

**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, 2021

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, 2021, 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, 2021, 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 and budgetary comparison information 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 June 10, 2022, 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
June 10, 2022

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, 2021. 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 \$7,130,927 (net position) for the fiscal year reported. The increase from the prior year of \$562,195 is mainly due to capital projects completed during the year that were financed by grants.
- The City's governmental funds reported total ending fund balance of \$1,529,209 this year. This compares to the prior year ending fund balance of \$1,407,949 an increase of \$121,258 for the current year.
- The city remains in a strong financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial

statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported. All but one 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 City currently has three governmental funds, the General fund, the Community Redevelopment fund (CRA fund), and the Capital Improvement (CIP) Fund. The CRA fund and the CIP fund are considered special revenue funds. The general fund encompasses the majority of the City's operations.

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 Cemetery 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 revenue and expenditures actual versus budget presentations of the City's general fund, CRA fund, and the CIP fund.

Financial Analysis of the City as a Whole

The City implemented the new financial reporting model used in this report beginning with the 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 \$7,130,927. The following table provides a summary of the City's net position:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
As of and For the Fiscal Year Ended September 30, 2021

Keystone Heights, Florida

	Governmental Activities		Business-type Activities		Total		2021% of Total
	2021	2020	2021	2020	2021	2020	
Assets							
Current assets	\$ 1,970,612	\$ 1,418,882	\$ 454,772	\$ 451,504	\$ 2,425,384	\$ 1,870,386	32%
Capital assets	5,035,743	4,681,397	95,114	63,444	5,130,857	4,744,841	68%
Total assets	7,006,355	6,100,279	549,886	514,948	7,556,241	6,615,227	100%
Deferred Outflow of Resources	-	-	-	-	-	-	100%
Liabilities							
Current liabilities	399,902	15,433	-	-	399,902	15,433	94%
Long-term liabilities	25,412	31,062	-	-	25,412	31,062	6%
Total liabilities	425,314	46,495	-	-	425,314	46,495	100%
Net position							
Invested in capital assets, net of debt	5,035,743	4,681,397	95,114	63,444	5,130,857	4,744,841	73%
Restricted	684,921	811,263	232,882	286,702	917,803	1,097,965	13%
Unrestricted	860,377	561,124	221,890	164,802	1,082,267	725,926	15%
Total Net Position	\$ 6,581,041	\$ 6,053,784	\$ 549,886	\$ 514,948	\$ 7,130,927	\$ 6,568,732	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 increased \$527,257 for the governmental activities due mainly to the large capital grants awarded and used to construct capital assets. The City's overall financial position increased approximately 9.0% during the fiscal year 2021 which was an increase from last year's increase of 3%.

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

Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program:						
Charges for services	\$ 11,020	\$ 12,162	\$ 62,285	\$ 46,743	\$ 73,305	\$ 58,905
Grants	945,355	392,488	-	-	945,355	392,488
General:						
Taxes	885,288	866,703	-	-	885,288	866,703
Other State-shared	60,291	59,025	-	-	60,291	59,025
Other	70,750	66,187	1,137	7,665	71,887	73,852
Total revenues	<u>1,972,704</u>	<u>1,396,565</u>	<u>63,422</u>	<u>54,408</u>	<u>2,036,126</u>	<u>1,450,973</u>
Program Expenses:						
General government	419,944	469,961	-	-	419,944	469,961
Public safety	37,428	71,201	-	-	37,428	71,201
Physical environment	237,694	237,694	-	-	237,694	237,694
Transportation	605,919	545,180	-	-	605,919	545,180
Economic environment	39,363	170,706	-	-	39,363	170,706
Human services	5,555	5,608	-	-	5,555	5,608
Culture and recreation	99,544	52,234	-	-	99,544	52,234
Interest	-	-	-	-	-	-
Cemetery	-	-	28,484	17,941	28,484	17,941
Total expenses	<u>1,445,447</u>	<u>1,552,584</u>	<u>28,484</u>	<u>17,941</u>	<u>1,473,931</u>	<u>1,570,525</u>
Transfers	-	(50,000)	-	50,000	-	-
Excess (deficiency)	527,257	(206,019)	34,938	86,467	562,195	(119,552)
Beginning net position	<u>6,053,784</u>	<u>6,259,803</u>	<u>514,948</u>	<u>428,481</u>	<u>6,568,732</u>	<u>6,688,284</u>
Ending net position	<u>\$ 6,581,041</u>	<u>\$ 6,053,784</u>	<u>\$ 549,886</u>	<u>\$ 514,948</u>	<u>\$ 7,130,927</u>	<u>\$ 6,568,732</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, the City's largest revenue streams, are the tax related revenues. 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 \$368,000 in depreciation which includes over \$333,000 in depreciation related to road improvements.

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	
	2021	2020	2021	2020
General government	\$ 419,944	\$ 469,961	\$ (408,924)	\$ (457,823)
Public safety	37,428	71,201	677,438	30,929
Physical environment	237,694	237,694	(237,694)	(237,694)
Transportation	605,919	545,180	(528,237)	(412,396)
Economic environment	39,363	170,706	113,444	(13,108)
Human services	5,555	5,608	(5,555)	(5,608)
Culture and recreation	99,544	52,234	(99,544)	(52,234)
Interest	-	-	-	-
Total	<u>\$ 1,445,447</u>	<u>\$ 1,552,584</u>	<u>\$ (489,072)</u>	<u>\$ (1,147,934)</u>

BUSINESS-TYPE ACTIVITIES

The City operates one enterprise fund, the cemetery fund.

