whenever both restricted and unrestricted resources are available.

Fund Financial Statements

GASB statement No. 54 requires fund balance classifications in the following hierarchy:

Nonspendable fund balance – this classification represents amounts for prepaid expenses.

Restricted fund balance – this classification represents amounts restricted to specific purposes that are either *externally imposed by creditors, grantors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation*. This definition is the same as the definition of restricted net position used in government-wide financial reporting. Restricted fund balance as of September 30, 2018 represents \$452,112 restricted (by enabling legislation) for infrastructure improvements including the repayment of any related outstanding debt in

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

the general fund and \$82,356 restricted for economic development in the special revenue fund.

Committed fund balance – this classification represents amounts restricted for specific purposes by formal action of the government’s highest level of decision-making authority (i.e. ordinance).

Assigned fund balance – this classification represents amounts constrained by the government’s intent to be used for specific purposes but are neither restricted nor committed. Assigned fund balance of \$120,847 as of September 30, 2018 is comprised of \$87,793 assigned for the recapitalization plan and \$33,054 assigned for the lake replenishment and restoration project.

Unassigned fund balance – This classification represents amounts that do not belong in any of the previous classifications, that is, the residual classification of the general fund.

The City’s policy is to consider committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for which any of the unrestricted fund balance classifications could be used.

Use of Estimates

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

Deferred Inflows and Deferred Outflows

GASB Statement No. 65 was adopted by the City in prior years. Consequently, the unamortized bond refinance costs, previously recorded as an “other asset” in the statement of net position, is now accounted for as a “deferred outflow of resources” in the statement of net position.

Subsequent Events

The City has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 21, 2019, the date the financial statements were made available. See note 12 for subsequent events.

NOTE 2 – AD VALOREM TAXES

The assessment of all properties and the collection of all property taxes are made through the Clay County Property Appraiser and Clay County Tax Collector. General property taxes are recorded as received which approximates taxes levied less discounts for the current fiscal year.

Taxes are levied on November 1 of each year. All taxes become delinquent on April 1 of the following year. Discounts are allowed for early payment. On or prior to June 1, certificates bearing interest at 18% are sold for all uncollected real property taxes. Unsold certificates are held by the County.

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

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

- In June, 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 the means of financing them.
- Public meetings may be conducted in July and August to inform taxpayers and receive input, followed by required public hearings which are held in September to obtain public comment.
- In September, the final budget is legally enacted through passage of an ordinance.
- The City Council must approve any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund.
- The same basis of accounting is utilized for both budgetary purposes and actual results. Comparisons of budgetary data to actual are not required to be reported for the proprietary fund type or the fiduciary fund type.
- Appropriations lapse at year-end.
- The fund total is considered the legal level of control.
- The final budget is presented as amended, if any amendments were approved for the year.

NOTE 4 – EMPLOYEE RETIREMENT PLAN

The City maintains a single employer, contributory defined contribution pension plan (the Plan) which covers substantially all employees. Employees attaining the age of 18 who have completed 1,000 hours of service during the year are eligible to participate. If an employee elects to participate, the employee is required to contribute 5% of eligible salary to the plan. Annually, the City matches the 5% of the required employee contribution. The City contribution for the year was \$8,781. All participants are fully vested as soon as they enter the Plan. The City fully funds its obligation to the Plan.

NOTE 4 – EMPLOYEE RETIREMENT PLAN (concluded)

Pension Trust Fund Cash and Investments

Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers several mutual funds as investment options for participants. The Plan's investments are stated at fair value. Quoted market prices (level 1 inputs) are used to value investments. Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. The City employs ICMA-RC Services, LLC a subsidiary of International City Management Association Retirement Corporation as trustee for the assets.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

NOTE 5 - LEASES

The Airpark leases land, hangars, and hangar space at the airport to various individuals and businesses primarily through lease agreements with a term of one year. The terms of the leases include annual rate increases based on the consumer price index. Rental income under these leases amounted to \$311,451 for the year ended September 30, 2018.

