

CITY OF ZEPHYRHILLS, FLORIDA
General Purpose Financial Statements
for the year ended
September 30, 2018



BAGGETT, REUTIMANN & ASSOCIATES, CPAs, PA
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ZEPHYRHILLS, FLORIDA
GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended
September 30, 2018

CITY OF ZEPHYRHILLS, FLORIDA

OFFICIALS

SEPTEMBER 30, 2018

ELECTED OFFICIALS

Gene Whitfield	Mayor
Lance A. Smith	President - City Council
Kenneth M. Burgess, Jr.	Vice President - Council Member
W. Alan Knight	Council Member
Charles E. Proctor	Council Member
Jodi Wilkeson	Council Member

APPOINTED OFFICIALS

Steven F. Spina	City Manager
Matthew Maggard	City Attorney

CITY OF ZEPHYRHILLS, FLORIDA
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

TABLE OF CONTENTS

Introductory Section

TABLE OF CONTENTS..... i-iii

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT..... A1-A3

MANAGEMENT'S DISCUSSION AND ANALYSISM1-M13

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Position 1-2

Statement of Activities 3

Fund Financial Statements

Governmental Fund Financial Statements

Balance Sheet 4

Reconciliation of the Balance Sheet to the
Statement of Net Position Governmental Funds 5

Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds 6

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities 7

Proprietary Fund Financial Statements

Statement of Net Position – Proprietary Funds 8-9

Statement of Revenues, Expenses, and
Changes in Net Position – Proprietary Funds..... 10

Statement of Cash Flows – Proprietary Funds 11-12

Notes to the Financial Statements..... 13-45

TABLE OF CONTENTS (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule

General Fund 47-53
Special Revenue Fund 54
CRA Fund..... 55
Impact Fee Fund 56

Other Net Pension Liability Disclosures

Schedule of Proportionate Share of the Net Pension Liability 57
Schedule of Contributions 58

**OTHER SUPPLEMENTARY SCHEDULES
(Not Required)**

Schedule of Operating Income (Loss) –
Utility Fund 59-61
Sanitation Fund..... 62
Airport Fund..... 63

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*, ISSUED BY
THE COMPTROLLER GENERAL OF THE UNITED STATES;
AND THE *RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA***

Schedule of Federal and State
Financial Assistance 64-65

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* 66-67

TABLE OF CONTENTS (CONTINUED)

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*, ISSUED BY
THE COMPTROLLER GENERAL OF THE UNITED STATES;
AND THE *RULES OF THE AUDITOR GENERAL* OF THE STATE OF FLORIDA
(Continued)**

Report on Compliance for Each Major Federal and State Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance and Rules of the Auditor General	68-69
Schedule of Findings and Questioned Costs	70-71
Independent Accountants' Report on Compliance with Section 218.415, Florida Statutes	72
Management Letter.....	73-75

INDEPENDENT AUDITORS' REPORT

May 31, 2019

Honorable Mayor, City Council,
and City Manager
City of Zephyrhills, FL 33542

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 representation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages M1 through M13 and required supplementary information on pages 44 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by U.S. Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General* of the State of Florida, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Baggett, Reutimann & Associates, CPAs PA
BAGGETT, REUTIMANN & ASSOCIATES, CPAs, PA
Signed Electronically by Baggett, Reutimann & Associates, CPAs PA, CN: J8103 email: jrf@baggetta.com

Management's Discussion and Analysis (MD&A)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Zephyrhills (the City) management discussion and analysis is designed to provide an objective and easy-to-read analysis of the City's financial activities for the year ended September 30, 2018. As with other sections of this financial report, the information contained within this narrative should be considered only as part of a greater whole. The reader should take time to read and evaluate all sections of this report, including the government-wide financial statements on page 1-3, fund financial statements on pages 4-12, footnotes on pages 13-45, and other Required Supplemental Information beginning on pages 47-75.

Efforts were made to include relative comparative prior year figures where amounts were known.

HIGHLIGHTS

Financial Highlights

- The City's total assets exceeded its total liabilities at the close of the most recent fiscal year by \$75,640,014.
- The City's total net position decreased by \$7,477,783 (or 9.9%). The City's governmental net position decreased by \$10,854,611 (or 36%), solely as a result of implementing GASB 75 (the accounting standard related to providing retirees health insurance). The business-type net position increased by \$3,376,828 (or 6.4%).
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,748,080, an increase of \$3,070,358 in comparison with the prior year. Approximately 15.5% or \$3,362,650 of this total is unrestricted and *available for spending* at the City's discretion based on the parameters of the fund.
- General Fund revenues increased by \$369,761 (or 2.89%). General Fund expenditures, exclusive of capital expenditures, increased by \$689,586 (or 5.36%). The Net Change in General Fund Balance was an increase of \$426,187.
- At the end of the current fiscal year, fund balance for the General Fund was \$9,207,720 or 68.01% of total General Fund operating expenditures excluding capital outlay and debt service.
- The business-type activities (the City's Proprietary Funds) operating revenues decreased by \$166,892 (or 1.44%); operating expenses increased by \$92,973 (or .67%); operating income/loss went from an operating income of \$29,480 in FY 2017 to operating loss of \$230,385 in FY 2018. The change in net position for the Proprietary Funds was an increase of \$3,376,828 in FY 2018.
- The City's total long-term debt excluding other liabilities (namely compensated absences, Other Post-Employment Benefits OPEB, and an impact fee rebate) increased by \$5,627,809. The City's total long-term debt for governmental activities increased by \$7,471,000 and the total long-term debt for business-type activities decreased by \$1,843,191.

City Highlights

City administration took a conservative approach to balancing the fiscal year 2018 budget. The City's gross taxable property value increased for the third consecutive year. Ad valorem taxes increased by \$108,398 to \$3,976,421 using the millage rate of 6.3500, an increase of 3.49% over the Rolled-Back Rate of 6.1358.

Large projects include the following:

Utility – Construction of the Airport Lift Station, accompanying sewer force main as well as the rehabilitation of lift station 28 and 29. In addition, the city concluded the water meter replacement program.

City Government – Construction of a new City Hall building (ongoing), conversion to new accounting system

Airport – full reconstruction of Taxiway B and rehabilitation of Runway 1-19

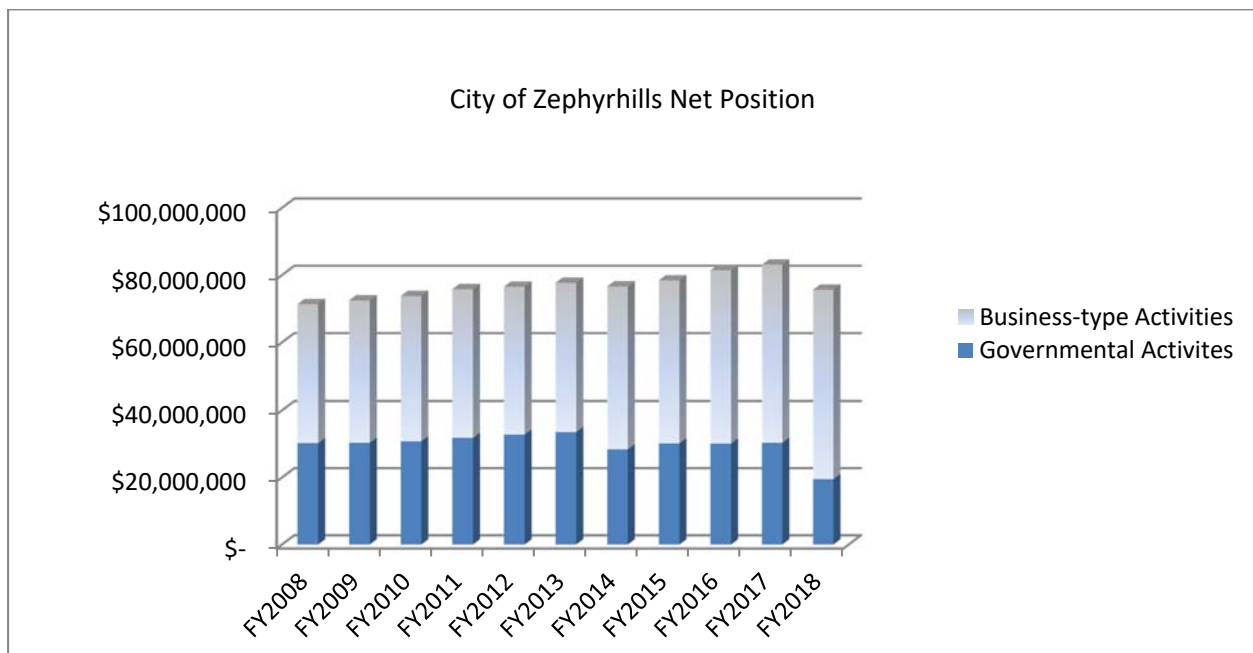
OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.

The Statement of Net Position presents information on all of the City’s assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Below is a chart showing eleven years of net asset history.



The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and inter-governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities reflect the City's basic services, including general government, police, fire, protective inspections, public works, community development and recreation. Property taxes, franchise fees, utility taxes, communication services taxes, gas taxes and sales taxes, along with contributions from the City's utilities, finance the majority of these services. The business-type activities reflect private sector-type operations, including water, wastewater, sanitation and airport, where the fee for service typically covers all or most of the cost of operation, including depreciation.

The government-wide financial statements can be found on pages 1-3 of this report.

Fund Financial Statements

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

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The basic governmental fund financial statements can be found on pages 4-7 of this report.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Special Revenue Fund (Gas Taxes and Discretionary Sales Tax), the CRA Fund, and the Impact Fee Fund.

The City adopts an annual appropriated budget for all of its various funds. A budgetary comparison **statement has been provided** for the major governmental funds on pages 47-56.

Proprietary Funds:

The City OF Zephyrhills maintains three proprietary funds – each an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Utility (water/waste water) operations, for its Sanitation (i.e. solid waste collection) operation and for its Airport operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for utility, sanitation and airport funds, all of which are considered to be major City funds.

The basic proprietary fund financial statements can be found on pages 8-12.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-45 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$75,640,014 at the close of the fiscal year ending September 30, 2018.

The largest portion of the City's net position (93.75%) is its investment in capital assets (e.g.: land, buildings, improvements other than buildings, machinery and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Assets compared to the prior fiscal year.

Statement of Net Position at SEPTEMBER 30, 2018						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current Assets	23,837,851	19,742,698	11,996,311	12,715,487	35,834,162	32,458,185
Non-current Assets and Deferred Outflows	34,711,746	28,875,638	65,064,867	62,153,820	99,776,613	91,029,458
Total Assets and Deferred Outflows	58,549,597	48,618,336	77,061,178	74,869,307	135,610,775	123,487,643
Current Liabilities	2,521,918	1,064,976	3,694,639	3,710,245	6,216,557	4,775,221
Non-current Liabilities and Deferrerd Inflows	36,535,988	17,207,058	16,784,508	18,387,567	53,320,496	35,594,625
Total Liabilities	39,057,906	18,272,034	20,479,147	22,097,812	59,537,053	40,369,846
Net Position:						
Invested in capital assets, net of related debt	22,118,359	23,498,370	48,790,906	44,034,219	70,909,265	67,532,589
Restricted-Debt Svc, R/R, Extension			2,370,110	2,853,495	2,370,110	2,853,495
Unrestricted	(2,626,668)	6,847,932	4,987,307	5,883,781	2,360,639	12,731,713
Total Net Position	19,491,691	30,346,302	56,148,323	52,771,495	75,640,014	83,117,797

At the end of the current fiscal year, the City of Zephyrhills is able to report positive balances for both city-wide and business-type all categories of net position. However, governmental unrestricted net position was a negative \$2,626,668 which was a result of implementing GASB 75 (the new accounting standard for post-employment for medical benefits). For more detailed information, see the Statement of Net Position (pages 1 and 2).