Cemetery Fund – In fiscal 2021, cemetery lot sales increased \$13,700 or over 50% from fiscal year 2020. As a result, the Cemetery fund reported operating income of \$33,801, an increase of approximately \$5,000 from the prior year. The Cemetery fund also continued the capital improvements to further develop the cemetery and to remap the existing inventory of plots. As a result, this fund reported \$549,886 in net position, or an increase of over 7% 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, 2021, the general fund reported ending fund balance of \$840,622 or an increase of \$152,387 from last year's restated balance. The unrestricted amount of \$840,622 is available for continuing City service requirements.

Revenues – Overall, total revenues increased approximately \$300,000 from the prior year, primarily due to the Cares Act revenues of \$714,866. This was offset by the removal of the discretionary sales surtax which is now reported in the Capital Improvements Fund.

Expenditures – Overall, total expenditures increased approximately \$287,000 from the prior year primarily due to an increase in capital outlay in the public safety department of over \$724,000 offset by decreases in other departments, including \$250,000 in capital outlay for roads and streets now included in the CIP fund.

Public Safety expenditures increased as a result of the Cares Act grant received to expend on public safety. Total expended under this Act was over \$724,000.

Economic environment expenditures decreased by over \$150,000 due to the discontinued CDBG grant.

General government, Human services, and culture and recreation costs remained close to their prior year amounts.

Transfers Out – In addition to the recurring transfer of \$24,000 to the CRA fund, the General fund discontinued the annual \$50,000 transfer to the Cemetery fund in the prior year.

As a result, the General Fund's ending fund balance increased \$152,387 from the September 30, 2020 balance.

Governmental Fund – The Capital Improvements Fund

The Capital Improvements Fund (CIP Fund) was formally created as of the beginning of this fiscal year as a special revenue fund. The revenues are primarily the state of Florida discretionary sales tax. This revenue stream is restricted for capital improvements. The \$178,000 is approximately \$32,000 less than budgeted and approximately \$15,000 less than last year.

The \$162,146 in expenditures for the year, are primarily related to capital outlay for road resurfacing and sidewalk repair. The actual expenditures were approximately \$67,000 less than budgeted as the road resurfacing projects were not all completed.

Government Fund – Community Redevelopment Agency Fund (CRA) Fund

The CRA fund received over \$106,000 from Clay County. The funds were used primarily to fund the capital outlay projects that were budgeted. The CRA fund incurred over \$101,000 in expenditures related to the Trail Head Center, \$24,000 related to the pavilion personal property additions, and \$14,800 related to outdoor lighting at the Keystone Beach.

Budgetary Highlights – General Fund

Budget Amendments - The budget was amended during the current fiscal year primarily to increase revenues by \$16,100 and related expenditures by 16,875.

Revenues - The City realized over 106% of its final total budgeted revenues for the year as the majority of the \$750,000 Cares Act funds were realized during the year along with more actual tax and reimbursement type revenues than budgeted.

Expenditures – Overall, the City spent approximately 96% of its final total budgeted expenditures. This was due primarily to small favorable budgeted outcomes for all of the departments.

The general government department reflected a favorable budget of over \$34,000 primarily due to the turnover in personnel during the year.

The transportation department reflected a favorable budget variance of only \$9,790 as the capital outlay is now reported in the CIP fund.

The public safety department includes the Cares Act expenditures and were very close to budgeted

All of the other departments were close to 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, 2021, was \$5,035,743 and \$95,114, respectively. There was a 8% increase for governmental activities and a 50% increase for business-type activities. Overall, there was a increase of 8% 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	
	2021	2020	2021	2020	2021	2020
Nondepreciable assets:						
Land	\$ 644,312	\$ 644,312	\$ -	\$ 6,000	\$ 644,312	\$ 650,312
Construction in progress	-	79,939	-	47,323	-	127,262
Total nondepreciable	644,312	724,251	-	53,323	644,312	777,574
Depreciable assets:						
Buildings and improvements	6,463,853	5,558,063	163,226	74,412	6,627,079	5,632,475
Vehicles and equipment	585,983	534,098	44,007	44,007	629,990	578,105
Infrastructure	9,005,490	8,863,144	-	-	9,005,490	8,863,144
Total depreciable assets	16,055,326	14,955,305	207,233	118,419	16,262,559	15,073,724
Less accumulated depreciation	11,663,895	10,998,159	112,119	108,298	11,776,014	11,106,457
Book value - depreciable assets	4,391,431	3,957,146	95,114	10,121	4,486,545	3,967,267
Percentage depreciated	73%	74%	54%	91%	72%	74%
Book value - all assets	\$ 5,035,743	\$ 4,681,397	\$ 95,114	\$ 63,444	\$ 5,130,857	\$ 4,744,841

At September 30, 2021, the depreciable capital assets for governmental activities were 73% depreciated. This compares to 74% at the September 30, 2020. 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 73% depreciated at September 30, 2021. 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 decreased to 54%, as significant depreciable additions were made during the year. There was \$41,000 in costs capitalized related to the development and remapping of the cemetery during the year.

Long-term Debt

The City made their final payment on the revenue bonds two years ago.

Economic Conditions Affecting the City

The unemployment rate for Clay County, which the City is part of, was 3.3 % at year end, and improvement from 4.2% as of the prior fiscal year.

