

**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, 2019

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, 2019, 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, 2019, 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 9, 2020, 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 9, 2020

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, 2019. 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 \$6,688,284 (net position) for the fiscal year reported. The reduction from the prior year of \$206,024 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 \$5,049,302, includes 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 \$942,442 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$696,540 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 \$1,296,577 this year. This compares to the prior year ending fund balance of \$1,367,957 a decrease of \$71,380 during the current year. This includes a \$50,000 transfer to the Cemetery fund for development costs.
- 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 \$6,688,284. The following table provides a summary of the City's net position:

	Governmental Activities		Business-type Activities		Total		2019% of Total
	2019	2018	2019	2018	2019	2018	
Assets							
Current assets	\$ 1,333,690	\$ 1,378,706	\$ 379,931	\$ 333,493	\$ 1,713,621	\$ 1,712,199	25%
Capital assets	4,999,775	5,186,779	49,527	24,474	5,049,302	5,211,253	75%
Total assets	6,333,465	6,565,485	429,458	357,967	6,762,923	6,923,452	100%
Deferred Outflow of Resources	-	1,128	-	-	-	1,128	100%
Liabilities							
Current liabilities	41,613	83,248	977	146	42,590	83,394	57%
Long-term liabilities	32,049	17,538	-	-	32,049	17,538	43%
Total liabilities	73,662	100,786	977	146	74,639	100,932	100%
Net position							
Invested in capital assets, net of debt	4,999,775	5,076,703	49,527	24,474	5,049,302	5,101,177	76%
Restricted	662,182	534,468	280,260	270,703	942,442	805,171	14%
Unrestricted	597,846	854,656	98,694	62,644	696,540	917,300	10%
Total Net Position	\$ 6,259,803	\$ 6,465,827	\$ 428,481	\$ 357,821	\$ 6,688,284	\$ 6,823,648	100%

The City continues to maintain a very high current ratio for both the governmental activities and for the business-type activities. The current ratio compares current assets to current liabilities and is an indication of the City's ability to pay its current obligations.

Net position decreased \$206,024 for governmental activities due mainly to depreciation of capital assets. The City's overall financial position decreased approximately 2.0% during the fiscal year 2019 which was about the same as last 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program:						
Charges for services	\$ 12,730	\$ 9,897	\$ 38,068	\$ 42,823	\$ 50,798	\$ 52,720
Grants	237,798	154,400	-	-	237,798	154,400
General:						
Taxes	922,263	851,792	-	-	922,263	851,792
Other State-shared	59,753	58,343	-	-	59,753	58,343
Other	79,083	59,778	2,602	1,234	81,685	61,012
Total revenues	<u>1,311,627</u>	<u>1,134,210</u>	<u>40,670</u>	<u>44,057</u>	<u>1,352,297</u>	<u>1,178,267</u>
Program Expenses:						
General government	388,133	346,727	-	-	388,133	346,727
Public safety	12,898	2,580	-	-	12,898	2,580
Physical environment	237,694	237,694	-	-	237,694	237,694
Transportation	641,954	617,738	-	-	641,954	617,738
Economic environment	130,395	60,023	-	-	130,395	60,023
Human services	5,051	4,994	-	-	5,051	4,994
Culture and recreation	49,440	41,518	-	-	49,440	41,518
Interest	2,086	4,352	-	-	2,086	4,352
Cemetery	-	-	20,010	22,796	20,010	22,796
Total expenses	<u>1,467,651</u>	<u>1,315,626</u>	<u>20,010</u>	<u>22,796</u>	<u>1,487,661</u>	<u>1,338,422</u>
Transfers	(50,000)	-	50,000	-	-	-
Excess (deficiency)	(206,024)	(181,416)	70,660	21,261	(135,364)	(160,155)
Beginning 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>
Ending net position	<u>\$ 6,259,803</u>	<u>\$ 6,465,827</u>	<u>\$ 428,481</u>	<u>\$ 357,821</u>	<u>\$ 6,688,284</u>	<u>\$ 6,823,648</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 \$246,140 of the City's total governmental revenues as compared to \$231,673 in fiscal year 2018. Franchise fees and utility taxes provided \$227,664 of the City's total governmental revenues as compared to 216,508 in fiscal year 2018. Property taxes provided \$261,273 of the City's total governmental revenues as compared to 233,142 in fiscal year 2019. 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	
	2019	2018	2019	2018
General government	\$ 388,133	\$ 346,727	\$ (377,093)	\$ (338,486)
Public safety	12,898	2,580	(12,609)	(2,253)
Physical environment	237,694	237,694	(237,694)	(237,694)
Transportation	641,954	617,738	(513,207)	(493,592)
Economic environment	130,395	60,023	(21,344)	(29,769)
Human services	5,051	4,994	(5,051)	(4,994)
Culture and recreation	49,440	41,518	(48,039)	(40,189)
Interest	2,086	4,352	(2,086)	(4,352)
Total	\$ 1,467,651	\$ 1,315,626	\$ (1,217,123)	\$ (1,151,329)

BUSINESS-TYPE ACTIVITIES

The City operated one enterprise fund, the cemetery fund.