Changes in Net Position

The table on the following page compares the revenues and expenses for the current and previous fiscal year. Without the implementation GASB 75, the City's Governmental activity net position increased \$1,030,911 and business-type activity net position increased \$1,444,371 as discussed below.

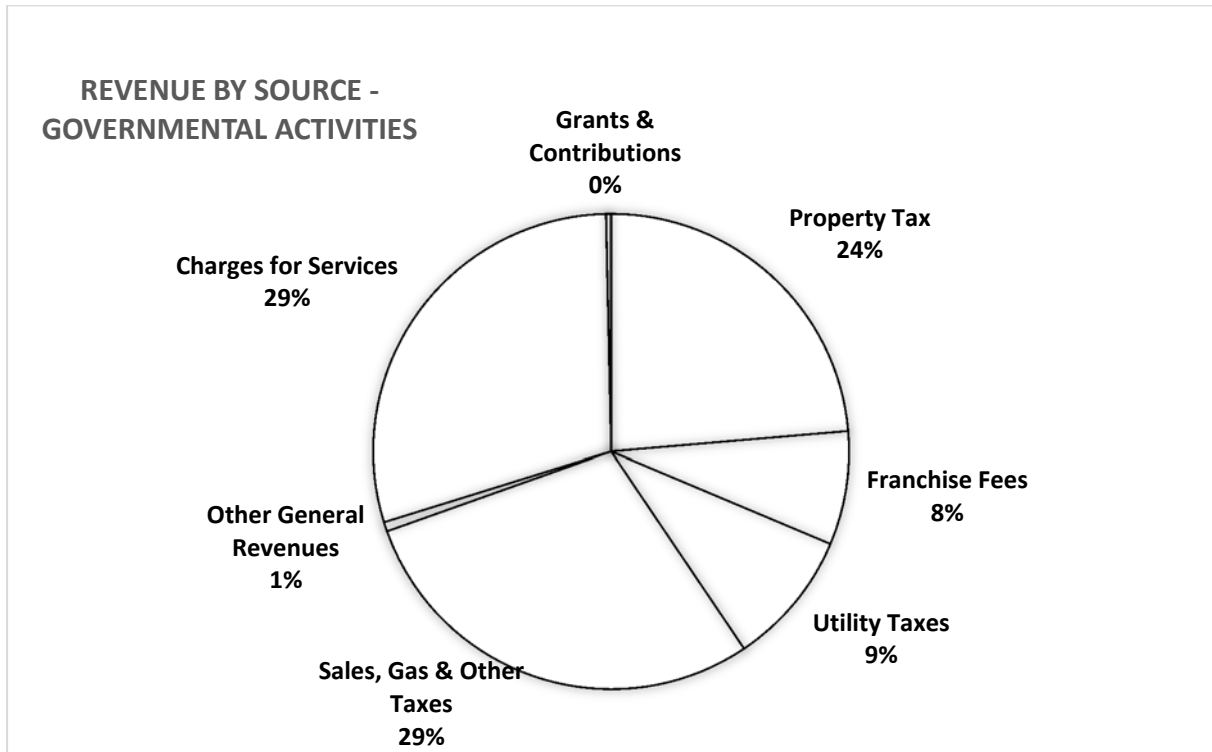
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues:						
Charges for Services	4,952,569	4,019,053	11,841,344	11,684,275	16,793,913	15,703,328
Operating Grants & Contributions	-	-	-	-	-	-
Capital Grants & Contributions	58,973	238,827	3,442,179	1,609,589	3,501,152	1,848,416
General Revenues:						
Property Taxes	3,976,421	3,868,023	-	-	3,976,421	3,868,023
Franchise Fees	1,295,256	1,284,966	-	-	1,295,256	1,284,966
Utility Taxes	1,551,098	1,598,461	-	-	1,551,098	1,598,461
Sales, Gas & Other Taxes	4,876,596	4,491,265	-	-	4,876,596	4,491,265
Investment Income	92,158	120,195	-	-	92,158	120,195
Other General Revenues	15,809	158,725	35,045	20,743	50,854	179,468
Total Revenues	16,818,880	15,779,515	15,318,568	13,314,607	32,137,448	29,094,122
EXPENSES						
Program Activities						
Primary Government:						
Governmental Activities:						
General Government	4,420,263	4,290,582	-	-	4,420,263	4,290,582
Public Safety	7,263,216	7,258,150	-	-	7,263,216	7,258,150
Protective Inspections	494,728	494,333	-	-	494,728	494,333
Public Works	2,975,413	2,955,046	-	-	2,975,413	2,955,046
Culture/Recreation	382,694	368,350	-	-	382,694	368,350
Economic Environment	168,690	175,339	-	-	168,690	175,339
Interest Cost	82,885	11,206	-	-	82,885	11,206
Business-type Activities:						
Utility	-	-	8,182,143	8,149,242	8,182,143	8,149,242
Sanitation	-	-	1,820,234	1,742,919	1,820,234	1,742,919
Airport	-	-	1,939,363	1,978,075	1,939,363	1,978,075
Total Expenses	15,787,889	15,553,006	11,941,740	11,870,236	27,729,629	27,423,242
Incr/Decr in Net position before Transfers	1,030,991	226,509	3,376,828	1,444,371	4,407,819	1,670,880
Transfers	-	-	-	-	-	-
Increase in Net position	1,030,991	226,509	3,376,828	1,444,371	4,407,819	1,670,880
Net Position prior year (adjusted)	18,460,700	30,119,793	52,771,495	51,327,124	79,276,467	76,638,693
Net Position at year end	19,491,691	30,346,302	56,148,323	52,771,495	75,640,014	83,117,797

Governmental activities

Table 2 above compares the revenues and expenses for the two activity types for the current and prior fiscal years. Net position for governmental activities increased \$1,030,991. The driving element of this increase is the emphasis in producing a budget with minimal use of fund balance.

As illustrated in the following chart, 62% of governmental activity revenue comes from property taxes, utility taxes, sales and other taxes.



Business-type activities

Table 2 on the previous page compares the revenues and expenses for the two activity types for the current and prior fiscal years. Combined net position for all business-type activities increased \$3,376,828 – an increase in the Utility Fund of \$1,047,597, a decrease in the Sanitation Fund of \$180,543 and an increase in the Airport Fund of \$2,509,774. Key elements of these changes were:

- Fiscal year 2017 Utility revenue included rate increase due to a rate study completed in 2012. Sanitation revenues increase annually tied to the Consumer Price Index, Southern Region.
- Utility Billing was reorganized, with most billing services being outsourced to a third party vendor.
- Airport continues to see increases in depreciation expense (a non-cash expense) as long-lived assets, mostly grant funded, and begin to be depreciated. Total depreciation expense in 2018 was \$799,899.

Normal Impacts

There are nine basic impacts on revenues and expenses as reflected below.

Revenues

Economic Condition – The economic conditions can reflect a declining, stable or growing economic environment and have a substantial impact on property, sales, gas and other tax revenue as well as public spending habits for building permits, elective user fees and volumes of consumption.

Increase/Decrease in Council approved rates – While certain tax rates are set by statute, the City Council has significant authority to impose and periodically increase/decrease rates (water, sewer, sanitation, permitting, and impact fees).

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring) – Certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on a year-to-year basis.

Contribution from Utility, Sanitation and Airport Funds – The City owns and operates the Water and Wastewater services, Sanitation services and municipal Airport and provides administrative and support services for these Proprietary Funds. In return, the City receives payment from them. Therefore, the ongoing competitiveness and vitality of these funds are important to the City.

Market Impacts on Investment Income – Due to varying maturities on the City’s investments and the varying nature of the market in general, the City investment income may fluctuate from year to year.

Expenses

Introduction of New Programs – Within the functional expense categories (General Government, Police, Fire, Public Works, Parks, etc.) individual programs may be added or deleted to meet changing community needs.

Increase in Authorized Personnel – Changes in service demand may cause the Council to increase/decrease authorized staffing.

Salary Increases (cost of living and market adjustment) – The ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

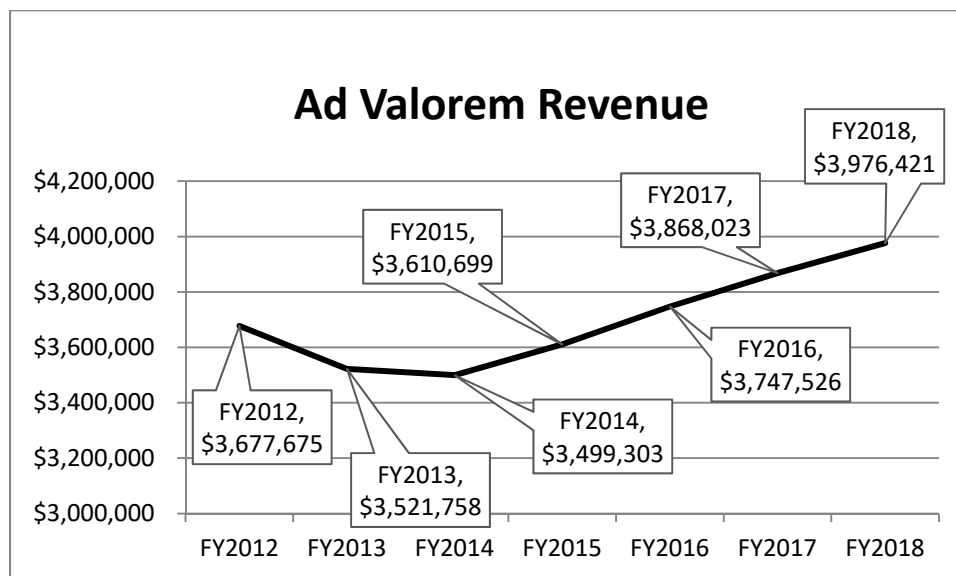
Inflation – While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals and supplies, fuel and parts. Some functions may experience unusual commodity specific increases.

Current Year Impacts

Revenues:

Economic condition

The City's ad valorem revenue has increased for the fifth straight year. Ad valorem taxes increased 298,746, 8.12 % more than collected in fiscal year 2012, the previous high point over the prior six years; the effects of the Great Recession are still felt. Franchise fees, communication service taxes, and utility taxes held steady; local option sales tax revenue increased significantly and remains the single best source of governmental capital improvements; and state shared revenues slightly increased, although there is concern that they could decline in the future. Investment income has remained low due to the lower interest rates offered by financial institutions.



As in previous years, the City received additional grant revenue (from the federal and state governments) in fiscal year 2018.