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, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airpark Authority
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$594,170	\$190,059	\$784,229	\$581,578
Investments in Time Certificates of Deposits	239,178	0	239,178	4,284
Accounts Receivable, Net	13,461	0	13,461	3,593
Inventory	0	31,831	31,831	59,784
Due from Other Governments	19,851	0	19,851	0
Restricted Assets				
Cash and Cash Equivalents	769,206	28,490	797,696	15,638
Investments in Time Certificates of Deposits	221,277	204,392	425,669	0
Due from Other Governments	113,469	0	113,469	16,568
Total Current Assets	<u>1,970,612</u>	<u>454,772</u>	<u>2,425,384</u>	<u>681,445</u>
Capital Assets	<u>5,035,743</u>	<u>95,114</u>	<u>5,130,857</u>	<u>11,941,095</u>
Other Assets				
Timber	0	0	0	86,999
TOTAL ASSETS	<u><u>\$7,006,355</u></u>	<u><u>\$549,886</u></u>	<u><u>\$7,556,241</u></u>	<u><u>\$12,709,539</u></u>
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$10,496	\$0	\$10,496	\$97,519
Deposits	0	0	0	1,220
Unearned Revenue	384,906	0	384,906	0
Long Term Obligations, Current Portion	4,500	0	4,500	4,713
Total Current Liabilities	<u>399,902</u>	<u>0</u>	<u>399,902</u>	<u>103,452</u>
Long Term Obligations, Noncurrent Portion	<u>25,412</u>	<u>0</u>	<u>25,412</u>	<u>24,195</u>
TOTAL LIABILITIES	<u>425,314</u>	<u>0</u>	<u>425,314</u>	<u>127,647</u>
NET POSITION				
Net Invested in Capital Assets	5,035,743	95,114	5,130,857	11,912,187
Restricted for:				
Perpetual Care	0	232,882	232,882	0
Community Redevelopment	64,744	0	64,744	0
Capital Projects	620,177	0	620,177	32,206
Unrestricted	860,377	221,890	1,082,267	637,499
TOTAL NET POSITION	<u><u>\$6,581,041</u></u>	<u><u>\$549,886</u></u>	<u><u>\$7,130,927</u></u>	<u><u>\$12,581,892</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$7,006,355</u></u>	<u><u>\$549,886</u></u>	<u><u>\$7,556,241</u></u>	<u><u>\$12,709,539</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions/Programs	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	Business-Type Activities	Total	
Government Activities:								
General Government	\$419,944	\$11,020	\$0	\$0	(\$408,924)	\$0	(\$408,924)	
Public Safety	37,428	0	0	714,866	677,438	0	677,438	
Physical Environment	237,694	0	0	0	(237,694)	0	(237,694)	
Transportation	605,919	0	77,682	0	(528,237)	0	(528,237)	
Economic Environment	39,363	0	60,807	92,000	113,444	0	113,444	
Human Services	5,555	0	0	0	(5,555)	0	(5,555)	
Culture and Recreation	99,544	0	0	0	(99,544)	0	(99,544)	
Total Governmental Activities	<u>1,445,447</u>	<u>11,020</u>	<u>138,489</u>	<u>806,866</u>	<u>(489,072)</u>	<u>0</u>	<u>(489,072)</u>	
Business-type Activities:								
Cemetery	28,484	62,285	0	0	0	33,801	33,801	
Total Business-type Activities	<u>28,484</u>	<u>62,285</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>33,801</u>	<u>33,801</u>	
Total Primary Government	<u>1,473,931</u>	<u>73,305</u>	<u>138,489</u>	<u>806,866</u>	<u>(489,072)</u>	<u>33,801</u>	<u>(455,271)</u>	
Component Unit								
Airpark Authority	<u>\$1,699,702</u>	<u>\$1,204,835</u>	<u>\$13,000</u>	<u>\$20,524</u>				<u>(\$461,343)</u>
General Revenues:								
Taxes:								
Property					286,657	0	286,657	0
Discretionary Sales Surtax					178,127	0	178,127	0
Franchise Fees and Utility Taxes					229,583	0	229,583	0
Half Cent Sales Tax					86,493	0	86,493	0
Local Option Gas Tax					104,428	0	104,428	0
State Revenue Sharing					60,291	0	60,291	0
Investment Income					1,263	1,137	2,400	2,170
Settlement Award					0	0	0	0
Miscellaneous					69,487	0	69,487	623
Total General Revenues					<u>1,016,329</u>	<u>1,137</u>	<u>1,017,466</u>	<u>2,793</u>
Change in Net Assets					527,257	34,938	562,195	(458,550)
Net Position, Beginning of Year					<u>6,053,784</u>	<u>514,948</u>	<u>6,568,732</u>	<u>13,040,442</u>
Net Position, Ending of Year					<u>\$6,581,041</u>	<u>\$549,886</u>	<u>\$7,130,927</u>	<u>\$12,581,892</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2021

	General Fund	CRA Fund	Capital Improvement Fund	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$590,504	\$0	\$3,666	\$594,170
Cash and Cash Equivalents - Restricted	384,906	18,756	365,544	769,206
Investments	239,178	0	0	239,178
Investments - Restricted	0	0	221,277	221,277
Accounts Receivable, Net	13,461	0	0	13,461
Due from Other Funds	0	0	11,887	11,887
Due from Other Governments	19,851	0	0	19,851
Due from Other Governments - Restricted	0	46,000	21,469	67,469
Total Assets	<u>\$1,247,900</u>	<u>\$64,756</u>	<u>\$623,843</u>	<u>\$1,936,499</u>
Liabilities and Fund Balances				
Liabilities				
Current Liabilities				
Accounts Payable	10,485	12	0	10,497
Due to Other Funds	11,887	0	0	11,887
Unearned Revenue	384,906	0	0	384,906
Total Liabilities	<u>407,278</u>	<u>12</u>	<u>0</u>	<u>407,290</u>
FUND BALANCES				
Restricted	0	64,744	620,177	684,921
Assigned	35,425	0	3,666	39,091
Unassigned	805,197	0	0	805,197
Total Fund Balances	<u>840,622</u>	<u>64,744</u>	<u>623,843</u>	<u>1,529,209</u>
Total Liabilities and Fund Balances	<u>\$1,247,900</u>	<u>\$64,756</u>	<u>\$623,843</u>	<u>\$1,936,499</u>

