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, 2025

CITY OF KEYSTONE HEIGHTS
KEYSTONE HEIGHTS, FLORIDA

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Other Reports and Letters

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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 the City of Keystone Heights, Florida (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the City, as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Powell and Jones CPA
Lake City, Florida
June 22, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City 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 year ended September 30, 2025. 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 and deferred inflows of resources by $6.3 million (net position) for the year.

- For the year, the City's governmental-type expenditures exceeded revenues by $717 thousand.

- The City was awarded $1.15 million in American Rescue Grant Funds in prior years. The City fully spent the remaining $162 thousand of the funds this year and has completed the grant.

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 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 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 encompass 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 Financial Statements

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

Required Supplementary Information

In addition to the 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 reports its government-wide financial net position as well as activities which impact the balance of its net position for the fiscal year ending September 30, 2025, below. 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 year-end is $6.30 million. The following table provides a summary of the City's net position:

Summary of Net Position

	Governmental Activities	Business-type Activities	Total Government 2025	Total Government 2024 (Restated)
Assets				
Current assets	$ 2,144,114	$ 555,092	$ 2,699,206	$ 3,290,992
Other assets	-	501,919	501,919	504,812
Capital assets	3,806,961	100,308	3,907,269	4,082,012
Total assets	5,951,075	1,157,319	7,108,394	7,877,816
Deferred outflows of resources	168,559	-	168,559	-
Liabilities				
Current liabilities	113,704	-	113,704	416,868
Long-term liabilities	362,838	-	362,838	20,895
Total liabilities	476,542	-	476,542	437,763
Deferred Inflows of resources	61,916	446,036	507,952	460,987
Net position				
Invested in capital assets, net of debt	3,806,961	100,308	3,907,269	4,082,012
Restricted	1,589,576	270,696	1,860,272	1,566,694
Unrestricted	184,639	340,279	524,918	1,330,360
Total Net Position	$ 5,581,176	$ 711,283	$ 6,292,459	$ 6,979,066

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.

The net position decreased $718 thousand for the governmental activities and increased $31 thousand for the business-type activities. The City's overall financial position decreased approximately 9.84% during the year.

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 Government 2025	Total Government 2024 (Restated)
Revenues:				
Program revenues				
Charges for services	$ 166,153	$ 32,246	$ 198,399	$ 144,816
Grants and contributions	371,372	-	371,372	345,700
General:				
Taxes	884,724	-	884,724	958,787
Other State-shared	218,365	-	218,365	208,500
Other	47,017	36,214	83,231	123,541
Total revenues	1,687,631	68,460	1,756,091	1,781,344
Program Expenses:				
General government	1,472,674	-	1,472,674	741,745
Public safety	43,537	-	43,537	39,322
Physical environment	250,173	-	250,173	116,923
Transportation	385,631	-	385,631	630,154
Economic environment	42,395	-	42,395	52,239
Human services	27,967	-	27,967	9,112
Culture and recreation	182,915	-	182,915	118,733
Cemetery	-	37,406	37,406	16,663
Total expenses	2,405,292	37,406	2,442,698	1,724,891
Excess (deficiency)	(717,661)	31,054	(686,607)	56,453
Beginning net position, restated	6,298,837	680,229	6,979,066	6,922,613
Ending net position	$ 5,581,176	$ 711,283	$ 6,292,459	$ 6,979,066

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 general government and transportation functions comprise a significant part of the total governmental activities' expenditures. The physical environment includes the annual charge of $250 thousand in depreciation. The transportation function includes more than $135 thousand in depreciation which includes over $100 thousand in depreciation related to road improvements.

BUSINESS-TYPE ACTIVITIES

The City operates one enterprise fund, the Cemetery Fund.

Cemetery Fund – During fiscal year 2025, cemetery lot sales decreased by $40 thousand, or 69%, compared to fiscal year 2024. In addition, the fund incurred approximately $21 thousand in additional cemetery-related operating expenses. As a result, the Cemetery Fund reported an increase in net position of $30 thousand in fiscal year 2025, which represented a decrease from the prior 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. As of September 30, 2025, the General Fund reported ending fund balance of $450 thousand or a decrease of $567 thousand from last year's fund balance. The unassigned amount of $400 thousand is available for continuing City service requirements.

Revenues – Overall, total revenues increased approximately $194 thousand from the prior year. This is the mainly due to the impact of the American Rescue grant revenues being recognized.

Expenditures – Overall, total expenditures increased approximately $607 thousand from the prior year primarily due to an increase in general government spending.

Transportation expenditures were relatively stable compared to the prior year, with similar spending on both operations and capital outlay.

General Government expenditures increased due to an increase in planner fees and personnel costs.

Culture and Recreation, Public Safety, Economic Environment, and Human Services costs remained close to their prior year amounts.

As a result of the factors above, the General Fund's ending fund balance decreased $583 thousand from the September 30, 2024, balance.

Governmental Fund – The Capital Improvements Fund (CIP Fund)

The Capital Improvements Fund (CIP Fund) was formally created at the beginning of the year ended September 30, 2021, as a special revenue fund. The revenues are primarily from the state of Florida discretionary sales tax. This revenue stream is restricted for capital improvements. The $246 thousand received in these taxes is approximately $10 thousand more than what was received in the prior year.

Governmental Fund – Community Redevelopment Agency Fund (CRA Fund)

The CRA fund represents the City's required match of Clay County funds contributed for the year and is considered an Economic Environment operating expenditure to the governmental funds.

The CRA incurred $65,834 in expenditures for the year, which was under the total budget expenditures by $9,366. This was primarily due to lower than anticipated capital outlay expenditures.

Overall, there was $286 thousand in capital expenditures during the year. The total actual capital expenditures were approximately $42 thousand less than budgeted.

Budgetary Highlights – General Fund

Budget Amendments – The budget was amended in April during the fiscal year. The amendment decreased anticipated revenues by $384 thousand and increased expected expenditures by $320 thousand.

Revenues – The City realized 93% of its final total amended budgeted revenues for the year.