Expenses:

Operating costs increased by 3.49% in the Governmental Funds, by 0.67% in the Utility Fund, by 4.55% in the Sanitation Fund, and decreased by 1.96% in the Airport Fund. The increases in the General Fund relate mainly to salary increases.

Detailed reports on operating revenues and expenditures in the governmental funds and enterprise funds are reported elsewhere in this report.

The City Funds

Governmental Funds

As of the year end, the governmental funds (as presented on the balance sheet on pages 4) reported a combined fund balance of \$21,748,080 which is 16.44% more than the prior year combined fund balance of \$18,677,722. \$3,362,650 constitutes an undesignated/ unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted, committed, or assigned to indicate that it is not available for new spending. Major reservations and designations include local option sales tax revenue, impact fees, community redevelopment, gas tax revenue, and cemetery perpetual care reserves.

Business-Type Funds

In total, the *Proprietary Funds*, (which include the City's *Utility, Sanitation and Airport Fund*), show net loss before capital contributions and transfers. The year-end net position is \$56,148,323 which is \$3,376,828 higher than the beginning of year net position. Each of these *Proprietary Funds* is to be viewed and analyzed as a separate and distinct business, thus the following commentary focuses first on the *Utility Fund*, then on the *Sanitation Fund* and finally on the *Airport Fund*.

- The *Utility Fund* has operating income of \$255,077 and, after non-operating revenues and expenses and capital contributions, an increase in net position of \$1,047,597. Operating revenues decreased by 5.27% from the previous year and operating expenses are up 0.67%.
- The *Sanitation Fund* has operating loss of \$187,293 and, after non-operating revenues and expenses and capital contributions, a decrease in net position of \$180,543. Operating revenues are up 12.91% from the previous year and operating expenses are up 4.55%.
- Although the *Airport Fund* has an operating loss of \$298,169, after non-operating revenues and expenses, most of this loss was the result of depreciation increases due to prior and current year capital asset additions, funded mostly by Federal and State grants. Operating revenues are up by 6.41% and operating expenses were down by 1.96%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of year-end, the City had \$93.28 million invested in a variety of capital assets, as reflected in the following table, which represents an increase (additions less retirements and depreciation) of \$8.60 million (or 10.16%) from the previous year balances.

Capital Assets at Year-End (expressed in millions)						
(Net of Depreciation)						
	Government		Business-type		Total	
	Activities		Activities		Government	
	2018	2017	2018	2017	2018	2017
Land	3.89	3.08	3.19	3.19	7.08	6.27
Buildings and Improvements	11.93	12.28	15.30	15.16	27.23	27.44
Improvements other than Buildings	4.90	3.89	0.00	0.00	4.90	3.89
Equipment	10.86	9.94	15.09	14.31	25.95	24.25
Infrastructure	15.28	16.34	71.84	66.09	87.12	82.43
Less: Accumulated Depreciation	-24.67	-22.96	-41.35	-37.79	-66.02	-60.75
Subtotal	22.19	22.57	64.07	60.96	86.26	83.53
Construction in Progress	6.97	0.92	0.05	0.22	7.02	1.14
Total	29.16	23.49	64.12	61.18	93.28	84.67

The following table presents a summary reconciliation of the change in Capital Assets, which is presented in detail on pages 26 and 27 of the notes.

Change in Capital Assets			
(expressed in millions)			
	Governmental	Business-type	Primary
	Activities	Activities	Government
Net Capital Assets, beginning balance	23.50	61.18	84.68
Additions/Transfers In	9.58	6.70	16.28
Retirements/Transfers Out	(2.21)	(0.18)	(2.39)
Change in Depreciation	(1.72)	(3.57)	(5.29)
Net Capital Assets, ending balance	29.15	64.13	93.28

Debt Outstanding

As of year-end, the City had \$22.94 million in debt (notes, capital leases payable, etc. excluding compensated absences and Other Post-Employment Benefits - OPEB obligations) outstanding compared to \$17.31 million last year, a 21.95% increase. The increase was caused by the new \$7.4 million loan for the construction of city hall.

Detailed information regarding the City's long term debt obligation can be found in Note 5, pages 28 through 33 of this report.

Outstanding Debt, at Year End		
excluding other liabilities (compensated absences, OPEB, impact fee rebate)		
	Totals	
	2018	2017
Governmental:		
Capital improvement notes	\$ 7,471,000	\$ -
Sub-total	7,471,000	-
Business type:		
Bonds payable - BB&T Series Equipment	5,076,251	5,995,313
Finance Lease		
Capital improvement notes	10,396,828	11,320,957
Sub-total	15,473,079	17,316,270
Total	\$ 22,944,079	\$ 17,316,270

ECONOMIC FACTORS

The State of Florida, by constitution, does not have a state personal income tax and, therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of allowable other taxes (sales, gasoline, utility services, etc.) and fees (franchise, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and nonrecurring (one-time) grants from both the state and federal governments.

For the business-type and certain governmental activities (permitting, etc.) the user pays a related fee or charge associated with the service.

The level of taxes, fees and charges for services (including development related impact fees) will have a bearing on the City's specific competitive ability to (a) annex additional land into its corporate limits and (b) encourage development (office, retail, residential, industrial) to choose to be located in their jurisdiction.

The City places significant emphasis on encouraging economic development (particularly in the downtown redevelopment area), and maintaining property values through rigorous code enforcement.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about this report or need additional financial information, contact the City's Finance Department at City Hall, 5335 8th Street, Zephyrhills, FL 33542, telephone (813) 780-0000.

Basic Financial Statements

City of Zephyrhills, Florida
Statement of Net Position
September 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Pooled Cash, Cash Equivalents, and Investments	\$ 22,992,084	\$ 4,487,124	\$ 27,479,208
Restricted Assets:			
Cash and Pooled Cash, Cash Equivalents, and Investments			
Utility Connection Impact Fees	-	2,394,333	2,394,333
Utility Deposits	-	1,315,613	1,315,613
Debt Sinking Fund	-	-	-
Renewal and Replacement Funds for Construction	-	-	-
Water Reuse Reserve Fund	-	-	-
Accrued Income Investments	-	-	-
Receivables (Net of Allowance):			
Accounts - billed and unbilled	591,190	1,202,191	1,793,381
Due from Other Governments	59,555	1,821,543	1,881,098
Due from Other Funds	-	433,708	433,708
Internal Balances	-	-	-
Inventories	194,222	330,355	524,577
Prepaid Items	800	11,444	12,244
Total Current Assets	<u>23,837,851</u>	<u>11,996,311</u>	<u>35,834,162</u>
Non-Current Assets:			
Land and Improvements	3,888,325	3,189,662	7,077,987
Building and Improvements	11,927,362	15,303,413	27,230,775
Improvements - Other than Building	4,903,630	-	4,903,630
Equipment	10,856,823	15,088,989	25,945,812
Infrastructure	15,279,271	71,843,503	87,122,774
Construction in Process	6,972,543	54,154	7,026,697
Accumulated Depreciation	<u>(24,670,742)</u>	<u>(41,355,890)</u>	<u>(66,026,632)</u>
Total Non-Current Assets	<u>29,157,212</u>	<u>64,123,831</u>	<u>93,281,043</u>
Deferred Outflows of Resources	<u>5,554,534</u>	<u>941,036</u>	<u>6,495,570</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 58,549,597</u>	<u>\$ 77,061,178</u>	<u>\$ 135,610,775</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Net Position
September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities			
Accounts Payable	\$ 1,669,358	\$ 1,079,325	\$ 2,748,683
Customer Deposits	-	1,183,457	1,183,457
Due to Other Governments			
Accrued Interest Payable	-	34,746	34,746
Current Portion of:			
Revenue Bonds and Notes Payable	432,147	1,397,111	1,829,258
Capital Improvement Debt Payable	-	-	-
Compensated Absences	420,413	-	420,413
Capital Leases Payable	-	-	-
Other	-	433,708	433,708
Total Current Liabilities	<u>2,521,918</u>	<u>4,128,347</u>	<u>6,650,265</u>
Non-Current Liabilities			
Net Pension Liability	12,073,826	2,190,603	14,264,429
Revenue Bonds and Notes Payable	7,038,853	14,075,982	21,114,835
Capital Improvement Debt Payable	-	-	-
Capital Leases Payable	-	-	-
Compensated Absences	715,839	317,269	1,033,108
Other-Net OPEB Liab (Adj by GASB 75, see Note 11)	15,632,000	-	15,632,000
Total Non-Current Liabilities	<u>35,460,518</u>	<u>16,583,854</u>	<u>52,044,372</u>
Total Liabilities	<u>37,982,436</u>	<u>20,712,201</u>	<u>58,694,637</u>
Deferred Inflows of Resources	<u>1,075,470</u>	<u>200,654</u>	<u>1,276,124</u>
Total Liabilities and Deferred Inflows of Resources	<u>39,057,906</u>	<u>20,912,855</u>	<u>59,970,761</u>
Net Position			
Investment in Capital Assets, Net of Related Debt	22,118,359	48,790,906	70,909,265
Restricted			
Debt Service	-	-	-
Construction	-	-	-
Renewal and Replacement	-	-	-
Extensions - UF	-	2,370,110	2,370,110
Unrestricted	<u>(2,626,668)</u>	<u>4,987,307</u>	<u>2,360,639</u>
Total Net Position	<u>19,491,691</u>	<u>56,148,323</u>	<u>75,640,014</u>
Total Liabilities and Net Position	<u>\$ 58,549,597</u>	<u>\$ 77,061,178</u>	<u>\$ 135,610,775</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Activities
September 30, 2018

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			CHANGES IN NET POSITION		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General Government	\$ (4,420,263)	\$ 3,118,854	\$ -	\$ 34,955	\$ (1,266,454)	\$ -	\$ (1,266,454)
Police	(4,310,518)	131,787	-	-	(4,178,731)	-	(4,178,731)
Fire	(2,952,698)	69,766	-	24,018	(2,858,914)	-	(2,858,914)
Protective inspections	(494,728)	578,571	-	-	83,843	-	83,843
Economic Environment	(168,690)	-	-	-	(168,690)	-	(168,690)
Public Works	(2,975,413)	919,861	-	-	(2,055,552)	-	(2,055,552)
Library	(382,694)	133,730	-	-	(248,964)	-	(248,964)
Interest & Fiscal							
Charges on Long-Term Debt	(82,885)	-	-	-	(82,885)	-	(82,885)
TOTAL GOVERNMENTAL ACTIVITIES	(15,787,889)	4,952,569	-	58,973	(10,776,347)	-	(10,776,347)
BUSINESS-TYPE ACTIVITIES							
Water & Sewer	(8,182,143)	8,567,209	-	634,236	-	1,019,302	1,019,302
Sanitation	(1,820,234)	1,632,941	-	-	-	(187,293)	(187,293)
Airport	(1,939,363)	1,641,194	-	2,807,943	-	2,509,774	2,509,774
TOTAL BUSINESS-TYPE ACTIVITIES	(11,941,740)	11,841,344	-	3,442,179	-	3,341,783	3,341,783
TOTAL	\$ (27,729,629)	\$ 16,793,913	\$ -	\$ 3,501,152	\$ (10,776,347)	\$ 3,341,783	\$ (7,434,564)
GENERAL REVENUES:							
Taxes							
					3,976,421	-	3,976,421
					1,295,256	-	1,295,256
					485,354	-	485,354
					1,551,098	-	1,551,098
					297,670	-	297,670
					410,347	-	410,347
					1,014,957	-	1,014,957
					382,728	-	382,728
					2,138,886	-	2,138,886
					146,654	-	146,654
					92,158	-	92,158
					(2,582)	-	(2,582)
					18,391	35,045	53,436
					11,807,338	35,045	11,842,383
TOTAL GENERAL REVENUES & SPECIAL ITEMS							
					1,030,991	3,376,828	4,407,819
					18,460,700	52,771,495	71,232,195
					\$ 19,491,691	\$ 56,148,323	\$ 75,640,014