CITY OF KEYSTONE HEIGHTS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION SEPTEMBER 30, 2021

Total Fund Balance - Total Governmental Funds	\$1,529,209
Amounts reported for governmental activities in the statement of net assets are different because:	
Due from Other Governments received after 60 days are not considered financial resources, and therefore, are not recorded in the funds.	46,000
Capital assets of \$16,699,638 net of accumulated depreciation of \$11,663,895, are not financial resources and, therefore, are not reported in the funds.	5,035,743
Long-term liabilities are not due and payable in the current period and accordingly, are not reported in the governmental funds.	<u>(29,911)</u>
Total Net Position of Governmental Activities	<u><u>\$6,581,041</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, 2021

	General Fund	CRA Fund	Capital Improvement Fund	Total
Revenues				
Taxes	\$620,668	\$0	\$178,127	\$798,795
Licenses and Permits	11,020	0	0	11,020
Intergovernmental Programs	939,332	106,807	0	1,046,139
Miscellaneous Revenue	1,148	107	1,121	2,376
Interfund Charges	68,375	0	0	68,375
Total Revenues	1,640,543	106,914	179,248	1,926,705
Expenditures				
Current:				
General Government	404,163	0	0	404,163
Public Safety	37,427	0	0	37,427
Transportation	237,710	0	0	237,710
Economic Environment	0	38,496	0	38,496
Human Services	5,555	0	0	5,555
Culture and Recreation	54,989	0	6,900	61,889
Capital Outlay:				
Public Safety	724,312	0	0	724,312
Transportation	0	0	142,346	142,346
Economic Environment	0	140,647	0	140,647
Cultural and Recreation	0	0	12,900	12,900
Total Expenditures	1,464,156	179,143	162,146	1,805,445
Revenues Over (Under) Expenditures	176,387	(72,229)	17,102	121,260
Other Financing Sources (Uses)				
Transfers In (Out)	(24,000)	24,000	0	0
Total Other Financing Sources	(24,000)	24,000	0	0
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	152,387	(48,229)	17,102	121,260
Fund Balance, Beginning of Year, Restated	688,235	112,973	606,741	1,407,949
Fund Balance, End of Year	<u>\$840,622</u>	<u>\$64,744</u>	<u>\$623,843</u>	<u>\$1,529,209</u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$121,260
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 \$665,735 is less than capital outlays of \$1,020,081.	354,346
Government Funds do not include amounts received after 60 days as a receivable.	46,000
Compensated absences are recorded recorded when paid in the governmental funds. This is the amount the compensated absences decreased during the year	<u>5,651</u>
Change in Net Position of Governmental Activities	<u><u>\$527,257</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF NET POSITION - PROPRIETARY FUND SEPTEMBER 30, 2021

Assets

Current Assets

Cash and Cash Equivalents	\$190,059
Cash and Cash Equivalents - Restricted	28,490
Investments - Restricted	204,392
Inventory	31,831
Total Current Assets	<u>454,772</u>

Capital Assets, Net of

Accumulated Depreciation	<u>95,114</u>
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Total Assets	<u><u>\$549,886</u></u>
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Liabilities and Net Position

Liabilities

Current Liabilities

Accounts Payable	<u>\$0</u>
Total Current Liabilities	<u>0</u>

Net Position

Net Investment in Capital Assets	95,114
Restricted for Perpetual Care	232,882
Unrestricted	221,890
Total Net Position	<u>549,886</u>

Total Liabilities and Net Position	<u><u>\$549,886</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, 2021

Operating Revenues	
Cemetery Lot Sales	\$44,200
Rental Income	17,840
Other	245
Total Operating Revenues	<u>62,285</u>
Operating Expenses	
Administrative Expense	5,177
Depreciation	3,820
Accounting and Auditing	2,730
Cost of Cemetery Lots Sold	1,471
Utilities	1,600
Computer Training and Support	2,180
Legal Fees	2,129
Supplies	220
Repairs and Maintenance	9,157
Total Operating Expenses	<u>28,484</u>
Operating Income (Loss)	<u>33,801</u>
Nonoperating Revenues and Expense	
Investment Income	1,137
Total Nonoperating Revenues and Expenses	<u>1,137</u>
Increase (Decrease) in Net Position	34,938
Net Position, Beginning of Year	<u>514,948</u>
Net Position, End of Year	<u><u>\$549,886</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021**

Cash Flows from Operating Activities	
Receipts from Customers	\$62,285
Payments to Suppliers of Goods and Services	(42,197)
Payments for Interfund Personnel Services	<u>(5,177)</u>
Net Cash Provided (Used) by Operating Activities	<u>14,911</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(35,490)
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(35,490)</u>
Cash Flows from Investing Activities	
Increase in Investments	(922)
Interest Received	<u>1,137</u>
Net Cash Provided by (Used) by Investing Activities	<u>215</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(20,364)
Cash and Cash Equivalents, Beginning of Year	<u>238,913</u>
Cash and Cash Equivalents, End of Year	<u><u>\$218,549</u></u>
Cash and Cash Equivalents, Unrestricted	\$190,059
Cash and Cash Equivalents, Restricted	<u>28,490</u>
	<u><u>\$218,549</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$33,801
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	3,820
Change in Current Assets and Current Liabilities Inventory	<u>(22,710)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$14,911</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA
EMPLOYEE PENSION FUND
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2021