The City, through its Cemetery fund, leases land to an unrelated third party at the Cemetery. The lease which began in March 2000 for a period of five years, includes ten additional five year extensions that automatically occur unless notification by one of the two parties. Terms of the lease stipulate original monthly payments of \$850 with a 15% increase every five years. Total amount received under the terms of the lease was \$15,513 for the year ended September 30, 2018.

NOTE 6 – COMMITMENTS

In February 2018, the City obtained a \$650,000 CDBG grant to provide rehabilitation to at least 9 low to middle income owner-occupied residential homes. The project was in the planning phase as of the end of the current fiscal year. Consequently, only \$30,254 in grant revenue was recognized during the year. The remaining balance of \$619,746 is expected to be realized in the following fiscal year.

In July 2017, the Airpark was awarded \$299,956 from the Federal Aviation Administration (FAA) and \$33,328 from the Florida Department of Transportation (FDOT) for the design phase of the taxiway A and B rehabilitation project. In May 2018, the FDOT awarded an additional \$77,800 for the design phase of this project. As of

NOTE 6 – COMMITMENTS (concluded)

September 30, 2018, the Airpark had \$76,980 in outstanding commitments on uncompleted contracts for the engineering services and design of the taxiway.

In August 2018, the Airpark was awarded \$3,913,839 from the FAA and \$761,128 from the FDOT for the construction phase of the taxiway A and B rehabilitation project. As of September 30, 2018, had \$521,485 in outstanding commitments on uncompleted contracts for the engineering services for the taxiway.

Pursuant to a joint participation agreement with the FDOT, in August 2018, the Authority was awarded a \$134,000 increase for a maximum of \$1,284,000 to fund a new terminal building project.

As of September 30, 2018, the Airpark had \$3,251 in outstanding commitments on uncompleted contracts for engineering services and design of the new terminal building. The entire amount is expected to be funded through grants awarded.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital Assets not being depreciated:				
Land	\$644,312	\$0	\$0	\$644,312
Construction in Progress	15,480	0	0	15,480
Total	<u>659,792</u>	<u>0</u>	<u>0</u>	<u>659,792</u>
Capital Assets being depreciated:				
Buildings and Improvements	5,289,518	0	0	5,289,518
Vehicles and Equipment	462,665	31,099	(3,363)	490,401
Infrastructure	8,558,031	35,358	0	8,593,389
Total	<u>14,310,214</u>	<u>66,457</u>	<u>(3,363)</u>	<u>14,373,308</u>
Less accumulated depreciation for:				
Buildings and Improvements	(3,029,924)	(266,007)	0	(3,295,931)
Vehicles and Equipment	(329,248)	(35,567)	3,177	(361,638)
Infrastructure	(5,874,707)	(314,045)	0	(6,188,752)
Total Accumulated Depreciation	<u>(9,233,879)</u>	<u>(615,619)</u>	<u>3,177</u>	<u>(9,846,321)</u>
Total Being Depreciated, Net	<u>5,076,335</u>	<u>(549,162)</u>	<u>(186)</u>	<u>4,526,987</u>
Total Capital Assets, net	<u>\$5,736,127</u>	<u>(\$549,162)</u>	<u>(\$186)</u>	<u>\$5,186,779</u>

NOTE 7 – CAPITAL ASSETS (continued)

Total Depreciation expense of \$615,619 was charged to government activities of the primary government as follows: general government \$22,119; transportation \$339,579; culture and recreation \$16,227; and physical environment \$237,694.

Capital asset activity for the business-type activities for the year ended September 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type activities:				
Capital assets not being depreciated:				
Land	<u>\$6,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$6,000</u>
Capital Assets being depreciated:				
Buildings and Improvements	74,412	0	0	74,412
Equipment	<u>44,007</u>	<u>0</u>	<u>0</u>	<u>44,007</u>
Total	<u>118,419</u>	<u>0</u>	<u>0</u>	<u>118,419</u>
Less Accumulated Depreciation for				
Buildings and Improvements	(64,873)	(2,301)	0	(67,174)
Equipment	<u>(28,583)</u>	<u>(4,188)</u>	<u>0</u>	<u>(32,771)</u>
	<u>(93,456)</u>	<u>(6,489)</u>	<u>0</u>	<u>(99,945)</u>
Total being depreciated, net	<u>24,963</u>	<u>(6,489)</u>	<u>0</u>	<u>18,474</u>
Total Capital Assets, Net	<u><u>\$30,963</u></u>	<u><u>(\$6,489)</u></u>	<u><u>\$0</u></u>	<u><u>\$24,474</u></u>

Total depreciation expense of \$6,489 was charged to the Cemetery.