Expenditures – Overall, the City spent approximately 89% of its final total amended budgeted expenditures. The favorable budgeted outcome in operating expenditures were somewhat offset by unfavorable budgeted outcomes in expenditures for capital outlay for a net favorable variance of $159 thousand.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation and amortization, for governmental and business-type activities as of September 30, 2025, was $3.8 million and $100 thousand, respectively. Governmental activities capital assets decreased by approximately 5%, while business-type activities capital assets increased by approximately 15% compared to the prior year. Overall, the City's net capital assets decreased by approximately 1.5%, from $4.1 million at September 30, 2024, to $4.0 million at September 30, 2025.

The decrease in net capital assets was primarily attributable to current year depreciation and amortization expense exceeding capital asset additions during the fiscal year. During fiscal year 2025, the City also recognized a right-to-use lease asset totaling $15,600 in accordance with GASB Statement No. 87, Leases. See Note 9 for additional information regarding changes in capital assets during the fiscal year and balances outstanding at year-end.

The following table provides a summary of capital asset activity.

Capital Asset

	Governmental Activities	Business-type Activities	Total Government 2025	Total Government 2024 (Restated)
Nondepreciable capital assets				
Land	$ 644,312	$ -	$ 644,312	$ 644,312
CIP	-	-	-	238,384
Total Nondepreciated capital assets	644,312	-	644,312	882,696
Depreciable capital assets				
Buildings and Improvements	7,287,642	163,226	7,450,868	7,311,939
Vehicles and Equipment	747,703	63,768	811,471	634,168
Infrastructure	9,345,079	-	9,345,079	9,012,524
Right-to-Use Lease Assets	15,600	-	15,600	-
Total capital assets depreciated	17,396,024	226,994	17,623,018	16,958,631
Less Accumulated Depreciation/Amortization	(14,233,375)	(126,686)	(14,244,922)	(13,759,315)
Total capital assets, net	$ 3,806,961	$ 100,308	$ 4,022,408	$ 4,082,012

At September 30, 2025, the depreciable capital assets for governmental activities were 82% depreciated. This compares to 79% at the September 30, 2024. Similar changes in percentages are generally an indicator that the City is replacing its capital assets at the same rate they are being depreciated.

With the City’s business-type activities, the percentage of capital assets depreciated increased to 56%, with $17 thousand in additions having been made during the year.

Long-term Debt

At September 30, 2025, the City's governmental activities reported long-term liabilities totaling $374 thousand, an increase of $349 thousand from the prior year balance of $25 thousand. The increase was primarily attributable to the recognition of the City's proportionate share of the Florida Retirement System (FRS) net pension liability of $330 thousand in accordance with GASB Statement No. 68.

	Governmental Activities	Busines-type Activities	Total Government 2025	Total Government 2024
Compensated absences	$ 29,404	$ -	$ 29,404	$ 25,395
Net pension liability	330,428	-	330,428	-
Lease liability	14,485	-	14,485	-
Total	$ 374,317	$ -	$ 374,317	$ 25,395

Economic Conditions Affecting the City

The unemployment rate for Clay County, which the City is part of, was 4.1% at year end and 3.4% as of the prior fiscal year.

In prior years, 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.

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 fiscal@Keystoneheights.us or call 352-473-4807.

STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Keystone Heights Airpark Authority
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 551,284	$ 251,595	$ 802,879	$ 705,414
Accounts Receivable, Net	-	-	-	6,041
Inventory	-	29,908	29,908	27,117
Due from Other Governments	54,389	-	54,389	152,784
Prepaid Expenses	8,365	-	8,365	-
Lease Receivable, Current Portion	-	2,893	2,893	175,066
Restricted Assets				
Cash and Cash Equivalents	1,025,137	43,585	1,068,722	118,748
Investments in Time Certificates of Deposits	504,939	227,111	732,050	-
Total Current Assets	2,144,114	555,092	2,699,206	1,185,170
Capital Assets				
Nondepreciable capital assets	644,312	-	644,312	240,110
Depreciable capital assets, net	3,162,649	100,308	3,262,957	12,785,208
Total capital assets	3,806,961	100,308	3,907,269	13,025,318
Other Assets				
Lease Receivable, net of current portion	-	501,919	501,919	2,398,076
Timber	-	-	-	70,469
Total Other Assets	-	501,919	501,919	2,468,545
TOTAL ASSETS	$ 5,951,075	$ 1,157,319	$ 7,108,394	$ 16,679,033
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	168,559	-	168,559	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 6,119,634	$ 1,157,319	$ 7,276,953	$ 16,679,033
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	$ 102,225	$ -	$ 102,225	$ 117,477
Due to Other Governments	-	-	-	17,553
Deposits	-	-	-	5,980
Lease Payable, Current Portion	6,979	-	6,979	-
Compensated Absence, Current Portion	4,500	-	4,500	-
Total Current Liabilities	113,704	-	113,704	141,010
Noncurrent Liabilities				
Net pension labilities	330,428	-	330,428	-
Lease Payable, Noncurrent Portion	7,506	-	7,506	-
Compensated Absence, Noncurrent Portion	24,904	-	24,904	-
Total Noncurrent Liabilities	362,838	-	362,838	-
TOTAL LIABILITIES	476,542	-	476,542	141,010
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	61,916	-	61,916	-
Related to leases	-	446,036	446,036	2,353,442
TOTAL LIABILITIES AND DEFERRED INFLOWS OR RESOURCES	538,458	446,036	984,494	2,494,452
NET POSITION				
Net Invested in Capital Assets	3,806,961	100,308	3,907,269	13,025,318
Restricted for:				
Perpetual Care	-	270,696	270,696	-
Community Redevelopment	368,137	-	368,137	-
Capital Projects	1,221,439	-	1,221,439	271,532
Unrestricted	184,639	340,279	524,918	887,731
TOTAL NET POSITION	$ 5,581,176	$ 711,283	$ 6,292,459	$ 14,184,581
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 6,119,634	$ 1,157,319	$ 7,276,953	$ 16,679,033