Assets	
Investments	\$242,445
Contribution Receivable	<u>0</u>
Total Assets	<u><u>\$242,445</u></u>
Liabilities and Net Position	
Liabilities	<u>\$0</u>
Net Position	
Held in Trust for Pension Benefits	<u>242,445</u>
Total Net Position	<u><u>\$242,445</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, 2021

Additions	
Contributions:	
Employer	\$5,481
Employees	5,481
Net Investment Income (loss)	<u>50,884</u>
Total Additions	<u>61,846</u>
Deductions	
Benefit Payments	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Position	<u>61,846</u>
Net Position Held in Trust for Pension	
Benefits, Beginning of Year	<u>180,599</u>
Net Position Held in Trust for Pension	
Benefits, End of Year	<u><u>\$242,445</u></u>

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

Notes to the Financial Statements
For the Year Ended September 30, 2021

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 (CRA Fund), a blended component unit of the City, which was established on February 24, 2004 is considered part of the primary government and is accounted for in a special revenue fund. For the current fiscal year, the CRA Fund incurred expenditures in excess of \$100,000. As a result, pursuant to Section 8 of Chapter 2019-163, Laws of Florida, a separate audit is required. Accordingly, a separate set of audited financial statements for the CRA Fund may be obtained from the City's administrative office for this fiscal year.

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). The component unit that is discretely presented in the City's reporting entity is the Keystone Airpark Authority. 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-

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 set of audited 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.

The Keystone Heights' fire department is not a part of the reporting entity.

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 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

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.

The Keystone Heights Community Redevelopment Agency (CRA Fund), a component unit of the City of Keystone Heights, is considered part of the primary government and is accounted for as a special revenue fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Capital Improvement Fund (CIP Fund), established this year, is considered a special revenue fund that accounts for the capital improvements. This fund is supported by state receipts restricted for such improvements. This fund also provides tree landscaping maintenance that is funded through transfers from the General 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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 funds. These funds reimburse the general fund on a monthly basis.

Inventory

Cemetery lot inventory consists of unsold lots at the Keystone Heights Cemetery. Lots are valued at the lower of cost or market. During the year ended September 30, 2021, the City added approximately \$24,181 in inventory through a remapping project and the construction of a mausoleum. As of September 30, 2021, this additional inventory is not available for sale. Fuel

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, if any.

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, 2021, represents \$620,177 restricted (by enabling legislation) for infrastructure improvements including the repayment of any related outstanding debt in the CIP fund, and \$64,744 restricted for economic development in the CRA fund. As of September 30, 2021, the restricted fund balance of the Proprietary Fund is restricted for perpetual care of the cemetery.

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 \$39,091 as of September 30, 2021 is comprised of \$3,666 assigned for the recapitalization in the CIP fund and \$35,425 assigned for the lake replenishment and restoration project in the General Fund.

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.

Restatement of fund balance – The fund balance of the General Fund was restated as of the beginning of the year by a \$606,741 decrease with a corresponding increase in the CIP Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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 June 10, 2022, the date the financial statements were made available. See note 12 for subsequent events.

NOTE 2 – AD VALOREM TAXES

The assessment of all properties and the collection of all property taxes are made through the Clay County Property Appraiser and Clay County Tax Collector. General property taxes are recorded as received which approximates taxes levied less discounts for the current fiscal year. Taxes are levied on November 1 of each year. All taxes become delinquent on April 1 of the following year. Discounts are allowed for early payment. On or prior to June 1, certificates bearing interest at 18% are sold for all uncollected real property taxes. Unsold certificates are held by the County.

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

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

- In June, the City manager submits to the City Council a proposed operating budget, for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public meetings may be conducted in July and August to inform taxpayers and receive input, followed by required public hearings which are held in September to obtain public comment.
- In September, the final budget is legally enacted through passage of an ordinance.
- The City Council must approve any revision that alters the total expenditures of any fund or transfers budgeted amounts between departments within any fund.
- The same basis of accounting is utilized for both budgetary purposes and actual results. Comparisons of budgetary data to actual are not required to be reported for the proprietary fund type or the fiduciary fund type.
- Appropriations lapse at year-end.
- The fund total is considered the legal level of control.
- The final budget is presented as amended.
- For the current fiscal year, the CRA fund's actual expenditures were \$3,943 in excess of final budgeted expenditures.

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 \$5,481. All participants are fully vested as soon as they enter the Plan. The City fully funds its obligation to the Plan.

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 \$410,283 for the year ended September 30, 2021.

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 \$17,840 for the year ended September 30, 2021.

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.

In July, 2021, the Airpark was awarded \$199,407 from the Federal Aviation Administration for the design portion of the rehabilitation of the existing t-hangar taxi-lanes. As of September 30, 2021, the Authority had outstanding commitments of \$180,173 on uncompleted contracts for this project.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (concluded)

As of September 30, 2021, the Authority has outstanding commitments of \$12,099 on uncompleted contracts for the design and engineering services for hangar apron construction project.

NOTE 7 – UNCERTAINTIES

Subsequent to September 30, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the City and to the Airpark as of June 10, 2022, management believes that a material impact on the City's and or the Airpark's financial position and results of future operations is reasonably possible.