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Balance Sheet
Governmental Funds
September 30, 2018

	General	Special Revenue	CRA Fund	Impact Fee Fund	Total
Assets					
Cash and Pooled Cash, Cash Equivalents, and Investments	\$ 10,523,707	\$ 7,436,942	\$ 127,808	\$ 4,903,627	\$ 22,992,084
Accrued Income on Investments Receivables (Net of Allowance)					-
Accounts Billed	544,964	-	-	46,226	591,190
Taxes					-
Due from Other Governments	30,258	29,297			59,555
Due from Other Funds					-
Inventories - at Cost	194,222	-	-	-	194,222
Prepaid Items	800	-	-	-	800
Total Assets	<u>11,293,951</u>	<u>7,466,239</u>	<u>127,808</u>	<u>4,949,853</u>	<u>23,837,851</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	1,665,818	-	3,540	-	1,669,358
Accrued Liabilities	420,413	-	-	-	420,413
Contracts Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Total Liabilities	<u>2,086,231</u>	<u>-</u>	<u>3,540</u>	<u>-</u>	<u>2,089,771</u>
Fund Balances					
Nonspendable					
Inventories	194,222	-	-	-	194,222
Prepaid items	800	-	-	-	800
Restricted For:					
Community Reinvestment	-	-	52,210	-	52,210
Impact Fee Programs	-	-	-	4,849,265	4,849,265
Infrastructure Sales Tax Programs	-	6,490,420	-	-	6,490,420
Transportation - Fuel Tax	-	975,819	-	-	975,819
Other (Confiscated Property)	15,735	-	-	-	15,735
Assigned-					
Cemetery Perpetual Care	247,823	-	-	-	247,823
CAD Reserve	227,047				227,047
ZNHH Rerserve	3,292,279				3,292,279
Other	2,039,810	-	-	-	2,039,810
Undesignated/Unreserved	<u>3,190,004</u>	<u>-</u>	<u>72,058</u>	<u>100,588</u>	<u>3,362,650</u>
Total Fund Balances	<u>9,207,720</u>	<u>7,466,239</u>	<u>124,268</u>	<u>4,949,853</u>	<u>21,748,080</u>
Total Liabilities and Fund Balances	<u>\$ 11,293,951</u>	<u>\$ 7,466,239</u>	<u>\$ 127,808</u>	<u>\$ 4,949,853</u>	<u>\$ 23,837,851</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Reconciliation of the Balance Sheet to the
Statement of Net Position Governmental Funds
September 30, 2018

Fund Balances - Total Governmental Funds		\$ 21,748,080
--	--	---------------

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.

Governmental Capital Assets	53,827,954		
Less: Accumulated Depreciation	<u>(24,670,742)</u>		29,157,212

Long-Term Liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.		(7,471,000)
---	--	-------------

Other			
Compensated Absences - Long-Term	(715,839)		
Unfunded Accrued Liability - OPEB	(15,632,000)		
Net Pension Liability	(12,073,826)		
Other Deferred Inflows/Outflows	<u>4,479,063</u>		<u>(23,942,602)</u>

Net Assets of Governmental Activities		<u>\$ 19,491,690</u>
---------------------------------------	--	----------------------

City of Zephyrhills, Florida
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended September 30, 2018

	General	Special Revenue	CRA Fund	Impact Fee Fund	Total
Revenues					
Taxes	\$ 6,236,109	\$ -	\$ 74,134	\$ -	\$ 6,310,243
Licenses and Permits	1,864,080	-	-	-	1,864,080
Intergovernmental Revenue	1,607,872	2,521,614	-	-	4,129,486
Charges for Services	3,161,562	-	-	-	3,161,562
Fines and Forfeitures	44,313	-	-	-	44,313
Miscellaneous Revenue	230,740	-	-	-	230,740
Special Assessments	-	-	-	1,078,949	1,078,949
Total Revenues	<u>13,144,676</u>	<u>2,521,614</u>	<u>74,134</u>	<u>1,078,949</u>	<u>16,819,373</u>
Expenditures					
Current					
General Government	4,316,184	-	-	-	4,316,184
Public Safety	7,053,140	-	-	-	7,053,140
Economic Environment	-	-	166,528	-	166,528
Physical Environment	-	-	-	-	-
Public Works	1,877,111	-	-	-	1,877,111
Library	291,656	-	-	-	291,656
Capital Outlay	6,722,298	710,213	-	-	7,432,511
Debt Service					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	7,000	75,885	-	-	82,885
Total Expenditures	<u>20,267,389</u>	<u>786,098</u>	<u>166,528</u>	<u>-</u>	<u>21,220,015</u>
Excess of Revenues Over (Under) Exp	<u>(7,122,713)</u>	<u>1,735,516</u>	<u>(92,394)</u>	<u>1,078,949</u>	<u>(4,400,642)</u>
Other Financing Sources (Uses)					
City Hall Bond Issue	7,471,000	-	-	-	7,471,000
Transfers In	77,900	-	-	-	77,900
Transfers Out	-	-	-	(77,900)	(77,900)
Total Other Financing Sources (Uses)	<u>7,548,900</u>	<u>-</u>	<u>-</u>	<u>(77,900)</u>	<u>7,471,000</u>
Net Change in Fund Balances	426,187	1,735,516	(92,394)	1,001,049	3,070,358
Fund Balances - Beginning of Year	8,781,533	5,730,723	216,662	3,948,804	18,677,722
Fund Balances - End of Year	<u>\$ 9,207,720</u>	<u>\$ 7,466,239</u>	<u>\$ 124,268</u>	<u>\$ 4,949,853</u>	<u>\$ 21,748,080</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2018

Net Change in Fund Balance - Total Government Funds \$ 3,070,358

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlays as Expenditures. However, in the Statement of Activities, the cost of those assets are depreciated over their estimated useful lives.

Expenditures for Capital Assets	7,432,511	
Less Current Year Depreciation	<u>(1,773,006)</u>	5,659,505

Proceeds from debt issue are financing source in the governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net assets. (7,471,000)

Estimated (increase)/decrease in Net OPEB obligations 897,429
Increase in Net Pension Liability

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as Expenditures in Governmental Funds.

Change in Accrued Interest	-	
Other	(491)	
Change in Compensated Absences - Long-Term	(112,165)	
Other - Deferred Inflows/Outflows	(352,151)	
Increase Net Pension Liability	<u>(660,494)</u>	<u>(1,125,301)</u>

Change in Net Assets of Governmental Activities \$ 1,030,991

City of Zephyrhills, Florida
Statement of Net Position
Proprietary Funds
September 30, 2018

	Utility Fund	Sanitation Fund	Airport Fund	Total
Assets				
Current Assets				
Cash and Investments	\$ 2,268,115	\$ 2,218,859	\$ 150	\$ 4,487,124
Accounts Receivable	1,068,756	209,435	-	1,278,191
Less: Allowance for Doubtful				
Accounts	(64,000)	(12,000)	-	(76,000)
Other prepaid expense	11,444	-	-	11,444
Inventories of Supplies, at cost	266,568	-	63,787	330,355
Due From Other Governments	-	-	-	-
Due From the Federal Government	-	-	1,821,543	1,821,543
Due From Other Funds	433,708	-	-	433,708
Total Current Assets	<u>3,984,591</u>	<u>2,416,294</u>	<u>1,885,480</u>	<u>8,286,365</u>
Non-Current Assets				
Restricted Assets				
Cash and Pooled Cash, Cash				
Equivalents and Investments				
Utility Connection Impact Fees	2,394,333	-	-	2,394,333
Construction Fund	-	-	-	-
Sinking Fund	-	-	-	-
Renewal and Replacement	-	-	-	-
Water Reuse Reserve Fund	-	-	-	-
Utility Deposits	1,315,613	-	-	1,315,613
Total Restricted Assets	<u>3,709,946</u>	<u>-</u>	<u>-</u>	<u>3,709,946</u>
Capital Assets				
Property, Plant, Equipment and				
Infrastructure	74,216,796	3,186,848	28,076,078	105,479,722
Less: Accumulated Depreciation	(29,018,897)	(1,805,125)	(10,531,869)	(41,355,891)
Total Capital Assets	<u>45,197,899</u>	<u>1,381,723</u>	<u>17,544,209</u>	<u>64,123,831</u>
Total Assets	<u>52,892,436</u>	<u>3,798,017</u>	<u>19,429,689</u>	<u>76,120,142</u>
Deferred Outflows of Resources				
Deferred Pension Outflows	661,484	194,655	84,897	941,036
Total Assets and Deferred Outflows of Resources	<u>\$ 53,553,920</u>	<u>\$ 3,992,672</u>	<u>\$ 19,514,586</u>	<u>\$ 77,061,178</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Net Position
Proprietary Funds
September 30, 2018

	Utility Fund	Sanitation Fund	Airport Fund	Total
Liabilities and Fund Equity				
Current Liabilities Payable from Current Assets				
Accounts Payable and Accrued Expenses	\$ 483,334	\$ 26,210	\$ 569,781	\$ 1,079,325
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	433,708	433,708
Current Portion of Notes Payable	1,241,525	15,418	-	1,256,943
Total	1,724,859	41,628	1,003,489	2,769,976
Current Liabilities Payable from Restricted Assets				
Customer Deposits	1,140,827	-	42,630	1,183,457
Accrued Interest	34,746	-	-	34,746
Total	1,175,573	-	42,630	1,218,203
Total Current Liabilities	2,900,432	41,628	1,046,119	3,988,179
Long-Term Liabilities				
Net Pension Liability	1,540,179	452,756	197,668	2,190,603
Compensated Absences Payable, Long-Term Portion	110,557	118,026	88,686	317,269
Bonds and Notes Payable, Less Current Portion	14,091,400	124,750	-	14,216,150
Total Long-Term Liabilities	15,742,136	695,532	286,354	16,724,022
Total Liabilities	18,642,568	737,160	1,332,473	20,712,201
Deferred Inflow of Resources				
Deferred Pension Inflows	141,088	41,458	18,108	200,654
Total Liabilities and Deferered Inflow of Resources	18,783,656	778,618	1,350,581	20,912,855
Net Assets				
Invested in Capital Assets, Net of Related Debt	29,864,974	1,381,723	17,544,209	48,790,906
Restricted				
Construction	-	-	-	-
Debt Service	-	-	-	-
Renewal and Replacement	-	-	-	-
Extension	2,394,333	-	-	2,394,333
Unrestricted	2,510,957	1,832,331	619,796	4,963,084
Total Net Assets	34,770,264	3,214,054	18,164,005	56,148,323
Total Liabilities and Net Assets	\$ 53,553,920	\$ 3,992,672	\$ 19,514,586	\$ 77,061,178