Cemetery Fund – In fiscal 2019, cemetery lot sales (net of commissions) were down \$4,755 or over 17% from fiscal year 2018. As a result, the Cemetery fund reported operating income of \$18,058, a decrease of \$1,969 from the prior year. The Cemetery fund also received a \$50,000 transfer from the General fund to further develop the cemetery. As a result, this fund reported \$428,481 in net position, or an increase of over 20% 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, 2019, the general fund reported ending fund balance of \$1,196,525 or a decrease of \$89,076 from last year. This decrease was due primarily to the \$50,000 transfer to the Cemetery fund and for significant capital outlays. The unrestricted amount of \$634,395 is available for continuing City service requirements.

Revenues – Overall, total revenues increased approximately \$182,900 from the prior year, primarily due to the increase in tax revenues of approximately \$70,000, and CDBG grant revenues of approximately \$78,000.

Expenditures – Overall, total expenditures increased approximately \$472,000 from the prior year primarily due to increases in capital outlay in the transportation department of over \$309,000 and increase in the CDBG grant related expenditures of over \$75,000.

General government expenditures increased approximately \$68,000 due primarily to an increase in operating expenses of \$46,000, an increase in legal fees of over \$7,000 and by an increase in personnel costs of over \$9,000.

Transportation expenditures decreased by approximately \$307,000 primarily due to the decrease in capital related expenditures of \$309,000.

Economic environment expenditures increased by over \$75,000 due to the ongoing CDBG grant.

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

Transfers Out – In addition to the recurring transfer to the CRA fund of \$19,626, the General fund also transferred \$50,000 to the Cemetery fund.

As a result, the General Fund's ending fund balance decreased \$89,076 from the September 30, 2018 balance. This decrease was not as much as the final budgeted loss of over \$230,000.

Budgetary Highlights – General Fund

Budget Amendments - The budget was amended during the current fiscal year primarily to increase numerous revenue line items totaling over \$101,000 offset by net increases in expenditures of over \$234,000 and transfers of \$50,000 .

Revenues - The City realized only 72% of its final total budgeted revenues for the year as only \$109,000 of the \$650,000 CDBG funds were realized during the year. Without including the CDBG grant, the City realized over 104% of its budgeted revenues.

Expenditures – Overall, the City spent less than 67% of its final total budgeted expenditures. This was due primarily to \$127,000 in transportation capital outlay costs that were budgeted but did not occur and approximately \$511,000 in CDBG grant expenditures budgeted but not expended.

The general government department reflected a favorable budget of over \$18,000 as the personal services sector budget was over \$8,400 compared to actual, the operating expenditures budgeted were over \$12,800 compared to actual. These were offset in part, due to the legal fees as they were over \$7,000 than budgeted.

The transportation department reflected a favorable budget variance of over \$81,000. This was due primarily to the favorable outcome in the capital outlay costs of over \$127,000 and personal services of \$over \$15,000, offset by an unfavorable outcome in the debt services of approximately \$72,000.

The economic development represents the CDBG grant activity. The City typically budgets the whole grant amount of \$650,000 even though the actual expenditures of \$109,051 are often quite less.

All of the other departments 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, 2019, was \$4,999,775 and \$49,527, respectively. There was a 4% decrease for governmental activities and a 100% increase for business-type activities. Overall, there was a decrease of 3% for the City as a whole. See Note 7 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	
	2019	2018	2019	2018	2019	2018
Nondepreciable assets:						
Land	\$ 644,312	\$ 644,312	\$ 6,000	\$ 6,000	\$ 650,312	\$ 650,312
Construction in progress	-	15,480	29,365	-	29,365	15,480
Total nondepreciable	644,312	659,792	35,365	6,000	679,677	665,792
Depreciable assets:						
Buildings and improvements	5,558,063	5,289,518	74,412	74,412	5,632,475	5,363,930
Vehicles and equipment	519,458	490,401	44,007	44,007	563,465	534,408
Infrastructure	8,649,625	8,593,390	-	-	8,649,625	8,593,390
Total depreciable assets	14,727,146	14,373,309	118,419	118,419	14,845,565	14,491,728
Less accumulated depreciation	10,371,683	9,846,322	104,257	99,945	10,475,940	9,946,267
Book value - depreciable assets	4,355,463	4,526,987	14,162	18,474	4,369,625	4,545,461
Percentage depreciated	70%	69%	88%	84%	71%	69%
Book value - all assets	<u>\$ 4,999,775</u>	<u>\$ 5,186,779</u>	<u>\$ 49,527</u>	<u>\$ 24,474</u>	<u>\$ 5,049,302</u>	<u>\$ 5,211,253</u>

At September 30, 2019, the depreciable capital assets for governmental activities were 70% depreciated. This compares to 69% at the September 30, 2018. 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 70% depreciated at September 30, 2019. 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.