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

		Program Revenues			Net Revenue (Expense) and Change in Net Assets			Component Unit
					Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport Authority
Functions/Programs								
Government activities:								
General government	$ 1,472,674	$ 13,828	$ -	$ 161,916	$ (1,296,930)	$ -	$ (1,296,930)	
Public safety	43,537	-	-	-	(43,537)	-	(43,537)	
Physical environment	250,173	26,360	-	-	(223,813)	-	(223,813)	
Transportation	385,631	101,429	-	-	(284,202)	-	(284,202)	
Economic environment	42,395	-	209,456	-	167,061	-	167,061	
Human services	27,967	-	-	-	(27,967)	-	(27,967)	
Culture and recreation	182,915	24,536	-	-	(158,379)	-	(158,379)	
Total governmental activities	2,405,292	166,153	209,456	161,916	(1,867,767)	-	(1,867,767)	
Business-type Activities:								
Cemetery	37,406	32,246	-	-	-	(5,160)	(5,160)	
Total Business-type Activities	37,406	32,246	-	-	-	(5,160)	(5,160)	
Total Primary Government	$ 2,442,698	$ 198,399	$ 209,456	$ 161,916	(1,867,767)	(5,160)	(1,872,927)	
Component Unit								
Keystone Heights Airport Authority	$ 2,405,899	$ 1,409,417	$ 354,875	$ 208,322				(433,285)
		General Revenues:						
		Taxes:						
		Property			269,275	-	269,275	-
		Discretionary Sales Surtax			246,137	-	246,137	-
		Franchise Fees and Utility Taxes			167,176	-	167,176	-
		Half Cent Sales Tax			108,279	-	108,279	-
		Local Option Gas Tax			93,857	-	93,857	-
		Communication Sales Tax			136,080		136,080	
		State Revenue Sharing			82,285	-	82,285	-
		Investment Income			39,978	33,995	73,973	92,046
		Miscellaneous			7,039	2,219	9,258	17,463
		Total General Revenues			1,150,106	36,214	1,186,320	109,509
		Change in Net Assets			(717,661)	31,054	(686,607)	(323,776)
		Net Position, Beginning of Year, restated			6,298,837	680,229	6,979,066	14,508,357
		Net Position, Ending of Year			$ 5,581,176	$ 711,283	$ 6,292,459	$ 14,184,581

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	General Fund	CRA Fund	Capital Improvement Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 551,284	$ -	$ -	$ 551,284
Cash and cash equivalents - restricted	-	370,076	655,061	1,025,137
Investments - restricted	258,785	-	246,154	504,939
Prepaid expenses	8,365.00	-	-	8,365
Due from other funds	-	-	321,852	321,852
Due from other governments	54,389	-	-	54,389
Total Assets	$ 872,823	$ 370,076	$ 1,223,067	$ 2,465,966
Liabilities and Fund Balances				
Liabilities				
Current Liabilities				
Accounts Payable	$ 59,682	$ 1,939	$ -	$ 61,621
Accrued wages	40,604	-	-	40,604
Due to Other Funds	321,852	-	-	321,852
Unearned Revenue	-	-	-	-
Total Liabilities	422,138	1,939	-	424,077
FUND BALANCES				
Non-Spendable	8,365	-	-	8,365
Restricted	-	368,137	1,221,439	1,589,576
Assigned	41,659	-	1,628	43,287
Unassigned	400,661	-	-	400,661
Total Fund Balances	450,685	368,137	1,223,067	2,041,889
Total Liabilities and Fund Balances	$ 872,823	$ 370,076	$ 1,223,067	$ 2,465,966

See accompanying notes to the financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

Total Fund Balance - Total Governmental Funds		$2,041,889
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of $18,040,336 net of accumulated depreciation and amortization of $14,233,375, are not financial resources and, therefore, are not reported in the governmental funds.		3,806,961
Long-term liabilities are not due and payable in the current period and accordingly, are not reported in the governmental funds:		
Compensated absences	(29,404)	
Lease payable	(14,485)	
Net pension liability	(330,428)	(374,317)
Deferred outflows and inflows of resources related to pensions are not financial resources and, therefore, are not reported in the governmental funds:		
Deferred outflows of resources related to pensions	168,559	
Deferred inflows of resources related to pensions	(61,916)	106,643
Total Net Position of Governmental Activities		$5,581,176

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	General Fund	CRA Fund	Capital Improvement Fund	Total
Revenues				
Taxes	$ 638,587	$ -	$ 246,137	$ 884,724
Licenses and Permits	13,828	-	-	13,828
Intergovernmental Programs	321,457	209,456	58,824	589,737
Charges for Services	125,965	-	-	125,965
Fines and Forfeitures	26,360	-	-	26,360
Miscellaneous Revenue	5,660	1,379	-	7,039
Interest income	17,825	2,913	19,240	39,978
Total Revenues	1,149,682	213,748	324,201	1,687,631
Expenditures				
Current:				
General Government	1,169,329	-	60,950	1,230,279
Public Safety	43,537	-	-	43,537
Transportation	246,763	-	-	246,763
Economic Environment	-	42,395	-	42,395
Human Services	27,967	-	-	27,967
Culture and Recreation	112,312	-	-	112,312
Capital Outlay:				-
General Government	37,594	-	-	37,594
Transportation	44,225	-	131,306	175,531
Economic Environment	-	23,439	-	23,439
Cultural and Recreation	49,435	-	-	49,435
Debt Service:				
Principal	1,115	-	-	1,115
Interst	185	-	-	185
Total Expenditures	1,732,462	65,834	192,256	1,990,552
Revenues Over (Under) Expenditures	(582,780)	147,914	131,945	(302,921)
Other Financing Sources (Uses)				
Proceeds from New Lease	15,600	-	-	15,600
Total Other Financing Sources	15,600	-	-	15,600
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	(567,180)	147,914	131,945	(287,321)
Fund Balance, Beginning of Year, restated	1,017,865	220,223	1,091,122	2,329,210
Fund Balance, End of Year	$ 450,685	$ 368,137	$ 1,223,067	$ 2,041,889

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, 2025

Net Change in Fund Balances - Total Governmental Funds	($287,321)
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 and amortization of $474,060 exceeded capital outlays of $285,999.	(188,061)
Repayment of lease principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,115
Governmental funds do not report changes in the City's proportionate share of the net pension liability and related amounts that are due and payable. This is the net effect of those changes during the year.	(223,785)
Compensated absences are recorded when paid in the governmental funds. This is the amount the compensated absences increased during the year	(4,009)
Lease proceeds are reported as other financing sources in the governmental funds but are reported as lease liabilities in the government-wide statements and, therefore have been removed for the purposes of this reconciliation	(15,600)
Change in Net Position of Governmental Activities	($717,661)