NOTE 7 – CAPITAL ASSETS (concluded)

Capital asset activity for the Airpark for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Depreciated:				
Land	\$11,210	\$0	\$0	\$11,210
Construction in Progress	54,179	385,932	0	440,111
Total	65,389	385,932	0	451,321
Capital Assets Depreciated:				
Buildings and Improvements	11,952,675	177,788	0	12,130,463
Vehicles and Equipment	176,289	1,940	(8,290)	169,939
Total	12,128,964	179,728	(8,290)	12,300,402
Less Accumulated Depreciation:				
Buildings and Improvements	(5,622,135)	(434,481)	0	(6,056,616)
Vehicles and Equipment	(134,412)	(7,841)	8,290	(133,963)
Total	(5,756,547)	(442,322)	8,290	(6,190,579)
Total Capital Assets being Depreciated, net	6,372,417	(262,594)	0	6,109,823
Capital Assets, Net	\$6,437,806	\$123,338	\$0	\$6,561,144

NOTE 8 – LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
Revenue Bonds:					
Series 2011 (99 Refinanced)	\$140,000	\$0	(70,000)	\$70,000	\$70,000
Compensated Absences	16,588	3,450	0	20,038	2,500
Total Governmental Activities	\$156,588	\$3,450	(\$70,000)	\$90,038	\$72,500
Component Unit					
Total Component Unit	\$96,514	\$0	(\$20,572)	\$75,942	\$12,531

NOTE 8 – LONG-TERM DEBT (concluded)

A summary of the City’s long- term debt as of September 30, 2018 is as follows:

City of Keystone Heights – General Fund

Florida Municipal Loan Council Revenue Bonds, Series 2011
 In February, 2011, the Series 99 revenue bonds were refinanced primarily to reduce the effective interest rate. The bonds are due on April 1 of each year through 2019. The bonds are fully registered and bear interest payable semiannually on April 1 and October 1 of each year with an effective interest rate of 2.98%. \$70,000

Component Unit

Note payable to a bank, payable in monthly installments of \$517 including interest at 3.99%. This rate will be repriced again in 2018 and every 36 months thereafter at 2.6% over the Federal Home Loan Bank of Atlanta’s 36 month fixed rate credit index; secured by a security agreement and assignment of rents, final payment due in December 2029. \$56,324

Note Payable to a local bank, payable in monthly installments of \$766 including interest at 4.35%. This rate will be repriced in 2019 at a rate equal to 2.6% over the Federal Home Loan Bank of Atlanta 36 month fixed rate credit index; secured by an assignment of lease rents on hangars; final payment due December, 2020. 19,618

Total \$75,942

As of September 30, 2018, annual debt service requirements to maturity for the outstanding long-term obligations above as follows:

Year	Governmental Activities		Component Unit	
	Principal	Interest	Principal	Interest
2019	\$70,000	\$2,086	\$12,531	\$2,860
2020	0	0	13,071	2,319
2021	0	0	6,621	1,856
2022	0	0	4,548	1,662
2023	0	0	4,733	1,477
2024-2028	0	0	26,710	4,339
2029-2033	0	0	7,728	212
Total	<u>\$70,000</u>	<u>\$2,086</u>	<u>\$75,942</u>	<u>\$14,725</u>

NOTE 9 – CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state 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(s) cannot be determined at this time although the City expects amounts, if any, to be immaterial.