With the City's business type activities, the percentage of capital assets depreciated increased to 88%, as no depreciable additions were made during the year. However, there was \$29,365 in costs capitalized as construction in progress related to the development of the cemetery.

Long-term Debt

During the current fiscal year, the City made their final payment on the revenue bonds.

The amount of long-term debt outstanding at September 30, 2019 and 2018 is as follows:

Outstanding Long-term Debt

	<u>Governmental Activities</u>		
	<u>September 30,</u>		<u>%</u>
	<u>2019</u>	<u>2018</u>	
Revenue bonds	\$ -	\$ 70,000	-100%
Compensated absences	<u>36,549</u>	<u>20,038</u>	82%
Total	<u>\$ 36,549</u>	<u>\$ 90,038</u>	-59%

In this fiscal year, compensated absences increased primarily due to the stabilization of the workforce. 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 2.8 %, up from 2.7% 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, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airpark Authority
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$391,595	\$89,262	\$480,857	\$99,799
Investments in Time Certificates of Deposits	233,798	0	233,798	4,275
Accounts Receivable, Net	13,014	0	13,014	2,043,218
Inventory	0	10,409	10,409	43,232
Due from Other Governments	32,164	0	32,164	0
Restricted Assets				
Cash and Cash Equivalents	318,388	82,520	400,908	49,463
Investments in Time Certificates of Deposits	275,815	197,740	473,555	0
Due from Other Governments	68,916	0	68,916	730,212
Total Current Assets	<u>1,333,690</u>	<u>379,931</u>	<u>1,713,621</u>	<u>2,970,199</u>
Capital Assets	<u>4,999,775</u>	<u>49,527</u>	<u>5,049,302</u>	<u>9,484,824</u>
Other Assets				
Timber	0	0	0	86,999
TOTAL ASSETS	<u><u>\$6,333,465</u></u>	<u><u>\$429,458</u></u>	<u><u>\$6,762,923</u></u>	<u><u>\$12,542,022</u></u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized Loan Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,317</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$6,333,465</u></u>	<u><u>\$429,458</u></u>	<u><u>\$6,762,923</u></u>	<u><u>\$12,548,339</u></u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$17,549	\$977	\$18,526	\$1,084,584
Accounts Payable - Restricted	19,564	0	19,564	696,385
Deposits	0	0	0	9,220
Long Term Obligations, Current Portion	<u>4,500</u>	<u>0</u>	<u>4,500</u>	<u>13,163</u>
Total Current Liabilities	<u>41,613</u>	<u>977</u>	<u>42,590</u>	<u>1,803,352</u>
Long Term Obligations, Noncurrent Portion	<u>32,049</u>	<u>0</u>	<u>32,049</u>	<u>48,182</u>
TOTAL LIABILITIES	<u><u>73,662</u></u>	<u><u>977</u></u>	<u><u>74,639</u></u>	<u><u>1,851,534</u></u>
NET POSITION				
Net Invested in Capital Assets	4,999,775	49,527	5,049,302	9,429,796
Restricted for:				
Perpetual Care	0	280,260	280,260	0
Economic Development	22,875	0	22,875	0
Infrastructure	539,255	0	539,255	0
Community Redevelopment	100,052	0	100,052	0
Capital Projects	0	0	0	83,290
Unrestricted	<u>597,846</u>	<u>98,694</u>	<u>696,540</u>	<u>1,183,719</u>
TOTAL NET POSITION	<u><u>\$6,259,803</u></u>	<u><u>\$428,481</u></u>	<u><u>\$6,688,284</u></u>	<u><u>\$10,696,805</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets			Component Unit Airpark Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Functions/Programs								
Government Activities:								
General Government	\$388,133	\$11,040	\$0	\$0	(\$377,093)	\$0	(\$377,093)	
Public Safety	12,898	289	0	0	(12,609)	0	(12,609)	
Physical Environment	237,694	0	0	0	(237,694)	0	(237,694)	
Transportation	641,954	0	74,868	53,879	(513,207)	0	(513,207)	
Economic Environment	130,395	0	0	109,051	(21,344)	0	(21,344)	
Human Services	5,051	0	0	0	(5,051)	0	(5,051)	
Culture and Recreation	49,440	1,401	0	0	(48,039)	0	(48,039)	
Interest on Long-term Debt	2,086	0	0	0	(2,086)	0	(2,086)	
Total Governmental Activities	<u>1,467,651</u>	<u>12,730</u>	<u>74,868</u>	<u>162,930</u>	<u>(1,217,123)</u>	<u>0</u>	<u>(1,217,123)</u>	
Business-type Activities:								
Cemetery	20,010	38,068	0	0	0	18,058	18,058	
Total Business-type Activities	<u>20,010</u>	<u>38,068</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,058</u>	<u>18,058</u>	
Total Primary Government	<u>1,487,661</u>	<u>50,798</u>	<u>74,868</u>	<u>162,930</u>	<u>(1,217,123)</u>	<u>18,058</u>	<u>(1,199,065)</u>	
Component Unit								
Airpark Authority	<u>\$1,644,754</u>	<u>\$768,671</u>	<u>\$0</u>	<u>\$3,369,380</u>				<u>\$2,493,297</u>
General Revenues:								
Taxes:								
Property					261,273	0	261,273	0
Discretionary Sales Surtax					246,140	0	246,140	0
Franchise Fees and Utility Taxes					227,664	0	227,664	0
Half Cent Sales Tax					76,869	0	76,869	0
Local Option Gas Tax					110,317	0	110,317	0
State Revenue Sharing					59,753	0	59,753	0
Investment Income					12,000	2,602	14,602	364
Settlement Award					0	0	0	2,041,080
Miscellaneous					67,083	0	67,083	0
Total General Revenues					<u>1,061,099</u>	<u>2,602</u>	<u>1,063,701</u>	<u>2,041,444</u>
Transfers					(50,000)	50,000	0	0
Change in Net Assets					(206,024)	70,660	(135,364)	4,534,741
Net Position, Beginning of Year					<u>6,465,827</u>	<u>357,821</u>	<u>6,823,648</u>	<u>6,162,064</u>
Net Position, Ending of Year					<u>\$6,259,803</u>	<u>\$428,481</u>	<u>\$6,688,284</u>	<u>\$10,696,805</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2019