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2025

Assets	
Current Assets	
Cash and Cash Equivalents	$ 251,595
Cash and Cash Equivalents - Restricted	43,585
Investments - Restricted	227,111
Inventory	29,908
Lease Receivable, Current Portion	2,893
Total Current Assets	555,092
Capital Assets, Net of	
Accumulated Depreciation	100,308
Other Assets	
Lease Receivable, Net of Current Portion	501,919
Total Assets	$ 1,157,319
Liabilities, Deferred Inflows of Resources, and Net Position	
Deferred Inflows of Resources	446,036
Net Position	
Net Investment in Capital Assets	100,308
Restricted for Perpetual Care	270,696
Unrestricted	340,279
Total Net Position	711,283
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 1,157,319

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2025

Operating Revenues		
Cemetery lot sales	$	17,375
Lease rental income		14,871
Lease interest income		17,699
Other		2,219
Total Operating Revenues		52,164
Operating Expenses		
Depreciation		4,514
Accounting and auditing		9,424
Utilities		400
Legal fees		272
Supplies		50
Repairs and maintenance		22,746
Total Operating Expenses		37,406
Operating Income		14,758
Nonoperating Revenues		
Investment income		16,296
Total Nonoperating Revenues		16,296
Increase in Net Position		31,054
Net Position, Beginning of Year		680,229
Net Position, End of Year	$	711,283

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 24,279
Payments to suppliers of goods and services	(32,892)
Net cash provided by operating activities	(8,613)
Cash Flows from Capital & Related Financing Activities	
Purchase of Capital Assets	(17,833)
Net Cash (Used) by Capital & Related Financing Activities	(17,833)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received - CD's	13,535
Interest received - bank accounts	2,761
Net cash provided by investing activities	16,296
Net Increase in Cash and Cash Equivalents	(10,150)
Cash at beginning of year	305,330
Cash at end of year	$ 295,180
Shown in financial statements as:	
Cash and cash equivalents, unrestricted	251,595
Cash and cash equivalents, restricted	43,585
	$ 295,180
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	14,758
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation expense	4,514
Investment income	(13,535)
Changes in assets decrease (increase) and liabilities (decrease) increase:	
Lease receivables	600
Deferred inflows	(14,950)
Net cash provided by operating activities	$ (8,613)

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

EMPLOYEE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2025

Assets	
Investments	$ 104,474
Total Assets	$ 104,474
Liabilities and Net Position	
Liabilites	$ -
Net Position	
Held forTrust for Pension Benefits	104,474
Total Liabilities and Net Position	$ 104,474

See accompanying notes to the financial statements

Additions	
Net investment income	$ 23,328
Total additions	23,328
Deductions	
Benefit payments	150,766
Total deductions	150,766
Change in Net Position	(127,438)
Net Position Held in Trust for Pension Benefits, Beginning of Year	231,912
Net Position Held in Trust for Pension Benefits, End of Year	$ 104,474

See accompanying notes to the financial statements

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 business 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 and recognized revenues 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 Heights Airport Authority. The Keystone Heights Airport Authority (the Authority) is a dependent special district created to manage the Keystone Heights airport. The Authority was established by the City under City Ordinance 91- 194 and is governed by a seven-member board appointed by the City Council.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority maintains separate accounting records and budgets. It is reported as an enterprise fund and a complete separate set of audited financial statements for the Authority may be obtained from its administrative office located at 7100 Airport Road, Starke, Florida. The fiscal year end for the Authority 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 in the year ended September 30, 2021, is considered a special revenue fund that accounts for the capital improvements. This fund is supported by state receipts restricted to 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and urns at the Keystone Heights Cemetery. Lots and urns are valued at the lower of cost or market. Fuel inventory of the component unit, the Authority, is valued at the lower of cost or market.

Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 units 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 leave to permit employees to accumulate earned but unused vacation and sick leave, subject to maximum limitations. The liability for these compensated absences is reported as a long-term obligation in the government-wide financial statements. The City evaluated its compensated absences liability in accordance with GASB Statement No. 101, *Compensated Absences*, and determined that application of the standard did not result in a material difference from the liability previously recognized. Accordingly, the compensated absences liability reflects an amount that management believes is not materially different from the liability that would be recognized under GASB Statement No. 101.

Fund Equity Classifications

Government-wide, Proprietary, and Trust Fund Statements

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

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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, 2025, represents $970,767 restricted (by enabling legislation) for infrastructure improvements including the repayment of any related outstanding debt in the CIP fund, and $368,137 restricted for economic development in the CRA fund. As of September 30, 2025, the $265,003 in 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 $43,270 as of September 30, 2025 is comprised of $1,611 assigned for the recapitalization in the CIP fund and $41,659 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.

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 28, 2026, 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 General Fund's actual expenditures were $95 thousand in excess of the final budgeted expenditures.

NOTE 4 – EMPLOYEE RETIREMENT PLAN

Florida Retirement System

Effective October 1, 2024, the City began participating in the Florida Retirement System (FRS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Florida Statutes Chapter 121 establishes the authority for participant eligibility, contribution requirements, vesting, and benefit provisions.

The FRS Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the Florida Department of Management Services, Division of Retirement. The Florida Legislature establishes and may amend the contribution requirements and benefit terms of the FRS Pension Plan. The financial statements and other required supplementary information of the FRS Pension Plan are included in the Florida Annual Comprehensive Financial Report, which may be obtained from the Florida Department of Financial Services.

At September 30, 2025, the City reported a net pension liability of $243,161 for its proportionate share of the FRS Pension Plan's net pension liability. The City's proportion of the net pension liability was based on the City's contributions to the plan relative to the contributions of all participating employers.

For the year ended September 30, 2025, the City recognized pension expense in accordance with GASB Statement No. 68 and reported deferred outflows of resources and deferred inflows of resources related to pensions.

Additional information regarding actuarial assumptions, deferred outflows and inflows of resources, pension expense, and required supplementary information is presented below.

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 – 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 6 – LEASES

The City, through its Cemetery fund, leases land (cell tower lease) 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 $11,977 for the year ended September 30, 2025.

In implementing GASB 87, Leases, effective October 1, 2021, the City recognized a lease receivable and a related deferred inflows of resources for the same amount. The lease value was based on a 3.5% incremental borrowing rate as of October 1, 2021, and an expected lease term to mature in July 2055. During the year, $600 was applied to the lease receivable balance (and deferred inflows of resources) balance, and the City recognized $17,699 in related interest income.