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2018

	Utility Fund	Sanitation Fund	Airport Fund	Total
Operating Revenue				
Charges for Services	\$ 8,131,845	\$ 1,632,941	\$ 1,641,194	\$ 11,405,980
Total Operating Revenue	<u>8,131,845</u>	<u>1,632,941</u>	<u>1,641,194</u>	<u>11,405,980</u>
Operating Expenses				
Personal Services	1,903,238	513,046	265,899	2,682,183
Professional Services	171,340	-	14,040	185,380
Operating Supplies	59,868	37,613	3,432	100,913
Repairs and Maintenance	312,459	93,005	47,298	452,762
Utilities	422,310	1,695	31,765	455,770
Depreciation	2,571,379	213,401	799,899	3,584,679
Administrative Fees	2,046,850	890,000	320,000	3,256,850
Other Operating Expenses	389,324	71,474	35,048	495,846
Costs of Goods Resold	-	-	421,982	421,982
Total Operating Expenses	<u>7,876,768</u>	<u>1,820,234</u>	<u>1,939,363</u>	<u>11,636,365</u>
Operating Income (Loss)	<u>255,077</u>	<u>(187,293)</u>	<u>(298,169)</u>	<u>(230,385)</u>
Non-Operating Revenues (Expenses)				
Investment Income	-	-	-	-
Interest Expense	(305,375)	-	-	(305,375)
Connection Fees	435,364	-	-	435,364
Gain (Loss) on Sale of Asset	28,295	6,750	-	35,045
Total Non-Operating Revenues (Expenses)	<u>158,284</u>	<u>6,750</u>	<u>-</u>	<u>165,034</u>
Income Before Capital				
Contributions and Transfers	413,361	(180,543)	(298,169)	(65,351)
Contribution from Customer	160,014	-	-	160,014
Capital Grants	474,222	-	2,807,943	3,282,165
Change in Net Assets	1,047,597	(180,543)	2,509,774	3,376,828
Net Assets - Beginning of Year	<u>33,722,667</u>	<u>3,394,597</u>	<u>15,654,231</u>	<u>52,771,495</u>
Net Assets - End of Year	<u>\$ 34,770,264</u>	<u>\$ 3,214,054</u>	<u>\$ 18,164,005</u>	<u>\$ 56,148,323</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

	Utility Fund	Sanitation Fund	Airport Fund	Total
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 8,934,681	\$ 1,605,253	\$ 1,648,476	12,188,410
Cash Paid to Suppliers for Goods and Services	(1,310,670)	(1,126,569)	(544,917)	(2,982,156)
Cash Paid to and for the Benefit of Employees	(1,933,380)	(496,115)	(247,873)	(2,677,368)
Cash Paid to Other Funds for Goods or Services	(2,046,850)	-	-	(2,046,850)
Net Cash Provided (Used) by Operating Activities	<u>3,643,781</u>	<u>(17,431)</u>	<u>855,686</u>	<u>4,482,036</u>
Cash Flows from Capital and Related Financing Activities:				
Interfund Activity-Due to/from	(433,708)	-	433,708	-
Proceeds of Grant/Donations	634,236	-	986,400	1,620,636
Payments for Capital Acquisitions	(2,974,486)	(256,562)	(3,363,444)	(6,594,492)
Principal Repayments	(1,817,802)	(25,376)	-	(1,843,178)
Interest Paid	(305,375)	-	-	(305,375)
Proceeds from Assets Sold	28,295	6,750	-	35,045
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,868,840)</u>	<u>(275,188)</u>	<u>(1,943,336)</u>	<u>(7,087,364)</u>
Cash Flows from Investing Activities:				
Receipt of Interest	-	-	-	-
Net Cash Provided from Investing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	(1,225,059)	(292,619)	(1,087,650)	(2,605,328)
Cash, Beginning of Year	7,203,120	2,511,478	1,087,800	10,802,398
Cash, End of Year	<u>\$ 5,978,061</u>	<u>\$ 2,218,859</u>	<u>\$ 150</u>	<u>\$ 8,197,070</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheet				
Unrestricted Cash and Pooled Cash, Cash Equivalents and Investments	\$ 2,268,115	\$ 2,218,859	\$ 150	\$ 4,487,124
Restricted Cash and Pooled Cash, Cash Equivalents, and Investments				
Utility Impact Fees	2,394,333	-	-	2,394,333
Customer Deposits	1,315,613	-	-	1,315,613
Sinking Fund	-	-	-	-
Water Reuse Reserve	-	-	-	-
Renewal and Replacement Fund	-	-	-	-
Construction Fund	-	-	-	-
Total	<u>\$ 5,978,061</u>	<u>\$ 2,218,859</u>	<u>\$ 150</u>	<u>\$ 8,197,070</u>

The accompanying notes are an integral part of these financial statements.

City of Zephyrhills, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

	Utility Fund	Sanitation Fund	Airport Fund	Total
Operating Income (Loss)	\$ 255,077	\$ (180,543)	\$ (298,169)	\$ (223,635)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation Expense	2,571,379	213,401	799,899	3,584,679
Connection Fees	435,364	-	-	435,364
(Increase) Decrease in Accounts Receivable, Net	367,472	(27,688)	7,282	347,066
(Increase) Decrease in Inventories	53,274	-	(31,241)	22,033
Net Increase in Customer Deposits	(296,953)	-	-	(296,953)
Increase (Decrease) in Accounts Payable Suppliers	(19,182)	4,035	390,233	375,086
Increase(Decrease) Other	292,772	(43,567)	42,630	291,835
Increase (Decrease) in Accrued Payroll & Compensated Absences	(15,422)	16,931	(54,948)	(53,439)
Total Adjustments	3,388,704	163,112	1,153,855	4,705,671
Net Cash Provided (Used) by Operating Activities	\$ 3,643,781	\$ (17,431)	\$ 855,686	\$ 4,482,036

Supplemental Schedule of Non-Cash Investing, Capital and Financing Activities.

An allowance for uncollectible accounts has been provided for at September 30, 2018 in the amount of \$76,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

The City of Zephyrhills was incorporated pursuant to Florida Legislature Spec. Acts 1925, Chap. 11327, Sec. 1, as amended by Spec. Acts 1927, Chap. 13564, Sec. 1. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, culture, recreation, water and wastewater services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Defining the Financial Reporting Entity

In accordance with Governmental Accounting Standards Board Statement Number 14, the financial reporting entity includes the primary government, organizations for which the primary government is financially accountable and other organizations which, if excluded, would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority to an organization's board and either displays the ability to impose its will on that organization or the possibility that the organization will impose or provide a financial burden or benefit to the primary government.

Included within the Reporting Entity:

Zephyrhills Community Redevelopment Agency: The Zephyrhills Community Redevelopment Agency was formed as a special district by Council Resolution number 437 adopted March 9, 1998. The resolution provided that the City Council itself is the governing body of the agency. The district was formed for the purpose of redevelopment of the specified area of land within the downtown area of the City of Zephyrhills.

This special district is fully dependent upon the City of Zephyrhills and its funding and expenditures are reported by the City through its special revenue fund (governmental fund type). Under specific requirements as outlined in "Governmental Accounting Standards Board" (GASB) statement 14, the special district is not considered legally separate and is not reportable as a component unit.

NOTE 1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements - Government-Wide Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide statements are presented using a full accrual, economic resource basis, which incorporates long-term assets and receivables and long-term liabilities. Governmental activities include the General Fund and Special Revenue Fund. Business-type activities include the Utility Fund, Sanitation Fund and Airport Fund.

In the government-wide Statement of Net Position, both the governmental and business-type activities (a) are presented on a consolidated basis by column and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts - invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function (police, public works, community services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the other operating funds to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

C. Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for

NOTE 1. Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements - Fund Financial Statements (Continued)

the determination of major funds. The City has electively added funds, as major funds, which either have debt outstanding or specific community focus. Non-major funds are combined in a column in the fund financial statements. All funds of the City are considered major funds.

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

- a. The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specific purposes.
- c. The CRA Fund is used to account for revenues and expenditures specifically derived from and applicable to the Community Redevelopment Agency Area with the City.
- d. The Impact Fee Fund is used to account for proceeds from police, fire, transportation and park impact fees that are restricted by ordinance for specific purposes.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City reports the following proprietary fund types, Utility Water and Sewer, Sanitation, and Airport:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Property taxes are reported in the period for which levied. Other non-exchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Property tax revenues are recognized in the period for which levied, provided they are also available. Intergovernmental revenues or grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures are recognized when the related liability is incurred. Exceptions to this general rule include principal and interest on general obligation long-term debt and employee vacation and sick leave, which are recognized when due and payable.

E. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. The City Manager submits to the City Council a proposed operating budget for the ensuing fiscal year. It contains proposed expenditures and the means to finance them, including a proposed property tax millage.
- b. Public hearings are conducted to obtain taxpayer comments on the proposed budget and property tax millage rate.
- c. The budget and property tax millage is approved by the City Council in September.
- d. Annual budgets are adopted for the following funds: General Fund, Special Revenue Fund, and Enterprise Fund.

NOTE 1. Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting (Continued)

- e. The City Council must approve budget amendments that affect revenue accounts or appropriations in more than one department. Expenditures may not exceed legal appropriations at the department level. Appropriations lapse at year-end. All budget amounts presented in the accompanying financial statements and supplemental information have been adjusted for revisions as approved by City Council during the year.
- f. Formal budgetary integration is employed as a management control device during the year for the Governmental Funds.
- g. Budgets for the Governmental Funds are adopted on a basis consistent with generally accepted accounting principles.

F. Assets, Liabilities, and Fund Equity

Pooled Cash, Cash Equivalents, and Investments: The City utilizes a consolidated cash pool to account for cash, cash equivalents, and investments of all City funds other than those that are required by ordinance to be physically segregated. The consolidated cash pool concept allows each participating fund to benefit from the economies of scale and improved yield that are inherent to a larger investment pool. Formal accounting records detail the individual equities of the participating funds.

The City considers all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, to be cash equivalents. The majority of the City's pooled investments have the general characteristics of demand deposits, in that additional funds may be deposited at any time and funds may be withdrawn at any time without prior notice or penalty. Therefore, all of the pooled investments, regardless of their maturities, are considered cash equivalents.

The City participates in the Florida Prime (formerly known as the Local Government Surplus Funds Trust Fund Investment Pool) operated by the Florida State Board of Administration. Florida Prime is considered a SEC 2a7-like fund pool in accordance with GASB statement No. 31 and is valued using the pooled share price which approximates fair value. (See also Note 2)

Investments: Investments are reported at fair value. Investments in mutual fund type securities are valued at the net asset value of the fund based on the underlying assets held in the funds. The fair value of an investment is the amount that could reasonably be expected to be received for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

NOTE 1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, and Fund Equity (Continued)

Receivables: Utility (water and sewer and sanitation fund) operating revenues are generally recognized on the basis of cycle billings rendered monthly or quarterly. The City records estimated revenues for services delivered during the current fiscal year that will be billed during the next fiscal year.