	General Fund	Other Governmental Fund	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$391,595	\$0	\$391,595
Cash and Cash Equivalents - Restricted	236,962	81,426	318,388
Investments	233,798	0	233,798
Investments - Restricted	275,815	0	275,815
Accounts Receivable, Net	13,014	0	13,014
Due from Other Governments	32,164	0	32,164
Due from Other Governments - Restricted	68,916	0	68,916
Total Assets	\$1,252,265	\$81,426	\$1,333,691
Liabilities and Fund Balances			
Liabilities			
Current Liabilities			
Accounts Payable	14,679	1,000	15,679
Accounts Payable - Restricted	19,564	0	19,564
Due to Other Funds	19,626	(19,626)	(0)
Accrued Expenses	1,870	0	1,870
Total Liabilities	55,739	(18,626)	37,113
FUND BALANCES			
Restricted	562,130	100,052	662,182
Assigned	84,232	0	84,232
Unassigned	550,163	0	550,163
Total Fund Balances	1,196,525	100,052	1,296,577
Total Liabilities and Fund Balances	\$1,252,264	\$81,426	\$1,333,690

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, 2019

Total Fund Balance - Total Governmental Funds	\$1,296,577
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$15,371,459, net of accumulated depreciation of \$10,371,684, are not financial resources and, therefore, are not reported in the funds.	4,999,775
Long-term liabilities are not due and payable in the current period and accordingly, are not reported in the governmental funds.	<u>(36,549)</u>
Total Net Position of Governmental Activities	<u><u>\$6,259,803</u></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, 2019

	General Fund	Other Governmental Fund	Total
Revenues			
Taxes	\$845,394	\$0	\$845,394
Licenses and Permits	9,155	0	9,155
Intergovernmental Programs	320,541	53,879	374,420
Charges for Services	3,286	0	3,286
Fines and Forfeitures	289	0	289
Miscellaneous Revenue	57,796	478	58,274
Interfund Charges	20,809	0	20,809
Total Revenues	1,257,270	54,357	1,311,627
Expenditures			
Current:			
General Government	456,249	0	456,249
Public Safety	12,898	0	12,898
Transportation	197,167	0	197,167
Economic Environment	109,051	20,982	130,033
Human Services	5,051	0	5,051
Culture and Recreation	36,287	0	36,287
Capital Outlay:			
General Government	5,235	0	5,235
Transportation	382,696	0	382,696
Economic Environment	0	35,305	35,305
Debt Service:			
Transportation	72,086	0	72,086
Total Expenditures	1,276,720	56,287	1,333,007
Revenues Over (Under) Expenditures	(19,450)	(1,930)	(21,380)
Other Financing Sources (Uses)			
Transfers In (Out)	(69,626)	19,626	(50,000)
Total Other Financing Sources	(69,626)	19,626	(50,000)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	(89,076)	17,696	(71,380)
Fund Balance, Beginning of Year	1,285,601	82,356	1,367,957
Fund Balance, End of Year	\$1,196,525	\$100,052	\$1,296,577

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, 2019

Net Change in Fund Balances - Total Governmental Funds (\$71,378)

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 \$627,656 exceeds net capital outlays of \$440,649. (187,007)

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 \$1,128, on bond refinance costs of \$18,378 incurred in the prior year (1,128)

Compensated absences are recorded recorded when paid in the governmental funds. This is the amount the compensated absences increased during the year (16,511)

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. 70,000

Change in Net Position of Governmental Activities (\$206,024)