Future receipts for the lease are as follows:

	Principal	Interest	Total
2026	$ 2,893	$ 17,622	$ 20,515
2027	2,996	17,519	20,515
2028	3,103	17,413	20,516
2029	3,213	17,302	20,515
2030	3,841	17,187	21,028
2031-2035	35,977	82,578	118,555
2036-2040	62,243	74,097	136,340
Thereafter	390,546	113,850	504,396
	$ 504,812	$ 357,568	$ 862,380

The City is a lessee for a noncancellable lease for office space located at 205 SW Magnolia Avenue, Keystone Heights, Florida. The lease commenced on August 1, 2025, and expires on July 31, 2027. The lease requires monthly payments of $650 over the two-year lease term. In accordance with GASB Statement No. 87, Leases, the City recognized a lease liability and an intangible right-to-use lease asset for this lease.

At September 30, 2025, the City reported a lease liability of $14,485 and a related right-to-use lease asset, net of accumulated amortization, of $14,300.

During the fiscal year ended September 30, 2025, the City recorded amortization expense of $1,300 and interest expense of $185 related to the lease.

Future principal and interest requirements to maturity are as follows:

	Principal	Interest	Total
2026	6,978	821	7,799
2027	7,507	292	7,799
	$ 14,485	$ 1,114	$ 15,599

Keystone Heights Airport Authority – Leases

The Authority leases land and hangar space to various individuals and businesses primarily through lease agreements with a term of one year. In addition, the Authority has entered into multiple lease agreements, as lessor, that are classified as long-term leases. In implementing GASB 87 Leases, effective October 1, 2021, the Authority recognized a lease receivable and related deferred inflows of resources related to those long-term leases.

The Authority recognized lease-related revenues of $6,348 and $138,624 for the years ended September 30, 2025 and 2024, respectively. Interest revenue related to these leases of $92,046 and $58,223 was recognized for the years ended September 30, 2025 and 2024, respectively.

Future minimum rents under non-cancelable operating leases to be received as of September 30, 2025, are projected as follows:

Year Ending September 30,	Principal	Interest	Total
2026	$ 175,066	$ 87,377	$ 262,443
2027	189,761	80,921	270,682
2028	197,715	74,147	271,862
2029	199,558	67,128	266,686
2030	195,284	60,281	255,565
2031-2035	1,015,024	193,242	1,208,266
2036-2040	598,578	40,558	639,136
2041	2,156	191	2,347
Total	$ 2,573,142	$ 603,845	$ 3,176,987

NOTE 7 – 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. The amount, if any, of expenditures which may be disallowed by the grantor(s) cannot be determinable at this time although the City expects the amounts, if any, to be immaterial.

In May 2024, the Authority signed a $200,000 agreement for construction services for the design and construction phase of the west side service road perimeter fence and gate improvement project. As of September 30, 2025, $140,626 of expenditures had been incurred and the Authority had an outstanding commitment of $59,374 related to this contract.

In August 2024, the Authority signed a $950,000 agreement for construction services for the design and construction phase of the fuel farm expansion and rehabilitation project. As of September 30, 2025, no expenditures had been incurred and the Authority had an outstanding commitment of $950,000 related to this contract.

In September 2024, the Authority signed a $605,523 agreement to update the Airport Master Plan. As of September 30, 2025, $230,324 of expenditures had been incurred and the Authority had an outstanding commitment of $375,199 related to this contract.

In July 2025, the Authority signed a $200,000 agreement to update the scope of the construction of the west side service road perimeter fence and gate improvement project to include clearing and grubbing. As of September 30, 2025, no expenditures had been incurred and the Authority had an outstanding commitment of $200,000 related to this contract.

In August 2025, the Authority signed a $585,000 agreement for construction services for phase 1 of a new hangar and hangar apron. As of September 30, 2025, $87,758 of expenditures had been incurred and the Authority had an outstanding commitment of $497,242 related to this contract.

In August 2025, the Authority signed a $150,000 agreement for construction services for phase 2 of a new hangar. As of September 30, 2025, no expenditures had been incurred and the Authority had an outstanding commitment of $150,000 related to this contract.

NOTE 8 – DEFERRED INFLOWS OF RESOURCES

The $446,036 balance in deferred inflows of resources for the City as of September 30, 2025, relates entirely to the long-term cell tower lease as lessor.

The $2,353,442 balance in deferred inflows of resources balance for the Authority as of September 30, 2025 is related to long-term leases with the Authority as lessor (see note 6).

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2023, is as follows:

	Beginning Balance (restated)	Increases	Reclassifcation	Decreases	Ending Balance
Governmental Activities:					
Capital Assets Not Depreciated:					
Land	$ 644,312	$ -	$ -	$ -	$ 644,312
CIP	238,384	114,678	(353,062)	-	-
Total Capital Assets Not Depreciated:	882,696	114,678	(353,062)	-	644,312
Capital Assets Depreciated					
Buildings and Improvements	7,227,068	23,439	37,135	-	7,287,642
Vehicles and Equipment	632,049	115,654	-	-	747,703
Infrastructure	9,012,524	16,628	315,927	-	9,345,079
Right-to-Use Lease Assets	-	15,600	-	-	15,600
Total Capital Assets Depreciated	16,871,641	171,321	353,062	-	17,396,024
Less Accumulated Depreciation/Amortization					
Buildings and Improvements	(5,116,193)	(324,038)	-	-	(5,440,231)
Vehicles and Equipment	(473,665)	(41,742)	-	-	(515,407)
Infrastructure	(8,169,457)	(106,980)	-	-	(8,276,437)
Right-to-Use Lease Assets	-	(1,300)	-	-	(1,300)
Total Accumulated Depreciation/Amortization	(13,759,315)	(474,060)	-	-	(14,233,375)
Total Capital Assets Being Depreciated, Net	3,112,326	(302,739)	353,062	-	3,162,649
Capital Assets, Net	$ 3,995,022	$ (188,061)	$ -	$ -	$ 3,806,961

For the year ended September 30, 2025, depreciation expense was charged to government activities of the primary government as follows:

General Government	$ 18,425
Transportation	138,868
Physical environment	246,164
Economic environment	-
	$ 474,060

NOTE 9 – CAPITAL ASSETS (continued)