The Airpark, the component unit of the City of Keystone Heights, is engaged in legal proceedings incidental to its normal business activities. While any litigation contains an element of uncertainty, it is of the opinion of management that the ultimate resolution of this matter will not have a materially adverse effect on the Airpark's financial position or results of operations.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. Insurance against losses are provided through the Florida League of Cities, Inc. for the following types of risk: (1) workers compensation and employer liability, (2) general liability and automotive liability, (3) real and personal property damage, and (4) automobile physical damage. The City's coverage for workers compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to date of the City's experience for this type of risk. Commercial insurance has also been purchased by the City to cover the risks of loss due to employee errors or omissions and for health insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 11 – JOINT OPERATION

On November 19, 2002, the City entered into an interlocal agreement with the Clay County Utility Authority (CCUA). The agreement is for providing cost efficient water, wastewater and reclaimed water service to existing and potential customers within and outside the corporate limits of the City (the Keystone Heights Area System, hereafter referred to as the System). The interlocal agreement provides that the City and CCUA will jointly own certain portions of the System that are acquired or constructed for a term of twenty years, after which sole ownership will revert to CCUA. Under the terms of the agreement, the City's contribution consists of providing access to grant funding and other lending sources to facilitate construction of the wastewater facilities and other limited customer service to be provided. In return for such assistance, the City is entitled to a 5% fee on water and wastewater revenues generated within the city limits. Total amount recognized for the year was \$12,458, as a result of this agreement.

NOTE 12 – SUBSEQUENT EVENTS

The City and the component unit, the Airpark, have evaluated subsequent events and transactions through March 21, 2019, the date the financial statements were made available. The following subsequent event was identified.

In November 2016, the Airpark was awarded \$420,750 from the FDOT for the construction of a new hangar building. In October 2018, the Authority signed a \$65,378 contract for engineering services, including the design and permitting of the new hangar building.

In October 2018, the Airpark signed a \$3,703,011 agreement for construction services of the Taxiway A&B project.

In January 2019, the Airpark signed a \$1,236,232 agreement for the construction services of the new terminal building.

In February 2019, the Airpark obtained a line of credit with a maximum balance of \$750,000 from a local financial institution. The line of credit is to provide bridge financing for a portion of the costs of constructing and equipping the new terminal building, the taxiway A&B rehabilitation project, and the new hangar building. As of March 21, 2019, the Airpark had not accessed the line of credit.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes	742,686	742,686	775,591	32,905
Licenses and Permits	5,700	5,700	7,422	1,722
Intergovernmental Programs	854,709	854,709	239,011	(615,698)
Charges for Services	3,700	3,700	2,148	(1,552)
Fines and Forfeitures	300	300	327	27
Miscellaneous Revenue	1,750	1,750	18,029	16,279
Interfund Charges	14,430	14,430	31,842	17,412
Total Revenues	<u>1,623,275</u>	<u>1,623,275</u>	<u>1,074,370</u>	<u>(548,905)</u>
Expenditures				
Current:				
General Government	428,267	429,367	388,026	41,341
Public Safety	23,213	23,213	2,580	20,633
Transportation	179,802	179,802	194,129	(14,326)
Economic Environment	650,000	650,000	33,953	616,047
Human Services	6,000	6,000	4,994	1,006
Culture and Recreation	55,500	55,500	27,041	28,459
Capital Outlay:				
General Government	4,000	4,000	5,235	(1,235)
Transportation	208,281	208,281	72,956	135,325
Culture and Recreation	0	0	1,250	(1,250)
Debt Service:				
Transportation	74,983	74,983	74,532	451
Total Expenditures	<u>1,630,046</u>	<u>1,631,146</u>	<u>804,696</u>	<u>826,450</u>
Revenues Over (Under) Expenditures	<u>(6,771)</u>	<u>(7,871)</u>	<u>269,674</u>	<u>277,545</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(12,000)</u>	<u>(25,375)</u>	<u>(25,375)</u>	<u>0</u>
Total Other Financing Sources	<u>(12,000)</u>	<u>(25,375)</u>	<u>(25,375)</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	(18,771)	(33,246)	244,299	277,545
Fund Balance, Beginning of Year	<u>1,041,302</u>	<u>1,041,302</u>	<u>1,041,302</u>	
Fund Balance, End of Year	<u>\$1,022,531</u>	<u>\$1,008,056</u>	<u>\$1,285,601</u>	