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF NET POSITION - PROPRIETARY FUND SEPTEMBER 30, 2019

Assets

Current Assets

Cash and Cash Equivalents	\$89,262
Cash and Cash Equivalents - Restricted	82,520
Investments - Restricted	197,740
Inventory	10,409
Total Current Assets	<u>379,931</u>

Capital Assets, Net of

Accumulated Depreciation	<u>49,527</u>
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Total Assets	<u><u>\$429,458</u></u>
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Liabilities and Net Position

Liabilities

Current Liabilities

Accounts Payable	<u>\$977</u>
Total Current Liabilities	<u>977</u>

Net Position

Net Investment in Capital Assets	49,527
Restricted for Perpetual Care	280,260
Unrestricted	98,694
Total Net Position	<u>428,481</u>

Total Liabilities and Net Position	<u><u>\$429,458</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, 2019

Operating Revenues	
Charges for Services	
Cemetery Lot Sales (Net of Commissions of \$3,990)	\$22,555
Rental Income	15,513
Total Operating Revenues	<u>38,068</u>
Operating Expenses	
Administrative Expense	4,831
Depreciation	4,312
Accounting and Auditing	2,575
Cost of Cemetery Lots Sold	1,031
Utilities	1,155
Computer Training and Support	1,975
Legal Fees	1,909
Supplies	757
Repairs and Maintenance	1,465
Total Operating Expenses	<u>20,010</u>
Operating Income (Loss)	<u>18,058</u>
Nonoperating Revenues and Expense	
Investment Income	<u>2,602</u>
Total Nonoperating Revenues and Expenses	<u>2,602</u>
Transfers In - General Fund	50,000
Increase (Decrease) in Net Position	70,660
Net Position, Beginning of Year	<u>357,821</u>
Net Position, End of Year	<u>\$428,481</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, 2019

Cash Flows from Operating Activities	
Receipts from Customers	\$38,068
Payments to Suppliers of Goods and Services	(9,005)
Payments for Interfund Personnel Services	(8,301)
Net Cash Provided (Used) by Operating Activities	<u>20,762</u>
Cash Flows from Capital and Related Financing Activities	
Transfers from General Fund	50,000
Purchase of Capital Assets	(29,365)
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>20,635</u>
Cash Flows from Investing Activities	
Increase in Investments	(1,882)
Interest Received	2,602
Net Cash Provided by (Used) by Investing Activities	<u>720</u>
Net Increase (Decrease) in Cash and Cash Equivalents	42,117
Cash and Cash Equivalents, Beginning of Year	<u>129,665</u>
Cash and Cash Equivalents, End of Year	<u><u>\$171,782</u></u>
Cash and Cash Equivalents, Unrestricted	\$89,262
Cash and Cash Equivalents, Restricted	82,520
	<u><u>\$171,782</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$18,058
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	4,312
Change in Current Assets and Current Liabilities	
Inventory	1,031
Accounts Payable	831
Due to Other Funds	(3,470)
Net Cash Provided (Used) By Operating Activities	<u><u>\$20,762</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA
EMPLOYEE PENSION FUND
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019

Assets	
Investments	\$144,675
Contribution Receivable	<u>88</u>
Total Assets	<u><u>\$144,763</u></u>
Liabilities and Net Position	
Due to Other Employee Retirement Fund	<u>\$886</u>
Net Position	
Held in Trust for Pension Benefits	<u>143,877</u>
Total Net Position	<u><u>\$143,877</u></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, 2019

Additions	
Contributions:	
Employer	\$8,744
Employees	8,744
Net Investment Income (loss)	<u>1,719</u>
Total Additions	<u>19,207</u>
Deductions	
Benefit Payments	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Position	<u>19,207</u>
Net Position Held in Trust for Pension Benefits, Beginning of Year	<u>124,670</u>
Net Position Held in Trust for Pension Benefits, End of Year	<u><u>\$143,877</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

Notes to the Financial Statements
For the Year Ended September 30, 2019

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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

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

Interfund Receivables and Payables and Transfers

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. The \$50,000 transfer from the General Fund to the Cemetery Fund was to assist in the funding of the improvements to the cemetery.

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 and timber of the component unit is valued at the lower of cost or market. The timber is classified as an other asset.

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	15 - 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 obligations 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, 2019 represents \$539,255 restricted (by enabling legislation) for infrastructure improvements including the repayment of any related outstanding debt,

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

\$22,875 restricted for economic development, and \$100,052 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 \$84,232 as of September 30, 2019 is comprised of \$41,835 assigned for the recapitalization plan and \$42,397 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.

Deferred Outflows of Resources

The deferred outflows of resources of the component unit represents unamortized closing costs related to the line of credit obtained during the current fiscal year.

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.

Subsequent Events

The City has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 9, 2020, the date the financial statements were made available. See note 11 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 \$8,744. 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 \$320,030 for the year ended September 30, 2019.

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, 2019.

NOTE 6 – COMMITMENTS AND 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.