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2021 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	79,939	0	(79,939)	0
Total	<u>724,251</u>	<u>0</u>	<u>(79,939)</u>	<u>644,312</u>
Capital Assets being depreciated:				
Buildings and Improvements	5,558,063	905,790	0	6,463,853
Vehicles and Equipment	534,098	51,885	0	585,983
Infrastructure	8,863,144	142,346	0	9,005,490
Total	<u>14,955,305</u>	<u>1,100,021</u>	<u>0</u>	<u>16,055,326</u>
Less accumulated depreciation for:				
Buildings and Improvements	(3,842,429)	(294,645)	0	(4,137,074)
Vehicles and Equipment	(322,106)	(37,426)	0	(359,532)
Infrastructure	(6,833,624)	(333,665)	0	(7,167,289)
Total Accumulated Depreciation	<u>(10,998,159)</u>	<u>(665,736)</u>	<u>0</u>	<u>(11,663,895)</u>
Total Being Depreciated, Net	<u>3,957,146</u>	<u>434,285</u>	<u>0</u>	<u>4,391,431</u>
Total Capital Assets, net	<u><u>\$4,681,397</u></u>	<u><u>\$434,285</u></u>	<u><u>(\$79,939)</u></u>	<u><u>\$5,035,743</u></u>

Total Depreciation expense of \$665,736 was charged to government activities of the primary government as follows: general government \$16,608; transportation \$373,034; culture and recreation \$37,655; economic development \$745; and physical environment \$237,694.

NOTE 8 - CAPITAL ASSETS – (continued)

Capital asset activity for the business-type activities for the year ended September 30, 2021 was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Business-Type activities:				
Capital assets not being depreciated:				
Land	\$6,000	\$0	(\$6,000)	\$0
Construction in Progress	47,223	0	(47,223)	0
	<u>53,223</u>	<u>0</u>	<u>(53,223)</u>	<u>0</u>
Capital Assets being depreciated:				
Buildings and Improvements	74,412	88,813	0	163,225
Equipment	44,007	0	0	44,007
Total	<u>118,419</u>	<u>88,813</u>	<u>0</u>	<u>207,232</u>
Less Accumulated Depreciation for				
Buildings and Improvements	(69,532)	(1,475)		(71,007)
Equipment	(38,766)	(2,345)		(41,111)
	<u>(108,298)</u>	<u>(3,820)</u>	<u>0</u>	<u>(112,118)</u>
Capital Assets being depreciated, net	<u>10,121</u>	<u>84,993</u>	<u>0</u>	<u>95,114</u>
Total Capital Assets, Net	<u>\$63,344</u>	<u>\$84,993</u>	<u>(\$53,223)</u>	<u>\$95,114</u>

For the year ended September 30, 2021, \$3,820 in depreciation expense was incurred.

NOTE 8 – CAPITAL ASSETS (concluded)

Capital asset activity for the Airpark for the year ended September 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Depreciated:				
Land	\$11,210	\$0	\$0	\$11,210
Construction in Progress	69,533	561,391	(612,556)	18,368
Total	80,743	561,391	(612,556)	29,578
Capital Assets Depreciated:				
Buildings and Improvements	18,909,447	615,263	0	19,524,710
Vehicles and Equipment	198,904	23,060	0	221,964
Total	19,108,351	638,323	0	19,746,674
Less Accumulated Depreciation:				
Buildings and Improvements	(7,018,176)	(650,488)	0	(7,668,664)
Vehicles and Equipment	(153,093)	(13,400)	0	(166,493)
Total	(7,171,269)	(663,888)	0	(7,835,157)
Total Capital Assets being Depreciated, net	11,937,082	(25,565)	0	11,911,517
Capital Assets, Net	\$12,017,825	\$535,826	(\$612,556)	\$11,941,095

NOTE 9 – LONG-TERM OBLIGATIONS

The long-term obligation activity for the year ended September 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
Compensated Absences	\$35,562	(\$5,650)	\$0	\$29,912	\$4,500
Total Governmental Activities	\$35,562	(\$5,650)	\$0	\$29,912	\$4,500
Component Unit					
Note Payable	\$45,385	\$0	(\$16,477)	\$28,908	\$4,713
Total Component Unit	\$45,385	\$0	(\$16,477)	\$28,908	\$4,713

NOTE 9 – LONG-TERM DEBT (concluded)

A summary of the City's long-term debt as of September 30, 2021 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 2021 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.

\$28,908

As of September 30, 2021, annual debt service requirements to maturity for the outstanding long-term obligations above are as follows:

Year	Component Unit	
	Principal	Interest
2022	\$4,713	\$979
2023	5,341	868
2024	5,558	651
2025	5,784	426
2026	6,019	190
thereafter	1,493	8
Total	<u>\$28,908</u>	<u>\$3,122</u>

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – JOINT OPERATION

On November 19, 2002, the City entered into an interlocal agreement with the Clay County Utility Authority (CCUA). The agreement is for providing cost efficient water, wastewater and reclaimed water service to existing and potential customers within and outside the corporate limits of the City (the Keystone Heights Area System, hereafter referred to as the System). The interlocal agreement provides that the City and CCUA will jointly own certain portions of the System that are acquired or constructed for a term of twenty years, after which sole ownership will revert to CCUA. Under the terms of the agreement, the City's contribution consists of providing access to grant funding and other lending sources to facilitate construction of the wastewater facilities and other limited customer service to be provided. In return for such assistance, the City is entitled to a 5% fee on water and wastewater revenues generated within the city limits. Total amount recognized for the year was \$34,435 as a result of this agreement.