Inventories: Inventories are stated at cost using the first-in, first-out method. Inventories in the governmental funds are accounted for by the consumption method, wherein inventories are charged as expenditures when used.

Prepaid Items: Payments made to vendors for services that will benefit periods beyond September 30, 2018 are recorded as prepaid items.

Taxes Receivable: Other taxes receivable include franchise and utility taxes that are received monthly.

Property Taxes: Under Florida Law, the assessment of all properties and the collection of all City property taxes are consolidated in the offices of the Pasco County Property Appraiser and Pasco County Tax Collector. The laws of the State regulating tax assessments are also designed to assure a consistent property valuation method statewide. Florida Statutes permit cities to levy property taxes at a rate of up to 10 mills. The millage rate in effect for the fiscal year ended September 30, 2018 was 6.35.

The tax levy of the City is established by the City Council prior to October 1 of each year. The Pasco County Property Appraiser incorporates the millage into the total tax levy, which includes the tax requirements of the county, municipalities, independent districts and the Pasco County School Board.

All property is reassessed according to its fair market value on January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Pasco County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount. Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. Application for a tax deed on any unredeemed tax certificate may be made by the certificate holder after a period of two years. Unsold certificates are held by Pasco County.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, and Fund Equity (Continued)

Capital Assets: Capital assets acquired or constructed in excess of \$750 are capitalized at historical cost. Donated assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred. Depreciation is provided using the straight-line method. The estimated useful lives of the various classes of depreciable assets are as follows:

Assets	Years
Sewer System	50
Water System	50
Public Domain Infrastructure	20-40
Buildings	10-50
Equipment	5-10

Net interest cost (interest cost less the interest earned on the investment of unexpended debt proceeds) is capitalized in the proprietary funds on construction projects financed with tax-exempt debt. There was no interest capitalized during the year ended September 30, 2018. Interest cost is not capitalized on projects financed by government grants, third-party donations or on assets in the governmental funds.

Compensated Absences: Annual vacation accruals vary based on the years of service. The maximum number of annual leave hours that an employee may accrue is 320 hours except fire fighters who may accumulate up to 448 hours.

Medical leave accumulates at the rate of 8 hours for each month worked (except fire fighters at 11.0 hours per month) with no maximum accumulation. Payment for unused medical leave will be made at termination of employment based on years of service. A provision for accumulated absences, related payroll taxes and retirement has been made in the financial statements as of September 30, 2018.

Employees with 25 or more years of service that elect to resign, retire, and/or enter into the DROP Program, and provide the City with a 12 month written notice, may carry over all accrued annual leave up to the maximum allowed by the Florida Retirement System (currently 500 hours). This is retroactive to 07/01/01.

NOTE 1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, and Fund Equity (Continued)

Net Position: The government-wide and business-type fund financial statements utilize a net position presentation. Net position is presented in three components - invested in capital assets (net of related debt), restricted, and unrestricted.

- Invested in Capital Assets (net of related debt) - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction, or improvement of those assets. This component does not include the portion of debt attributable to the unspent proceeds.
- Restricted - This component consists of net position that has constraints placed on them either externally by third parties (creditors, grantors, and contributors) or by law through constitutional provisions of enabling legislation. The City would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use of these funds.
- Unrestricted - This component consists of net position that does not meet the definition of “invested in capital assets, net of related debt” and “restricted”. Designations of net position made by the City’s management are included in this component because these types of constraints are internal and management can remove or modify them.

Fund Balances:

In the fund financial statements, fund balance for governmental funds (general fund, special revenue fund, CRA fund, impact fee fund) is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Under GASB 54 requirements, fund balance is reported as five possible components – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable - This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted - This component includes amounts reported as restricted when constraints placed on the use of the resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed - This component includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Such amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned - This component is used to report the government’s intent to use the amount for a specific purpose, but are neither restricted nor committed.

NOTE 1. Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities, and Fund Equity (Continued)

- Unassigned - This component is the residual classification for the general fund. This amount represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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

In governmental funds, bond discounts and issuance costs are recognized in the current period. In the proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method of accounting, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred outflows of resources.

G. Pensions

In the government-wide statement of net position, liabilities are recognized for the City's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) and additions to/deductions from FRS's and HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and HIS plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds of employee contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources reported in the City's statement of net position represent changes in actuarial assumptions, the net difference between projected and actual earnings on Health Insurance Subsidy Program investments, changes in the proportion and differences between the City's contributions and proportionate share of contributions, and the City's contributions subsequent to the measurement date, relating to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program. These amounts will be recognized as increases in pension expense in future years.

NOTE 1. Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources reported in the City's statement of net position represent the difference between expected and actual economic experience, the net difference between projected and actual earnings on Florida Retirement System Pension investments, and changes in the proportion and differences between the City's contributions and proportionate share of contributions relating to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program. These amounts will be recognized as reductions in pension expense in future years.

I. Interfund Transaction

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation where applicable.

NOTE 1. Summary of Significant Accounting Policies (Continued)

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Subsequent Events

Management has evaluated subsequent events through May 31, 2019, the date the financial statements were available to be issued.

NOTE 2. Cash and Pooled Cash, Cash Equivalents, and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments" under each fund's caption.

Cash and Investments include amounts in demand deposits (including sweep account features), United States Treasury Notes, bank certificates of deposit, repurchase agreements and deposits with the State Board of Administration of Florida's Prime Fund.

Fiscal management policies designed to comply with Florida statutes authorize the government to invest in:

- A. The Florida Prime Fund (SBA) and the Florida Municipal Investment Trust.
- B. Negotiable direct obligations or obligations where the principal and interest are unconditionally guaranteed by the United States Government.
- C. Non-negotiable interest-bearing time certificates of deposit or savings accounts in banks and savings associations under the laws of this state and/or in national banks or savings associations organized under the law of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security of Public Deposits Act Chapter 280, Florida Statutes, and provided that the bank or savings association is not listed with any recognized credit watch information service.
- D. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States agencies provided such obligations are backed by the full faith and credit of the United States Government.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 2. Cash and Pooled Cash, Cash Equivalents, and Investments (Continued)

E. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by United States Government agencies (Federal Instrumentalities), which are non full faith and credit agencies limited to the following:

1. Federal Farm Credit Bank (FFCB)
2. Federal Home Loan Bank or its district banks (FHLB)
3. Federal National Mortgage Association (FNMA)-FNMA guaranteed pass-through obligations
4. Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal Home Loan Mortgage Corporation participation certificates
5. Student Loan Marketing Association (Sallie-Mae)
6. Tennessee Valley Authority (TVA)

F. Repurchase agreements comprised of only those investments as authorized in Section B, C and D above.

All demand deposits and certificates of deposit are covered by FDIC insurance and collateral pledged with the State Treasurer by the applicable banks. This is done in compliance with Section 280, Florida Statutes, which provides that in the event of a default by any such bank or savings and loan association, all participating banks and savings and loan associations throughout the State would be obligated to reimburse the government for any loss. Funds on deposit in repurchase agreements and the Florida Local Government Investment Pool (Florida Prime) are not covered by FDIC insurance or Florida Section 280.

Pooled Cash and Investments consist of the following amounts and maturities as of September 30, 2018:

<u>Deposit/Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity (in years)</u>	
		<u>Less than 1 yr</u>	<u>5+ Years</u>
Florida Prime	\$ 1,579,265	\$ 1,579,265	\$ -
Bank Issued Certificates of Deposit	5,710,937	5,710,937	-
Florida Local Government Investment Trust	2,047,254	2,047,254	-
Repurchase Agreement - US			
Treasury Money Market			
Sweep Account Balance	16,202,253	16,202,253	-
Bank Demand Deposit Account	-	-	-
	<u>\$ 25,539,709</u>	<u>\$ 25,539,709</u>	<u>\$ -</u>

The Florida Prime is rated by Standard and Poors as AAAM. The weighted average days to maturity of the Florida Prime as of September 30, 2018, was 72 days.

The Florida Local Government Investment Trust is maintained in the short term bond fund, which had a rating of AA Af and a weighted duration to maturity of 1.51 years as of September 30, 2018.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 2. Cash and Pooled Cash, Cash Equivalents, and Investments (Continued)

Interest Rate Risk.

As a means of limiting its exposure to interest rate risk, the City diversifies its investments by security type and institution and limits holdings in any type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and has generally restricted the maximum investment term to less than five years from the purchase date.

Equity in pooled cash and investments by fund are:

<u>Fund</u>	<u>Deposit Type</u>	<u>Amount</u>
General Fund	Unrestricted	\$ 6,287,597
Special Revenue Fund	Unrestricted	7,436,942
CRA Fund	Unrestricted	127,808
Impact Fee Fund	Unrestricted	4,903,628
Proprietary Funds	Unrestricted	3,073,788
Proprietary Funds	Restricted	3,709,946
Total Pooled Cash and Investments		<u>\$25,539,709</u>

NOTE 3. Receivables

The receivables and related allowances for uncollectibles at September 30, 2018 were as follows:

	<u>Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net</u>
General Fund	\$ 575,222	\$ -	\$ 575,222
Special Revenue Fund	29,297	-	29,297
Impact Fee Fund	46,226	-	46,226
Enterprise Funds	3,099,734	(76,000)	3,023,734
Total	<u>\$3,750,479</u>	<u>\$ (76,000)</u>	<u>\$3,674,479</u>

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 4. Capital Assets

Governmental activities' capital asset activity for the fiscal year ending September 30, 2018, was as follows:

	Beginning Balance 10/1/2017	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance 9/30/2018
Governmental Activities:				
Non-Depreciable Assets				
Land & Improvements	\$ 3,081,640	\$ 806,685	\$ -	\$ 3,888,325
Depreciable Assets				
Buildings and Improvements	12,280,070	150,125	502,833	11,927,362
Improvements Other than Buildings	3,886,088	1,017,542	-	4,903,630
Equipment	9,941,742	991,687	76,606	10,856,823
Infrastructure	16,344,553	434,295	1,499,577	15,279,271
Construction in Progress	924,694	6,179,354	131,505	6,972,543
Total at Historical Cost	<u>46,458,787</u>	<u>9,579,688</u>	<u>2,210,521</u>	<u>53,827,954</u>
Less Accumulated Depreciation for				
Land and Land Improvements	-		-	-
Buildings and Improvements	4,532,065	1,334,356	-	5,866,421
Improvements Other than Buildings	1,462,015	907,260	-	2,369,275
Equipment	6,958,733	580,569	465,329	7,073,973
Infrastructure	10,007,604	606,491	1,253,022	9,361,073
Total Accumulated Depreciation	<u>22,960,417</u>	<u>3,428,676</u>	<u>1,718,351</u>	<u>24,670,742</u>
Capital Assets, Net	<u>\$ 23,498,370</u>	<u>\$ 6,151,012</u>	<u>\$ 492,170</u>	<u>\$ 29,157,212</u>

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 4. Capital Assets (Continued)

Depreciation was charged to the governmental activities as follows:

General Government	
Administration	\$ 47,515
Other General Gvt	12,519
Total General Government	<u>60,034</u>
Public Safety	
Fire Department	234,155
Police Department	324,711
Protective Inspection	2,734
Total Public Safety	<u>561,600</u>
Public Works	
Streets	855,854
Equipment Maintenance	22,945
Parks & Facility Management	187,134
Total Public Works	<u>1,065,933</u>
Culture and Recreation	
Library	85,439
Total Culture & Recreation	<u>85,439</u>
Total	<u>\$ 1,773,006</u>