As of March 9, 2020, for the Airpark, there were questioned costs of \$152,446 for the major federal program and \$17,638 for the major state project. The Airpark expects the amount of expenditures which may be disallowed by the grantor(s) to be immaterial to the financial statements.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (continued)

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. As of September 30, 2019, the City has \$510,695 remaining on the grant agreement.

As of September 30, 2019, the City had \$189,411 and \$47,238 in outstanding commitments on uncompleted contracts for infrastructure and for engineering services related to the trailhead project, respectively.

In May, 2019, the City was awarded a \$46,000 matching grant from the Florida Department of Environmental Protection for the rails to trails trailhead project. As of September 30, 2019, the grant award had \$46,000 remaining.

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, 2019, the Airpark had outstanding commitments on uncompleted contracts amounting to \$1,639,637 for the engineering services and construction of the taxiway.

Pursuant to a joint participation agreement with the FDOT, in August 2019, the Airpark was awarded a \$217,860 increase for a maximum of \$1,501,860 to fund a new terminal building project.

As of September 30, 2019, the Airpark had outstanding commitments on uncompleted contracts amounting to \$647,373 for the construction of the new terminal building. The entire committed amount is expected to be reimbursed to the Airpark through grants awarded.

In November 2016, the Airpark was awarded \$420,750 from the FDOT for the design and construction of a new hangar building.

As of September 30, 2019, the Airpark had outstanding commitments on uncompleted contracts amounting to \$6,114 for the design services of the hangar building.

In April 2018, the Airpark was awarded \$200,000 from the FDOT for the design and construction of airport security upgrades.

As of September 30, 2019, the Airpark had outstanding commitments on uncompleted contracts amounting to \$65,719 for the engineering services of the security upgrade project.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (concluded)

During the current fiscal year, an ongoing litigation with a contractor was settled. As a result, the Airpark was awarded \$3,182,262 plus reimbursement of related legal fees incurred. In October 2019, the Airpark received \$1,128,691 plus \$912,388 in related legal costs. As of March 9, 2020, the remaining amount awarded has still not been received. Due to the uncertainty of collection of the remaining \$2,053,571, the amount has not been recognized in the accompanying financial statements.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2019 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	(15,480)	0
Total	<u>659,792</u>	<u>0</u>	<u>(15,480)</u>	<u>644,312</u>
Capital Assets being depreciated:				
Buildings and Improvements	5,289,518	268,545	0	5,558,063
Vehicles and Equipment	490,401	138,684	(109,627)	519,458
Infrastructure	8,593,389	56,236	0	8,649,625
Total	<u>14,373,308</u>	<u>463,465</u>	<u>(109,627)</u>	<u>14,727,146</u>
Less accumulated depreciation for:				
Buildings and Improvements	(3,295,931)	(270,835)	0	(3,566,766)
Vehicles and Equipment	(361,638)	(39,723)	102,294	(299,067)
Infrastructure	(6,188,752)	(317,098)	0	(6,505,850)
Total Accumulated Depreciation	<u>(9,846,321)</u>	<u>(627,656)</u>	<u>102,294</u>	<u>(10,371,683)</u>
Total Being Depreciated, Net	<u>4,526,987</u>	<u>(164,191)</u>	<u>(7,333)</u>	<u>4,355,463</u>
Total Capital Assets, net	<u>\$5,186,779</u>	<u>(\$164,191)</u>	<u>(\$22,813)</u>	<u>\$4,999,775</u>

Total Depreciation expense of \$627,656 was charged to government activities of the primary government as follows: general government \$18,759; transportation \$353,682; culture and recreation \$17,521; and physical environment \$237,694.

NOTE 7 CAPITAL ASSETS – (continued)

Capital asset activity for the business-type activities for the year ended September 30, 2019 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	\$6,000	\$0	\$0	\$6,000
Construction in Progress	0	29,365	0	29,365
	<u>6,000</u>	<u>29,365</u>	<u>0</u>	<u>35,365</u>
Capital Assets being depreciated:				
Buildings and Improvements	74,412	0	0	74,412
Equipment	44,007	0	0	44,007
Total	<u>118,419</u>	<u>0</u>	<u>0</u>	<u>118,419</u>
Less Accumulated Depreciation for				
Buildings and Improvements	(67,174)	(1,179)		(68,353)
Equipment	<u>(32,771)</u>	<u>(3,133)</u>		<u>(35,904)</u>
	<u>(99,945)</u>	<u>(4,312)</u>	<u>0</u>	<u>(104,257)</u>
Capital Assets being depreciated, net	<u>18,474</u>	<u>(4,312)</u>	<u>0</u>	<u>14,162</u>
Total Capital Assets, Net	<u><u>\$24,474</u></u>	<u><u>\$25,053</u></u>	<u><u>\$0</u></u>	<u><u>\$49,527</u></u>

For the year ended September 30, 2019, \$4,312 in depreciation expense was incurred.