Capital asset activity for the business-type activities for the year ended September 30, 2025 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Depreciated				
Buildings and Improvements	$ 163,226	$ -	$ -	$ 163,226
Equipment	45,937	17,831	-	63,768
Total Capital Assets Depreciated	209,163	17,831	-	226,994
Less Accumulated Depreciation for:				
Buildings and Improvements	(78,355)	(3,099)	-	(81,454)
Equipment	(43,818)	(1,414)	-	(45,232)
Total Accumulated Depreciation	(122,173)	(4,513)	-	(126,686)
Total Capital Assets Being Depreciated, Net	$ 86,990	$ 13,318	$ -	$ 100,308

For the year ended September 30, 2025, $4,513 in depreciation expense was incurred.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Depreciated:				
Land	$ 11,210	$ -	$ -	$ 11,210
CIP	15,403	213,497	-	228,900
Total Capital Assets Not Depreciated:	26,613	213,497	-	240,110
Capital Assets Depreciated				
Buildings and Improvements	23,021,994	-	-	23,021,994
Vehicles and Equipment	307,733	52,669	-	360,402
Right-to-Use Lease Assets	48,485	-	52,680	101,165
Total Capital Assets Depreciated	23,378,212	52,669	52,680	23,483,561
Less Accumulated Depreciation/Amortization				
Buildings and Improvements	(9,671,879)	(706,386)	-	(10,378,265)
Vehicles and Equipment	(190,751)	(28,172)	(52,680)	(271,603)
Right-to-Use Lease Assets	(48,485)	-	-	(48,485)
Total Accumulated Depreciation/Amortization	(9,911,115)	(734,558)	(52,680)	(10,698,353)
Total Capital Assets Being Depreciated, Net	13,467,097	(681,889)	-	12,785,208
Capital Assets, Net	13,493,710	(468,392)	-	13,025,318

For the year ended September 30, 2025, $734,558 in depreciation expense was incurred by the Authority.

NOTE 10 – LONG-TERM OBLIGATIONS

The long-term obligation activity for the year ended September 30, 2025 is as follows:

	Beginning Balance	Increases	Decrease	Ending Balance
Compensated absences	$ 25,395	$ 4,009	$ -	$ 29,404
Net pension liability	-	330,428	-	330,428
Lease liability	-	15,600	(1,115)	14,485
Total	$ 25,395	$ 350,037	$ (1,115)	$ 374,317

During the year, no outstanding note payable remained at year-end.

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. The total amount recognized for the year was $25,982 as a result of this agreement.

NOTE 12 – SUBSEQUENT EVENTS

The City and its component units have evaluated subsequent events and transactions through June 28, 2026, the date the financial statements were made available. The following subsequent events were identified.

The City transferred over to the Florida Retirement System in Fisal Year 2025 from ICMA-RC.

NOTE 13 – COST-SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS – FLORIDA RETIREMENT SYSTEM PENSION PLAN AND THE RETIREMENT HEALTH INSURANCE SUBSIDY PROGRAM

Florida Retirement System

General Information - All of the Cooperative's employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, which include the FRS Pension Plan (Pension Plan) and the Retiree Health Insurance Subsidy (HIS Plan). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (Investment Plan) alternative to the FRS Pension Plan, which is administered by the State Board of Administration (SBA). As a general rule, membership in the FRS is compulsory for all employees who work in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter

60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site:
www.dms.myflorida.com/workforce_operations/retirement/publications.

B. Pension Plan

Plan Description – The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees.

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. This amount increases with every year of additional service up to a maximum of 1.68% of the final average compensation of their five highest years for each year of credited service at age 65 with 33 or more years of service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service (age 52 if credited service includes at least four years of wartime military service) or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, beginning at 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service and increasing to a maximum of 1.68% for of with each year up to age 58 (55 with wartime service) and 28 years of special risk service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 (age 52 with wartime experience) with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers' class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers' class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before August 1, 2011, the annual cost-of- living adjustment is three percent per year. The cost-of-living adjustment for participants with a retirement date or DROP participation date after August 1, 2011 is determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement and multiplying by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with an FRS employer for a period not to exceed 96 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class from October 1, 2024 through June 30, 2025 and from July 1, 2025 through September 30, 2025 respectively, were as follows:

Class	**October 1, 2024 - June 30, 2025**	**July 1, 2025 - September 30, 2025**
Regular Class	13.63%	14.03%
Special Risk Class	32.79%	35.19%
Special Risk Administrative Support	39.82%	39.48%
County Elected Officers Class	58.68%	54.57%
Senior Management Class	34.52%	33.24%
Deferred Retirement Option Program (DROP)	21.13%	22.02%

The City's contributions, including employee contributions, to the Pension Plan totaled $81,586 for the fiscal year ended September 30, 2025.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2025, the City reported a liability of $243,161 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025. The City's proportionate share of the net pension liability was based on the City's 2024-25 fiscal year contributions relative to the 2023-24 fiscal year contributions of all participating members. At June 30, 2025, the City's proportionate share was 0.000783502% as of June 30, 2025.

For the fiscal year ended September 30, 2025, the City recognized pension expense of $224,293. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	25,972	$	-
Changes in assumptions		28,237		-
Net diffference between projected and actual earnings on Pension Plan investments		-		40,598
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions		-		-
City Pension Plan contributions subsequent to the measurement date		18,158		-
Total	$	72,367	$	40,598

The deferred outflows of resources related to the Pension Plan, totaling $18,158 resulting from Cooperative contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount	
2026	$	(1,206)
2027		13,098
2028		955
2029		45
2030		719
Thereafter		-
	$	13,611

Actuarial Assumptions – The total pension liability in the July 1, 2025 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.40%
Salary increases	3.50%, average, including inflation
Investment rate of return	6.70%, net of pension plan investment Expense, including inflation

Mortality rates were based on the PUB-2010 base table, generational mortality using the gender specific MP 2018 mortality improvement projection scale.

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period July 1, 2018 through June 30, 2023.