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL - KEYSTONE HEIGHTS COMMUNITY
 REDEVELOPMENT AGENCY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
County	\$30,007	\$50,007	\$49,934	(\$73)
Investment revenue	100	100	93	(7)
Miscellaneous Revenue	0	0	10,000	10,000
Total Revenues	<u>30,107</u>	<u>50,107</u>	<u>60,027</u>	<u>9,920</u>
Expenditures				
Current	33,140	28,140	20,724	29,598
Capital Outlay	18,975	53,975	5,346	48,629
Total Expenditures	<u>52,115</u>	<u>82,115</u>	<u>26,070</u>	<u>78,227</u>
Revenues Over (Under) Expenditures	<u>(22,008)</u>	<u>(32,008)</u>	<u>33,957</u>	<u>88,147</u>
Other Financing Sources (Uses)				
Transfers In	14,765	25,375	25,375	0
Total Other Financing Sources	<u>14,765</u>	<u>25,375</u>	<u>25,375</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	<u>(7,243)</u>	<u>(6,633)</u>	<u>59,332</u>	<u>88,147</u>
Fund Balance, Beginning of Year	<u>23,024</u>	<u>23,024</u>	<u>23,024</u>	
Fund Balance, End of Year	<u>\$15,781</u>	<u>\$16,391</u>	<u>\$82,356</u>	

See accompanying notes to the financial statements.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, AND
THE RULES OF THE AUDITOR GENERAL**

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and the City Council
City of Keystone Heights, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Keystone Heights, Florida, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Keystone Heights, Florida's basic financial statements, and have issued our report thereon dated March 21, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in internal control that we consider to be a material weakness.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Keystone Heights, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Reddish & White, CPAs

Starke, Florida
March 21, 2019

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

To the Honorable Mayor and the
City Council
City of Keystone Heights, Florida

We have examined the City of Keystone Heights, Florida's compliance with the requirements of Section 218.415, Florida Statutes during the fiscal year ended September 30, 2018. Management is responsible for City of Keystone Heights, Florida's compliance with those requirements. Our responsibility is to express an opinion on the City of Keystone Heights, Florida's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about City of Keystone Heights, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Keystone Heights, Florida's compliance with specified requirements.

In our opinion, City of Keystone Heights, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

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

Reddish & White, CPAs

Starke, Florida
March 21, 2019

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and the City Council
City of Keystone Heights, Florida
Keystone Heights, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Keystone Heights, Florida, as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated March 21, 2019.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's 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 Auditor General. Disclosures in those reports which are dated March 21, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective

actions have been taken to address findings and recommendations in the preceding financial report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information is disclosed in note 1 in the notes to the financial statements.

Financial Condition and Management

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

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

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

Special District Component Units

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes.

In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39 (3) (b), Florida Statutes.

Additional Matters

Section 10.554(1)(e)3., Rules of the Auditor General, requires us to communicate 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 House of Representatives, the Florida Auditor General, and granting agencies, the city council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Reddish & White, CPA's

Starke, Florida
March 21, 2019

REDDISH & WHITE

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Communication with Those Charged with Governance

March 21, 2019

To the Honorable Mayor and the City Council
City of Keystone Heights
Keystone Heights, Florida

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Keystone Heights, Florida as of and for the year ended September 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 16, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Keystone Heights are described in note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The most sensitive estimate affecting the City of Keystone Heights's financial statements was:

Management's estimate of the useful lives of the fixed assets is based on historical data. We evaluated the key factors and assumptions used to develop the useful lives of the fixed assets in determining that is reasonable in relation to the financial statements taken as a whole.

The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements which were primarily to convert your accounting records from the cash basis to the accrual basis.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that

the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the government unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

This information is intended solely for the use of the council members and management of the City of Keystone Heights, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Reddish & White CPAs