NOTE 7 – CAPITAL ASSETS (concluded)

Capital asset activity for the Airpark for the year ended September 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Depreciated:				
Land	\$11,210	\$0	\$0	\$11,210
Construction in Progress	440,111	3,369,380	0	3,809,491
Total	451,321	3,369,380	0	3,820,701
Capital Assets Depreciated:				
Buildings and Improvements	12,130,463	0	0	12,130,463
Vehicles and Equipment	169,939	2,561	0	172,500
Total	12,300,402	2,561	0	12,302,963
Less Accumulated Depreciation:				
Buildings and Improvements	(6,056,616)	(439,926)	0	(6,496,542)
Vehicles and Equipment	(133,963)	(8,335)	0	(142,298)
Total	(6,190,579)	(448,261)	0	(6,638,840)
Total Capital Assets being Depreciated, net	6,109,823	(445,700)	0	5,664,123
Capital Assets, Net	\$6,561,144	\$2,923,680	\$0	\$9,484,824

NOTE 8 – LONG-TERM OBLIGATIONS

The long-term obligation activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
Revenue Bonds:					
Series 2011 (99 Refinanced)	\$70,000	\$0	(\$70,000)	\$0	\$0
Compensated Absences	20,038	16,511	0	36,549	4,500
Total Governmental Activities	\$90,038	\$16,511	(\$70,000)	\$36,549	\$4,500
Component Unit					
Note Payable	\$75,942	\$0	(\$14,597)	\$61,345	\$13,163
Line of Credit	0	351,491	(351,491)	0	0
Total Component Unit	\$75,942	\$351,491	(\$366,088)	\$61,345	\$13,163

NOTE 8 – LONG-TERM DEBT (concluded)

A summary of the City’s long- term debt as of September 30, 2019 is as follows:

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. \$52,288

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. 9,057

Total \$61,345

As of September 30, 2019, annual debt service requirements to maturity for the outstanding long-term obligations above are as follows:

Year	Component Unit	
	Principal	Interest
2020	\$13,163	\$2,227
2021	4,464	1,840
2022	4,548	1,662
2023	4,733	1,477
2024	4,925	1,285
2025-2029	27,795	3,253
2030	1,717	13
Total	<u>\$61,345</u>	<u>\$11,757</u>

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. The line of credit matures on May 6,2020. September 30, 2019 the balance on the line of credit was \$0.

NOTE 9 – 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 10 – 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 \$16,023 as a result of this agreement.

NOTE 11 – SUBSEQUENT EVENTS

The City and the component unit, the Airpark, have evaluated subsequent events and transactions through March 9, 2020, the date the financial statements were made available. The following subsequent event was identified.

In November 2019, the Airpark signed an \$18,500 agreement for the engineering services of the construction phase of the new bulk hangar building.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	795,908	837,707	845,394	7,687
Licenses and Permits	5,700	8,748	9,155	407
Intergovernmental Programs	828,376	831,776	320,541	(511,235)
Charges for Services	3,570	3,570	3,286	(284)
Fines and Forfeitures	200	200	289	89
Miscellaneous Revenue	2,555	38,656	57,796	19,140
Interfund Charges	14,430	31,115	20,809	(10,306)
Total Revenues	1,650,739	1,751,772	1,257,270	(494,502)
Expenditures				
Current:				
General Government	441,468	475,878	456,249	19,629
Public Safety	16,932	15,582	12,898	2,684
Transportation	223,340	223,340	197,167	26,173
Economic Environment	620,000	620,000	109,051	510,949
Human Services	6,000	6,000	5,051	949
Culture and Recreation	42,372	42,372	36,287	6,085
Capital Outlay:				
General Government	4,000	4,000	5,235	(1,235)
Transportation	234,338	510,551	382,696	127,855
Debt Service:				
Transportation	74,983	0	72,086	(72,086)
Total Expenditures	1,663,433	1,897,723	1,276,720	621,003
Revenues Over (Under) Expenditures	(12,694)	(145,951)	(19,450)	126,501
Other Financing Sources (Uses)				
Transfers Out - Cemetery Fund	0	(50,000)	(50,000)	0
Transfers Out - CRA fund	(19,626)	(34,391)	(19,626)	14,765
Total Other Financing Sources	(19,626)	(84,391)	(69,626)	14,765
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	(32,320)	(230,342)	(89,076)	141,266
Fund Balance, Beginning of Year	1,285,601	1,285,601	1,285,601	
Fund Balance, End of Year	\$1,253,281	\$1,055,259	\$1,196,525	

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, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
County	\$34,906	\$34,906	\$53,879	\$18,973
Investment revenue	100	100	478	378
Total Revenues	<u>35,006</u>	<u>35,006</u>	<u>54,357</u>	<u>19,351</u>
Expenditures				
Current	37,890	37,890	20,982	16,908
Capital Outlay	91,500	91,500	35,305	56,195
Total Expenditures	<u>129,390</u>	<u>129,390</u>	<u>56,287</u>	<u>73,103</u>
Revenues Over (Under) Expenditures	<u>(94,384)</u>	<u>(94,384)</u>	<u>(1,930)</u>	<u>92,454</u>
Other Financing Sources (Uses)				
Transfers In	19,626	34,391	19,626	(14,765)
Total Other Financing Sources	<u>19,626</u>	<u>34,391</u>	<u>19,626</u>	<u>(14,765)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	(74,758)	(59,993)	17,696	77,689
Fund Balance, Beginning of Year	<u>82,356</u>	<u>82,356</u>	<u>82,356</u>	
Fund Balance, End of Year	<u>\$7,598</u>	<u>\$22,363</u>	<u>\$100,052</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, 2019, 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 9, 2020.