The long-term expected rate of return on Pension Plan investments was not based on historical returns but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Annual Arithmetic Return (%)	Compound Annual (Geometric) Return (%)	Standard Deviation (%)
Cash	1.00%	3.20%	3.20%	1.10%
Fixed Income	29.00%	5.50%	5.40%	4.00%
Global Equity	45.00%	8.50%	6.90%	18.30%
Real Estate	12.00%	8.40%	7.10%	16.80%
Private Equity	11.00%	12.40%	8.80%	28.40%
Strategic Investments	2.00%	6.50%	6.10%	8.70%
Total	100.00%			
Assumed Inflation - Mean			2.40%	1.50%

Discount Rate - The discount rate used to measure the total pension liability was 6.7%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Cooperative's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the Cooperative's proportionate share of the net pension liability calculated using the discount rate of 6.7%, as well as what the Cooperative's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.7%) or one percentage point higher (7.7%) than the current rate:

	1% Decrease 5.70%	Current Discount Rate 6.70%	1% Increase 7.70%
City's proportionate share of the net pension liability	$ 704,058	$ 243,161	$ 69,264

Pension Plan Fiduciary Net Position - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2025, the City had no payables for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2025.

HIS Plan

Plan Description – The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, *Florida Statutes*, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided – For the fiscal year ended September 30, 2025, eligible retirees and beneficiaries received a monthly HIS payment of $7.50 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of $45 and a maximum HIS payment of $225 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must meet certain criteria.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2025, the HIS contribution for the period October 1, 2024 through June 30, 2025 and from July 1, 2025 through September 30, 2025 was 2% and 2%, respectively. The Cooperative contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled $10,612 for the fiscal year ended September 30, 2025.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2025, the City reported a liability of $87,267 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025. The City's proportionate share of the net pension liability was based on the City's 2024-25 fiscal year contributions relative to the 2023-24 fiscal year contributions of all participating members. At June 30, 2025, the City's proportionate share was .000680842%, as of June 30, 2025.

For the fiscal year ended September 30, 2025, the City recognized pension expense of $21,327. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 521	138
Changes in assumptions	772	21108
Net difference between projected and actual earnings on HIS Plan investments	-	72
Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions	92,411	0
City HIS Plan contributions subsequent to the measurement date	2,488	0
Total	$ 96,192	$ 21,318

The deferred outflows of resources related to the HIS Plan, totaling $2,488 resulting from City contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2026	$ 11,743
2027	14,490
2028	21,108
2029	14,758
2030	8,041
Thereafter	2,246
	$ 72,386

Actuarial Assumptions – The total pension liability in the July 1, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.50%, average, including inflation
Municipal bond rate	5.20%

Mortality rates were based on the PUB-2010 base table, generational mortality using the gender specific MP 2018 mortality improvement projection scale.

The actuarial assumptions used in the June 30, 2025, valuation were based on the results of an actuarial experience study for the period July 1, 2018 through June 30, 2023.

Discount Rate - The discount rate used to measure the total pension liability was 5.20%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 5.20%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) than the current rate:

	1% Decrease 4.20%	Current Discount Rate 5.20%	1% Increase 6.20%
City's proportionate share of the net pension liability	$ 98,048	$ 87,267	$ 77,924

Pension Plan Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2025, the City had no payable for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2025.

Investment Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. The investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, *Florida Statutes*, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. City employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected City Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members.

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2025, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the City.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The City did not have any participants in the Investment Plan for the fiscal year ended September 30, 2025.

NOTE 14 – RESTATEMENT OF BEGINNING NET POSITION AND BEGINNING FUND BALANCES

During the current fiscal year, the City identified certain errors requiring the restatement of beginning net position and fund balances to properly reflect amounts that should have been recognized in prior periods.

The first correction relates to ARPA grant revenues received in prior years. Although the related grant proceeds had been received, amounts that had met the eligibility requirements for recognition as revenue in prior periods remained reported as deferred inflows of resources rather than being recognized as grant revenue. Accordingly, beginning balances have been adjusted to recognize the grant revenues in the proper reporting period.

The second correction relates to the identification of two capital assets that were owned by the City at the beginning of the fiscal year but were inadvertently omitted from the City's capital asset records and, therefore, were not included in the prior year's financial statements. Beginning capital asset balances and net position have been adjusted to reflect these assets.

The effect of these error corrections on beginning net position and beginning fund balances are summarized below:

	Amount
Governmental activities	
Beginning net position, as previously reported	$ 5,953,644
Correction of previously deferred grant revenues	224,422
Recognition of previously omitted buildings and improvement, net	93,806
Recognition of previously omitted vehicles and equipment, net	26,965
Beginning net position, as restated	$ 6,298,837
General fund	
Beginning fund balance, as previously reported	$ 982,850
Correction of previously deferred grant revenues	35,015
Beginning fund balance, as restated	$ 1,017,865
Capital improvement fund	
Beginning fund balance, as previously reported	$ 901,715
Correction of previously deferred grant revenues	189,407
Beginning fund balance, as restated	$ 1,091,122

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEYSTONE HEIGHTS

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Taxes	$ 1,122,850	$ 738,612	$ 638,587	$ (100,025)
Licenses, Permits and Fees	10,931	10,931	40,188	29,257
Intergovernmental Programs	348,045	348,042	321,457	(26,585)
Charges for Services	84,138	84,132	125,965	41,833
Interest	5,304	5,304	17,825	12,521
Miscellaneous Revenue	22,684	22,688	5,660	(17,028)
Interfund Changes	21,000	21,000	-	(21,000)
Total Revenues	1,614,952	1,230,708	1,149,682	(81,026)
Expenditures				
Current:				
General Government	992,050	1,202,050	1,170,629	31,421
Public Safety	46,000	46,000	43,537	2,463
Transportation	370,500	410,500	246,763	163,737
Human Services	50,000	50,000	27,967	22,033
Culture and Recreation	178,500	248,500	112,312	136,188
Capital Outlay				
General government	-	-	37,594	(37,594)
Transportation	-	-	44,225	(44,225)
Culture and Recreation	-	-	49,435	(49,435)
Total Expenditures	1,637,050	1,957,050	1,732,462	224,588
Revenues over Expenditures	(22,098)	(726,342)	(582,780)	143,562
Other Financing Sources (Uses)				
Proceeds from New Lease	-	-	15,600	15,600
Total Other Financing Sources			15,600	
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	(22,098)	(726,342)	(567,180)	$ 159,162
Fund Balance, Beginning of Year (restated)	1,017,865	1,017,865	1,017,865	
Fund Balance, End of Year	$ 995,767	$ 291,523	$ 450,685	