NOTE 12 – SUBSEQUENT EVENTS

The City and the component unit, the Airpark, have evaluated subsequent events and transactions through June 10, 2022, the date the financial statements were made available. The following subsequent event was identified.

In October 2021, the Airpark was awarded \$100,000 for the purchase of safety and security equipment and was awarded \$583,000 for the design and installation of runway lighting both from the Florida Department of Transportation.

In November 2021, the Airpark entered into a \$57,595 agreement for engineering services for the design phase of the runway lighting project.

REQUIRED BUDGETARY SUPPLEMENTAL SCHEDULES

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	549,975	560,975	620,668	59,693
Licenses and Permits	7,200	7,200	11,020	3,820
Intergovernmental Programs	947,900	947,900	939,332	(8,568)
Miscellaneous Revenue	7,230	7,330	1,148	(6,182)
Interfund Charges	17,000	22,000	68,375	46,375
Total Revenues	<u>1,529,305</u>	<u>1,545,406</u>	<u>1,640,543</u>	<u>95,138</u>
Expenditures				
Current:				
General Government	472,400	438,775	404,163	34,612
Public Safety	25,650	24,150	37,427	(13,277)
Transportation	197,500	247,500	237,710	9,790
Human Services	6,000	6,000	5,555	445
Culture and Recreation	53,754	55,754	54,989	765
Capital Outlay:				
Public Safety	750,000	750,000	724,312	25,688
Total Expenditures	<u>1,505,304</u>	<u>1,522,179</u>	<u>1,464,156</u>	<u>58,023</u>
Revenues Over (Under) Expenditures	<u>24,001</u>	<u>23,226</u>	<u>176,387</u>	<u>153,162</u>
Other Financing Sources (Uses)				
Transfers Out - CRA fund	(24,000)	(24,000)	(24,000)	0
Total Other Financing Sources	<u>(24,000)</u>	<u>(24,000)</u>	<u>(24,000)</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	1	(774)	152,387	153,162
Fund Balance, Beginning of Year, Restated	<u>688,235</u>	<u>688,235</u>	<u>688,235</u>	
Fund Balance, End of Year	<u>\$688,236</u>	<u>\$687,461</u>	<u>\$840,622</u>	

See accompanying notes to the financial statements.

**KEYSTONE HEIGHTS COMMUNITY REDEVELOPMENT
AGENCY FUND**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$40,000	\$60,807	\$60,807	\$0
County Grant	0	0	46,000	46,000
Investment revenue	700	700	107	(593)
Total Revenues	<u>40,700</u>	<u>61,507</u>	<u>106,914</u>	<u>45,407</u>
Expenditures				
Current				
Economic Environment	46,050	51,050	38,496	12,554
Capital Outlay				
Economic Environment	108,650	124,150	140,647	(16,497)
Total Expenditures	<u>154,700</u>	<u>175,200</u>	<u>179,143</u>	<u>(3,943)</u>
Revenues Over (Under) Expenditures	<u>(114,000)</u>	<u>(113,693)</u>	<u>(72,229)</u>	<u>41,464</u>
Other Financing Sources (Uses)				
Transfers In	24,000	24,000	24,000	0
Total Other Financing Sources	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Financing Uses	(90,000)	(89,693)	(48,229)	41,464
Fund Balance, Beginning of Year	<u>112,973</u>	<u>112,973</u>	<u>112,973</u>	
Fund Balance, End of Year	<u>\$22,973</u>	<u>\$23,280</u>	<u>\$64,744</u>	

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CAPITAL IMPROVEMENTS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$211,069	\$211,069	\$178,127	(\$32,942)
Investment revenue	4,400	4,400	1,121	(3,279)
Total Revenues	<u>215,469</u>	<u>215,469</u>	<u>179,248</u>	<u>(36,221)</u>
Current Expenditures:				
Culture and Recreation	0	0	6,900	(6,900)
Capital Outlay				
Transportation	214,569	214,569	142,346	72,223
Culture and Recreation	15,000	15,000	12,900	2,100
Total Expenditures	<u>229,569</u>	<u>229,569</u>	<u>162,146</u>	<u>67,423</u>
Revenues Over (Under) Expenditures	<u>(14,100)</u>	<u>(14,100)</u>	<u>17,102</u>	<u>31,202</u>
Fund Balance, Beginning of Year, Restated	<u>606,741</u>	<u>606,741</u>	<u>606,741</u>	
Fund Balance, End of Year	<u>\$592,641</u>	<u>\$592,641</u>	<u>\$623,843</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**

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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, 2021, 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 June 10, 2022.

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. 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, 2021-001, to be a material weakness.

Finding 2021-001 Updating the Accounts Receivable At Year End

The determination of the unadjusted balance by customer of the accounts receivable was difficult to determine this year.

Background: The accounts receivable is adjusted at the end of each year from the cash basis to the accrual basis. Three of the customers are accounted for on the accrual basis during the year and the rest are maintained on the cash basis. In addition, four of the prior year audit adjustments were not posted to the General Fund accounts receivable balance as of September 30, 2021. And lastly, the adjustments have not always been assigned a customer. It is necessary to post all of the auditor

adjustments and assign any adjustments to the accounts receivable to a specific customer so that the accounting records maintained by the City agree with the year end audit balances, in total and in detail.

Recommendation: Establish controls to ensure that all auditor adjustments are posted to the accounting records in a timely manner and the detail by customer of the accounts receivable is properly maintained at year end.