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 did identify a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We consider the following deficiency, 2019-001, to be a material weakness.

Finding 2019-001: Recording Internal Fund Transfers Consistently Between the Funds

A \$50,000 transfer from the General Fund and the Cemetery Fund was not recorded in the same fiscal year for both funds. The General Fund recorded the transaction as if it occurred in October 2019 while the Cemetery Fund recorded the transaction as if it occurred in September 2019.

Background: Transfers between funds should be recorded in the same month in both of the respective funds.

Recommendation: Establish procedures to ensure that any transfers between funds are dated consistently.

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. We consider the following deficiency, 2019-002 to be a significant deficiency:

Finding 2019-002: Unrecorded Interest Income on the Time Certificate of Deposits (TCDs)

During the fiscal year ended September 30, 2019, over \$6,600 in interest income earned and reflected on the TCDs was not recorded.

Background: There is more than one TCD in some of the general ledger accounts. Also, some of the TCDs have only one statement from the bank sent to the City each year.

Recommendation: A list of TCDs, in each TCD general ledger account, should be maintained and checked, at least quarterly, to ensure that the interest income earned and reflected on the bank statement, is recorded.

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*.

City of Keystone Heights, Florida's Response to Findings

City of Keystone Heights, Florida's response to the findings identified in our audit are described in the last page of this report labeled Auditee's response. City of Keystone Heights, Florida's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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.

Reddick J. White, CPA

Starke, Florida
March 9, 2020

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

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

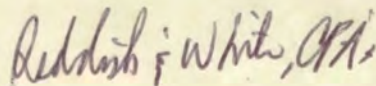
To the Honorable Mayor and the
City Council
City of Keystone Heights, Florida

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, 2019. 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, 2019.

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.



Starke, Florida
March 9, 2020

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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, 2019, and have issued our report thereon dated March 9, 2020.

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 February 29, 2020, 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. There were no findings or recommendations in the preceding financial audit 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 have the following recommendation:

The City should improve the budget amendment process to ensure that budgeted line items are not reduced to zero for those line item expenditures (i.e. the annual bond payment) that have already been incurred.

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.

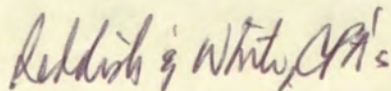
In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39 (3) (b), Florida Statutes.

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.



Starke, Florida
March 9, 2020

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged with Governance

March 9, 2020

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, 2019. 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 11, 2019. 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 and to correct the accounting for a \$50,000 interfund transfer from the General Fund to the Cemetery Fund.

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 9, 2020.

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,

Riddick & White, CPAs



City of Keystone Heights

555 South Lawrence Blvd
Keystone Heights, Florida 32656
352.473.4807 Off 352.473.5101 Fax



March 9, 2020

Dear Sirs,

I would like to take this opportunity to respond to the comments made by the auditors in the City of Keystone Heights, Florida's audit report for the fiscal year ended September 30, 2019. The following are responses to the comments included in the audit report.

Finding 2019-001: Recording Internal Fund Transfers Consistently Between the Funds

A \$50,000 transfer from the General Fund and the Cemetery Fund was not recorded in the same fiscal year for both funds. The General Fund recorded the transaction as if it occurred in October 2019 while the Cemetery Fund recorded the transaction as if it occurred in September 2019.

Recommendation 2019-001: Establish procedures to ensure that any transfers between funds are dated consistently.

Response 2019-001: We will be consistent in the accounting of inter fund transactions. We will also increase the independent accountant's responsibility to include a review of these type of transactions on a monthly basis and an extra review at year end prior to the audit process.

Finding 2019-002: Unrecorded Interest Income on the Time Certificate of Deposits

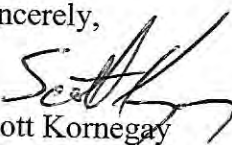
During the fiscal year ended September 30, 2019, over \$6,600 in interest income earned and reflected on the TCDs was not recorded.

Recommendation 2019-002: A list of TCDs, in each TCD general ledger account, should be maintained and checked, at least quarterly, to ensure that the interest income earned and reflected on the bank statement, is recorded.

Response 2019-002: We will expand the general ledger so that each TCD has its own general ledger account and review the balances, at least quarterly to ensure that the interest income earned is recorded timely.

If you have any questions concerning my response to the audit comments, please contact our office at (352) 473-4807.

Sincerely,



Scott Kornegay
City manager