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - COMMUNITY REDEVELOPMENT AGENCY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Taxes	$ 220,000	$ 220,000	$ 209,456	$ (10,544)
Interest	2,000	2,000	2,913	913
Miscellaneous Revenue	-	-	1,379	1,379
Total Revenues	222,000	222,000	213,748	(8,252)
Expenditures				
Current:				
Economic Environment	50,200	50,200	42,395	7,805
Capital Outlay				
Economic Environment	25,000	25,000	23,439	1,561
Total Expenditures	75,200	75,200	65,834	9,366
Revenues over Expenditures	146,800	146,800	147,914	$ 1,114
Fund Balance, Beginning of Year	220,223	220,223	220,223	
Fund Balance, End of Year	$ 367,023	$ 367,023	$ 368,137	

CITY OF KEYSTONE HEIGHTS

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Taxes	$ -	$ -	$ 246,137	$ 246,137
Intergovernmental Programs			58,824	58,824
Interest	6,000	6,000	19,240	13,240
Total Revenues	6,000	6,000	324,201	318,201
Expenditures				
Current:				
General Government	18,000	18,000	60,950	(42,950)
Capital Outlay				
Transportation	303,000	303,000	131,306	171,694
Total Expenditures	321,000	321,000	192,256	128,744
Revenues over Expenditures	(315,000)	(315,000)	131,945	$ 446,945
Fund Balance, Beginning of Year	1,091,122	1,091,122	1,091,122	
Fund Balance, End of Year	$ 776,122	$ 776,122	$ 1,223,067	

See accompanying notes to the financial statements.

CITY OF KEYSTONE HEIGHTS

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS

	2025
City's proportion of the FRS net pension liability (asset)	0.000783502%
City's proportionate share of the FRS net pension liability (asset)	$ 243,161
City's proportion of the HIS net pension liability (asset)	0.000680842%
City's proportionate share of the HIS net pension liability (asset)	87,267
City's proportionate share of the total net pension liability (asset)	$ 330,428
City's covered-employee payroll	$ 485,950
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	68.00%
Plan fiduciary net position as a percentage of the total pension liability	82.96%

Note 1) The amounts presented for each year were determined as of the June 30 year end of the Florida Retirement System

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

CITY OF KEYSTONE HEIGHTS

SCHEDULE OF THE CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS

	2025
Contractually required FRS contribution	$ 68,685
Contractually required HIS contribution	8,934
Total Contractually Required Contributions	77,619
Contributions in relation to the contractually required contribution	(77,619)
Contribution deficiency (excess)	-
Administration's covered-employee payroll	485,950
Contributions as a percentage of covered-emloyee payroll	0.159726309

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

OTHER REPORTS AND LETTERS

Powell and Jones CPA

204 N. Marion Ave.
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Phone 386.755.4200

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 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 the City of Keystone Heights, Florida, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Keystone Heights, Florida 's basic financial statements, and have issued our report thereon dated June 22, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Keystone Heights, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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. In connection with our procedures performed, we did not identify any deficiencies in internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Keystone Heights, Florida financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Powell & Jones

Powell and Jones CPA
Lake City, Florida
June 22, 2026

Powell and Jones CPA

204 N. Marion Ave.
Lake City, FL 32055
Phone 386.755.4200

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, 2025. 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, 2025.

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.

Powell & Jones

Powell and Jones CPA
Lake City, Florida
June 22, 2026

Powell and Jones CPA

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Lake City, FL 32055
Phone 386.755.4200

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and the City Council
City of 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, 2025, and have issued our report thereon dated June 22, 2026.

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 22, 2026, should be considered in conjunction with this management letter.

Prior Audit Findings

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

The 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 Note1 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.b 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 which can be found in the accompanying schedule of findings and recommendations.

Property Assessed Clean Energy Programs (PACE)

As required by Section 10.554(1)(i)6.a., Rules of the Auditor General, the City did not have a property assessed clean energy (PACE) program that finances qualifying improvements authorized pursuant to Section 163.081 or Section 163.082,64 Florida Statutes, operated within the City's geographical boundaries during the fiscal year under audit.

Special District Component Units

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

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

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 0.
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 $10,470.
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 - No projects meet this criteria.

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.

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 Airpark Authority reported:

a. The total number of district employees compensated in the last pay period of the Agency's fiscal year was 5.
b. The total number of independent contractors to whom nonemployee compensation was paid in the last month of the Agency's fiscal year was 3.
c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency was $232,650.
d. All compensation earned or awarded to employee independent contractors, whether paid or accrued, regardless of contingency was $5,951.
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 – New Bulk Aircraft Storage Hangar Project expenditures were $87,758.
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.

Powell & Jones

Powell and Jones CPA
Lake City, Florida
June 22, 2026

Powell and Jones CPA

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Lake City, FL 32055
Phone 386.755.4200

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 22, 2026

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, 2025. 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 May 5,2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

Difficulties Encountered During the Audit

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

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All misstatements identified were communicated to the appropriate level of management.

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 22, 2026.

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 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,

Powell and Jones CPA
Lake City, Florida
June 22, 2026

Powell and Jones CPA

204 N. Marion Ave.
Lake City, FL 32055
Phone 386.755.4200

SUMMARY SCHEDULE OF CORRECTED PRIOR YEAR FINDINGS

Finding 2024-001: Updating the Accounts Receivable at Year End (substantially corrected)

During the current fiscal year, the City implemented procedures to improve the year-end accounts receivable reconciliation process. As a result, detailed accounts receivable balances by customer were properly maintained and reconciled at year end. Based on audit procedures performed, this finding has been corrected and is not repeated in the current year

Finding 2024-002: The Actual Expenditures Exceeded the Final Budgeted Expenditures of the General Fund (substantially corrected)

During the current fiscal year, the City improved its budget monitoring procedures by comparing actual results to budgeted amounts throughout the year and making amendments as necessary to reflect actual operations. Based on audit procedures performed, actual expenditures did not exceed final budgeted expenditures in a manner requiring a finding. Accordingly, this finding has been corrected and is not repeated in the current year.

City of Keystone Heights, Florida's Response to Findings (substantially corrected)

The prior year findings identified during the audit for the fiscal year ended September 30, 2024, have been corrected by management and are not repeated in the current year.