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.

Reddish & White, CPAs

Starke, Florida
June 10, 2022

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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, 2021. 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, 2021.

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

Reddish & White, CPA

Starke, Florida
June 10, 2022

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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, 2021, and have issued our report thereon dated June 10, 2022.

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 the 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 June 10, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

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

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 have the following recommendations:

Recommendation 2021-002 - Increase the Role of the Independent Accountant

Finding: The budget to actual expenditure reports did not always reflect the latest amendments made to the budgeted amounts. Also, in one instance, the actual expenditures exceeded the budgeted expenditures at the end of the year.

We recommend that you consider increasing the role of your independent accountant to assist in reviewing and monitoring interim and year end reports to ensure (1) the reports include any previously approved amendments, and (2) any necessary amendments to the budgets are timely made.

Special District Component Units

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

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

As required by Section 218.39 (3)(c), Florida Statutes, and Section 10.554(1)(i)6, *Rules of the Auditor General*, the Keystone Heights Community Redevelopment Agency reported:

- a. The total number of district employees compensated in the last pay period of the Agency's fiscal year was 0. The Agency has no employees but receives administrative, engineering, and project management support from the City staff.
- b. The total number of independent contractors to whom nonemployee compensation was paid in the last month of the Agency's fiscal year was 1.
- c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency was \$0.
- d. All compensation earned or awarded to employee independent contractors, whether paid or accrued, regardless of contingency was \$32,090.
- e. Each construction project with a total costs of at least \$65,000 approved by the Agency that is scheduled to begin on or after October 1 of the fiscal year being reported, together with total expenditures for such project - Rails to Trails project, total expenditures was \$82,275.
- f. A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the district amends a final adopted budget under Section 189.016(6), Florida Statutes, as \$41,771.

As required by Section 218.39 (3)(c), Florida Statutes, and Section 10.554(1)(i)6, *Rules of the Auditor General*, the Keystone Airpark Authority reported:

- a. The total number of district employees compensated in the last pay period of the Agency's fiscal year was 6.
- b. The total number of independent contractors to whom nonemployee compensation was paid in the last month of the Agency's fiscal year was 2.
- c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency was \$194,545.
- d. All compensation earned or awarded to employee independent contractors, whether paid or accrued, regardless of contingency was \$62,218.
- e. Each construction project with a total costs of at least \$65,000 approved by the Keystone Airpark Authority that is scheduled to begin on or after October 1 of the fiscal year being reported, together with total expenditures for such project - Reconstruction of Hangar project, total expenditures were \$535,523.
- f. A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the district amends a final adopted budget under Section 189.016(6), Florida Statutes, is not applicable.

Additional Matters

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

Purpose of This Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the House of Representatives, the Florida Auditor General, and granting agencies, the city council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Reddish & White, CPAs

Starke, Florida
June 10, 2022

REDDISH & WHITE

CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged with Governance

June 10, 2022

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, 2021. 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 October 28, 2021. 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. However, at times, there were significant delays in receiving responses to various requests.

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. Also, four of the prior year auditor adjustments to the accounts receivable of the general fund were not posted.

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 June 10, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods

of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Reddish & White, CPAs



City of Keystone Heights

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



June 10, 2022

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, 2021. The following are responses to the comments included in the audit report.

Finding 2021-001 Updating the Accounts Receivable At Year End

The determination of the unadjusted balance by customer of the accounts receivable was difficult to determine this year.

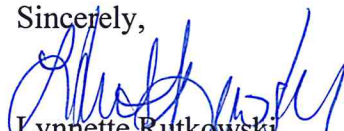
Background: The accounts receivable is adjusted at the end of each year from the cash basis to the accrual basis. Three of the customers are accounted for on the accrual basis during the year and the rest are maintained on the cash basis. In addition, four of the prior year audit adjustments were not posted to the General Fund accounts receivable balance as of September 30, 2021. And lastly, the adjustments have not always been assigned a customer. It is necessary to post all of the auditor adjustments and assign any adjustments to the accounts receivable to a specific customer so that the accounting records maintained by the City agree with the year end audit balances, in total and in detail.

Recommendation: Establish controls to ensure that all auditor adjustments are posted to the accounting records in a timely manner and the detail by customer of the accounts receivable is properly maintained at year end.

Response: We will establish controls to ensure that all auditor adjustments are posted to the accounting records in a timely manner and ensure that the detail by customer of the accounts receivable is properly maintained at year end.

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

Sincerely,



Lynnette Rutkowski
City manager



City of Keystone Heights

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



June 10, 2022

Dear Sirs,

I would like to take this opportunity to respond to the comment made by the auditors on page 43 in the City of Keystone Heights, Florida's audit report for the fiscal year ended September 30, 2021. The following is our response to the comment included in the audit report.

Finding 2021-002 Increase the Role of the Independent Accountant

Finding: The budget to actual expenditure reports did not always reflect the latest amendments made to the budgeted amounts. Also, in one instance, the actual expenditures exceeded the budgeted expenditures at the end of the year.

Recommendation: We recommend increasing the role of your independent accountant to assist in the following functions: reviewing and monitoring interim and year end reports to ensure (1) the reports include any previously approved amendments, and (2) any necessary amendments to the budgets are timely made.

Response: We will establish controls to ensure that our independent accountant will assist in reviewing and monitoring interim and year end reports to ensure (1) the reports include any previously approved amendments, and (2) any necessary amendments to the budgets are timely made.

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

Sincerely,

Lynnette Rutkowski
City Manager