Business-Type activities' capital asset activity for the fiscal year ending September 30, 2018, was as follows:

	Beginning Balance 10/1/2017	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance 9/30/2018
Business-Type Activities:				
Non-Depreciable Assets				
Land & Improvements	\$ 3,189,662	\$ -	\$ -	\$ 3,189,662
Depreciable Assets				
Buildings and Improvements	15,159,963	143,450	-	15,303,413
Equipment	14,305,133	801,512	17,656	15,088,989
Infrastructure	66,093,991	5,749,512	-	71,843,503
Construction in Progress	224,080	-	169,926	54,154
Total at Historical Cost	<u>98,972,829</u>	<u>6,694,474</u>	<u>187,582</u>	<u>105,479,721</u>
Less Accumulated Depreciation for:				
Buildings and Improvements and Infrastructure	28,326,263	2,925,294	-	31,251,557
Equipment	9,462,606	659,383	17,656	10,104,333
Total Accumulated Depreciation	<u>37,788,869</u>	<u>3,584,677</u>	<u>17,656</u>	<u>41,355,890</u>
Capital Assets, Net	<u>\$ 61,183,960</u>	<u>\$ 3,109,797</u>	<u>\$ 169,926</u>	<u>\$ 64,123,831</u>

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 5: Long-Term Debt

Long-term debt activity for the fiscal year ending September 30, 2018 is as follows:

	Beginning Balance 10/1/2017	Increases	Decreases	Ending Balance 9/30/2018	Amounts Due Within One Year
Governmental Activities:					
Notes and Leases Payable					
Bond Payable, JP Morgan Chase Bank, N.A. (City Hall Project)	-	7,471,000	-	7,471,000	432,147
Total Notes and Leases Payable	-	7,471,000	-	7,471,000	432,147
Other Liabilities					
Net OPEB Obligations	4,644,000	10,988,000	-	15,632,000	-
Compensated Absences	958,330	592,784	414,862	1,136,252	420,413
Total Long-term Liabilities					
Governmental Activities	<u>\$ 5,602,330</u>	<u>\$ 19,051,784</u>	<u>\$ 414,862</u>	<u>\$ 24,239,252</u>	<u>\$ 852,560</u>

City of Zephyrhills, FL has an Infrastructure Sales Surtax Revenue Bond (Series 217 Bond) obligation to JP Morgan Chase Bank, N.A. (City Hall Project) bearing interest at 2.344%. The Bond is payable in one principal payment per year and two interest payments per year, with total annual payments of \$595,592. Interest is payable on April 1 and October 1 each year. Closing date of the Series 217 Bond was October 25, 2017. The Bond is payable from Non-Ad Valorem revenues which must be budgeted and appropriated each year. The full faith and credit of the City is not pledged to the payment of the Bond. The Bond cannot be prepaid prior to October 25, 2022.

Principal and interest payments for the years following September 30, 2018, are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	432,147	170,055
2020	430,601	164,991
2021	440,695	154,897
2022	451,024	144,568
2023	461,596	133,996
2024 to 2028	2,475,442	452,598
2029 to 2033	2,779,495	165,896
	<u>\$ 7,471,000</u>	<u>\$ 1,387,001</u>

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 5: Long-Term Debt (Continued)

	Beginning Balance 10/01/17	Increases	Decreases	Ending Balance 09/30/18	Amounts Due Within One Year
Business-Type Activities					
Bonds Payable, BB&T Series	\$ 5,995,313	\$ -	\$ 919,062	\$ 5,076,251	\$ 313,119
Total Bond Payable	5,995,313	-	919,062	5,076,251	313,119
EPA Loan to Utility Fund	11,320,957	-	924,129	10,396,828	943,824
	-	-	-	-	-
Total Bonds and Notes Payable	17,316,270	-	1,843,191	15,473,079	1,256,943
Other Liabilities					
Compensated Absences	409,839	133,096	115,321	427,614	110,345
Total Long-Term Business-Type Activities	<u>\$ 17,726,109</u>	<u>\$ 133,096</u>	<u>\$ 1,958,512</u>	<u>\$ 15,900,693</u>	<u>\$ 1,367,288</u>

Clean Water State Revolving Fund Loan Agreement

In connection with necessary expansion of the wastewater treatment plant, the City approved funding said improvement by use of a loan from the state revolving loan fund and EPA. The total commitment available to the City is \$19,749,018, including construction period capitalized interest.

The loan provides for interest at the rate of 2.12% and requires semi-annual payments of \$1,159,261. The construction was substantially completed as of September 30, 2008, and the plant is in operation.

All Utility Fund Revenues, including connection fees, have been pledged as collateral for this loan.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 5: Long-Term Debt (Continued)

The following repayment schedule is based on funds draw down as of September 30, 2018.

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Amount</u>	<u>Total EPA Loan Service Requirement</u>
2019	943,824	2.12%	215,437	1,159,261
2020	963,939	2.12%	195,322	1,159,261
2021	984,483	2.12%	174,778	1,159,261
2022	1,005,464	2.12%	153,797	1,159,261
2023	1,026,893	2.12%	132,368	1,159,261
2024	1,048,779	2.12%	110,482	1,159,261
2025	1,071,131	2.12%	88,130	1,159,261
2026	1,093,959	2.12%	65,302	1,159,261
2027	1,117,274	2.12%	41,984	1,159,258
2028	1,141,082	2.12%	18,175	1,159,257
	<u>\$ 10,396,828</u>		<u>\$ 1,195,775</u>	<u>\$ 11,592,603</u>

The City of Zephyrhills borrowed money several years ago from the US Dept of Environmental Protection Agency. This loan was passed through the Fla. Dept. of Environmental Protection, Clean Water State Revolving Fund. The funds were also associated with the American Recovery and Reinvestment Act. The proceeds were used to upgrade and expand the existing Wastewater Treatment Plant.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 5: Long-Term Debt (Continued)

During fiscal year 2018, the City issued \$6,591,078, for long-term financing of equipment upgrades and related costs for the Utility and Sanitation funds. The debt is in the form of a lease-purchase agreement and is reported as Bonds Payable, BB&T Series Equipment Finance lease. The following is a schedule of maturities under this agreement.

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Amount</u>	<u>Total BB&T Loan Service Requirement</u>
2019	313,119	2.20%	115,085	428,204
2020	636,607	2.20%	101,307	737,914
2021	650,690	2.20%	87,225	737,915
2022	665,084	2.20%	72,831	737,915
2023	679,796	2.20%	58,119	737,915
2024	694,834	2.20%	43,081	737,915
2025	710,205	2.20%	27,710	737,915
2026	725,916	2.20%	11,995	737,911
	<u>\$ 5,076,251</u>		<u>\$ 517,353</u>	<u>\$ 5,593,604</u>

Total Annual Business Activities Debt Service Requirements - excluding compensated absences

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,256,943	271,276	1,528,219
2020	1,600,547	296,629	1,897,176
2021	1,635,173	262,003	1,897,176
2022	1,670,548	226,628	1,897,176
2023-2027	8,168,786	579,171	8,747,957
2028-2031	1,141,081	18,175	1,159,256
	<u>\$ 15,473,078</u>	<u>\$ 1,653,882</u>	<u>\$ 17,126,960</u>

The City is in compliance with all significant debt requirements.

NOTE 6: Employee Retirement Systems and Pension (Continued)

Florida Retirement System (FRS)

General Information about the FRS

The Florida Retirement System (FRS) was created by Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the City are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

The City's pension expense totaled \$2,390,267 for both the FRS Pension Plan and HIS Plan for the year ended September 30, 2018.

NOTE 6: Employee Retirement Systems and Pension (Continued)

Florida Retirement System Pension Plan

Plan Description

The Florida Retirement System Pension Plan (FRS Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are special risk employees, such as law enforcement officers, meet the criteria to qualify for this class.

Employees enrolled in the FRS Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the FRS Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the FRS Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the FRS Plan may include up to 4 years of credit for military service toward creditable service. The FRS Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The FRS Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the FRS Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Benefits Provided

Benefits under the FRS Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service:</u>	<u>% Value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement up to age 63 or up to 31 years of service	1.63
Retirement up to age 64 or up to 32 years of service	1.65
Retirement up to age 65 or up to 33 years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement up to age 66 or up to 34 years of service	1.63
Retirement up to age 67 or up to 35 years of service	1.65
Retirement up to age 68 or up to 36 years of service	1.68
Elected County Officers	3.00
Senior Management Service Class	2.00
Special Risk Regular	
Service from December 1, 1970, through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Contributions

The Florida Legislature establishes contribution rates for participating employers and employees. Effective July 1, 2011, all FRS Plan members (except those in DROP) are required to make 3% employee contributions on a pretax basis. The contribution rates attributable to the City, effective July 1, 2016 were applied to employee salaries as follows: Regular—8.26%, Senior Management 24.06%, and DROP participants 14.03%. The City's contributions to the FRS Plan were \$1,134,207 for year ended September 30, 2018.

Pension Costs

At September 30, 2018, the City reported a liability of \$11,646,642 for its proportionate share of the FRS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension liability was based on the City's contributions received by FRS during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of FRS's participating employers. At June 30, 2018, the City's proportion was 0.038666806%, which was an increase of 0.001286397% from its proportion measured as of June 30, 2017.

For the year ended September 30, 2018, the City recognized pension expense of \$2,142,907. 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 Economic Experience	\$ 986,646	\$ 35,811
Changes in Actuarial Assumptions	3,805,556	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	899,845
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	774,568	59,244
City Contributions Subsequent to the Measurement Date	304,799	-
Total	<u>\$ 5,871,569</u>	<u>\$ 994,900</u>

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Pension Costs (Continued)

The \$304,799 reported as deferred outflows of resources related to pensions resulting from City contributions to the FRS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ended September 30,	Amount
2019	\$ 1,639,696
2020	1,190,064
2021	328,955
2022	815,082
2023	516,301
Thereafter	81,773

Actuarial Assumptions

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

FRS Actuarial Assumptions

Inflation	2.60 % per year
Salary Increases	3.25%, Average, Including Inflation
Investment Rate of Return	7.00%, Net of Pension Plan Investment Expense, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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, as outlined in the FRS Plan's investment policy, and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	2.90%	2.90%	1.80%
Fixed Income	18.00%	4.40%	4.30%	4.00%
Global Equity	54.00%	7.60%	6.30%	17.00%
Real Estate (Property)	11.00%	6.60%	6.00%	11.30%
Private Equity	10.00%	10.70%	7.80%	26.50%
Strategic Investments	6.00%	6.00%	5.70%	8.60%
Totals	<u>100.00%</u>			
Assumed Inflation - Mean		2.60%		1.90%

(1) As outlined in the Pension Plan's investment policy.

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for the FRS Plan. 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 of the total pension liability is equal to the long-term expected rate of return.

Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for the FRS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease Discount Rate	Current Discount Rate	1% Increase in Discount Rate
FRS Plan Discount Rate	6.00%	7.00%	8.00%
Council's Proportionate Share of the FRS Plan Net Pension Liability (Asset)	\$ 21,255,611	\$ 11,646,642	\$ 3,665,826

NOTE 6: Employee Retirement Systems and Pension (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the FRS Plan's fiduciary's net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

Health Insurance Subsidy Program (HIS)

Plan Description

The Health Insurance Subsidy Program (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 June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

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 June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The City contributed 100 percent of its statutorily required contributions for the current and preceding 3 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 the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled. The City's contributions to the HIS Plan were \$134,178 for the year ended September 30, 2018.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Pension Costs

At September 30, 2018, the City reported a liability of \$2,617,787 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension liability was based on the City's contributions received during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all participating employers. At June 30, 2018, the City's proportion was 0.024733170%, which was an increase of 0.000906511% from its proportion measured as of June 30, 2017.

For the year ended September 30, 2018, the City recognized pension expense of \$247,360 for its proportionate share of HIS's pension expense. In addition, the City reported its proportionate share of HIS's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 40,077	\$ 4,448
Changes in Actuarial Assumptions	291,130	276,774
Net Difference Between Projected and Actual Earnings on HIS Program Investments	1,580	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	255,732	-
City Contributions Subsequent to the Measurement Date	35,482	-
Total	<u>\$ 624,001</u>	<u>\$ 281,222</u>

The \$35,433 reported as deferred outflows of resources related to pensions resulting from City contributions to the FRS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 88,593
2020	88,460
2021	73,573
2022	53,047
2023	7,380
Thereafter	(3,754)

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 6: Employee Retirement Systems and Pension (Continued)

Actuarial Assumptions

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

HIS Actuarial Assumptions

Inflation	2.60 % per year
Salary Increases	3.25%, Average, Including Inflation
Municipal Bond Rate	3.87%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study of the FRS Pension Plan for the period July 1, 2008, through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 3.87% for the HIS Plan. 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.

Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for the HIS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease Discount Rate	Current Discount Rate	1% Increase in Discount Rate
HIS Plan Discount Rate	2.87%	3.87%	4.87%
Council's Proportionate Share of the HIS Plan Net Pension Liability	\$ 2,981,505	\$ 2,617,787	\$ 2,314,606

NOTE 6: Employee Retirement Systems and Pension (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the HIS Plan's fiduciary's net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

NOTE 7. Deferred Compensation Plan

The City has created a deferred compensation plan which is available to all employees in accordance with Internal Revenue Code 457. The plan is administered by independent plan administrators through applicable service agreements. Various options are available for all City employees.

Certain provisions of the Small Business Job Protection Act of 1996 affect Internal Revenue Code Section 457 plans by eliminating the requirement that Section 457 plan assets remain assets of the sponsoring government. The Act now requires that amounts deferred under Section 457 be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors.

NOTE 8. Other Post-Employment Benefits

Effective for the fiscal year ended September 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which supersedes previous accounting and financial reporting guidance for certain postemployment healthcare and life insurance benefits provided by the City. The implementation of this statement resulted in a restatement of net position as discussed further in Note 11.

The City provides, through annual City Council appropriation, health insurance for approximately forty retired employees and their families. The postemployment benefits are accounted for in the general fund on a "pay-as-you-go" basis. The cost for the year ended September 30, 2018, was \$322,605. In addition, the City provides health insurance coverage to terminated employees in accordance with the COBRA law. These benefits are provided at no cost to the City, since former employees reimburse the City.

Based on GASB Statement 75, which sets forth the guidelines for the treatment of Other Post Employment Benefits (OPEB), the City has had an actuarial calculation completed to determine the future funding requirements of these benefits. The actuary's 2018 valuation (calculated as of September 30, 2018) involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. These assumptions include future employment, mortality, future payroll and health care cost trends. The calculation used the entry age normal cost method including normal pension-related actuarial assumptions, health care inflation for Pre-Medicare cost of 7.0% and a Post-Medicare cost of 6.0%, plus a payroll growth inflation assumption of 3%. The calculation amortizes the Unfunded Actuarial Accrued Liability (UAAL) over 30 years.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 8. Other Post-Employment Benefits (Continued)

The City of Zephyrhills contributes up to 50% of the active health insurance premium for retirees with at least 10 years of service, and who were participating in the City's group insurance plan at the time of retirement. Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents, at a cost to the retirees that is no greater than the cost at which coverage is available for active employees. The City currently has no plans to fund the Unfunded Actuarial Accrued Liability (UAAL).

OPEB Plan participants must reimburse the City for the City's average blended cost. Contributions requirements of the City are established and may be amended through action of the Council. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

At September 30, 2018, the following employees were covered by the benefit terms:

Retirees and Beneficiaries Currently Receiving Benefits	51	
Active Employees	157	
	208	

Total OPEB Liability and Changes in Total OPEB Liability

The measurement date for the City's total OPEB liability was September 30, 2018. The measurement period for OPEB cost was October 1, 2017 to September 30, 2018. The components of the City's net OPEB liability are as follows:

Total OPEB Liability	\$	15,632,000
OPEB Plan Fiduciary Net Position		-
City's Net OPEB Liability	\$	15,632,000
OPEB Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		0%

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 8. Other Post-Employment Benefits (Continued)

The components of the changes in the total OPEB liability are as follows:

<u>Total OPEB Liability</u>	<u>Fiscal Year 2018</u>
Service Cost	\$ 681,663
Interest	615,978
Difference between Expected and Actual Experience	-
Change of Assumptions and Other Inputs	(1,710,646)
Benefit Payments	(484,424)
Net Change in Total OPEB Liability	<u>(897,429)</u>
Total OPEB Liability, Beginning	<u>16,529,602</u>
Total OPEB Liability, Ending	<u>\$ 15,632,173</u>

Actuarial Assumptions and OPEB liability Sensitivity to Healthcare Trend Rate

The total OPEB liability reported at September 30, 2018 was based on an actuarial valuation dated October 1, 2017 rolled forward to September 30, 2018 using the following actuarial assumptions:

Inflation	3.0% per annum
Discount Rate	4.24% per annum
Salary Increases	3.5% per annum
Mortality Rates	RP-2014 mortality tables
Healthcare Trend Rate	Trend starting at 6.0% with .5% decrease per year to final rate of 4.5%

Sensitivity of OPEB liability to healthcare cost trend rate

The following table presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

	Current trend		
	1% Decrease	Rate	1% Increase
Total OPEB Liability	\$ 13,907,000	\$ 15,632,000	\$ 17,841,000

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 8. Other Post-Employment Benefits (Continued)

Discount Rate and OPEB Liability Sensitivity to Discount Rate

The discount rate used to measure the total OPEB liability reported as of September 30, 2018 was 3.63%.

The following table presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease	Current trend Rate	1% Increase
Total OPEB Liability	3.24%	4.24%	5.24%
	\$ 13,322,000	\$ 15,632,000	\$ 18,582,000

NOTE 9. Risk Management

The City is exposed to various risks of losses related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to workers; and natural disasters. The City has chosen to manage these risks through purchases of commercial insurance and participation in the Public Risk Management (PRM) pool. The pool is a protected self insurance program which has both specific excess insurance for large losses and aggregate excess insurance or stop loss insurance in the event the loss fund is used up because of frequency of losses.

The City has maintained levels of insurance coverage during the current year.

NOTE 10. Contingencies

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

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

City of Zephyrhills, Florida
Notes to the Financial Statements
September 30, 2018

NOTE 11. Change in Accounting Principles

In 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, resulting in an increase in beginning OPEB liability and restatement of beginning net position for the City's governmental activities and proprietary funds. The components of this restatement are as follows:

Elements of Restatement:	Governmental Activities	Business-Type Activities
Beginning Net position, as originally reported	30,346,302	52,771,495
Cumulative effect of application of GASB No. 75	(11,885,602)	-
Beginning Net Position, as Restated	<u>\$ 18,460,700</u>	<u>\$ 52,771,495</u>

Required Supplementary Information

Required supplementary information includes a budgetary comparison schedule for the General Fund and Special Revenue Fund and Net Pension Liability and Related Schedules

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

RESOURCES (INFLOWS)	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			BUDGETARY	BUDGET
			BASIS	POSITIVE
				(NEGATIVE)
Taxes				
Ad Valorem	\$ 3,929,233	\$ 3,929,233	\$ 3,902,287	\$ (26,946)
Communication Services	464,257	464,257	485,354	21,097
Utility Taxes	1,530,000	1,530,000	1,551,098	21,098
Business Tax	93,000	93,000	297,370	204,370
Total Taxes	<u>6,016,490</u>	<u>6,016,490</u>	<u>6,236,109</u>	<u>219,619</u>
Licenses & Permits				
Franchise Fees	1,258,000	1,258,000	1,295,256	37,256
Building Permits	120,000	120,000	531,006	411,006
Other	26,700	26,700	37,818	11,118
Total Licenses & Permits	<u>1,404,700</u>	<u>1,404,700</u>	<u>1,864,080</u>	<u>459,380</u>
Intergovernmental				
State Revenue Sharing	545,978	545,978	410,347	(135,631)
Mobile Home License	123,000	123,000	128,739	5,739
County Occupational License	7,000	7,000	2,552	(4,448)
Half-Cent Sales Tax	991,479	991,479	1,014,957	23,478
Alcoholic Beverage License	12,000	12,000	15,363	3,363
Firefighter Supplement	-	-	-	-
School District Reimbursement For School Resource Officer	-	-	-	-
Federal Grants	-	-	11,896	11,896
State Grants	-	-	24,018	24,018
Total Intergovernmental	<u>1,679,457</u>	<u>1,679,457</u>	<u>1,607,872</u>	<u>(71,585)</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

RESOURCES (INFLOWS)(Continued)	BUDGETED AMOUNT		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS BUDGETARY BASIS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Charges for Services				
Building Administrative	8,000	8,000	8,768	768
Code Enforcement	10,000	10,000	16,535	6,535
Library	4,000	4,000	4,349	349
Other	2,200	2,200	25,748	23,548
Payments in Lieu of Taxes	222,300	222,300	-	(222,300)
Administrative Fees	5,500	5,500	26,162	20,662
Proprietary Fund Reimbursed	3,080,000	3,080,000	3,080,000	-
Total Charges for Services	3,332,000	3,332,000	3,161,562	(170,438)
Fines & Forfeits				
Court Fees	50,000	50,000	40,673	(9,327)
Violations of Local Ordinances	-	-	-	-
Police Education	7,000	7,000	3,640	(3,360)
Confiscated Property	-	-	-	-
Total Fines & Forfeits	57,000	57,000	44,313	(12,687)
Miscellaneous				
Investment Income	20,310	20,310	92,158	71,848
Cemetery Sales	25,000	25,000	49,050	24,050
Surplus Property Sold	5,000	5,000	18,220	13,220
Contributions	1,250	1,250	23,059	21,809
Rents	13,500	13,500	20,931	7,431
FDOT Street Lighting	27,500	27,500	28,177	677
Other	62,500	62,500	(855)	(63,355)
Total Miscellaneous	155,060	155,060	230,740	75,680
Other Financing Sources				
City Hall Bond Issue	-	-	7,471,000	7,471,000
Operating Transfers	77,900	77,900	77,900	-
Total Other	77,900	77,900	7,548,900	7,471,000
Amounts Available for Appropriation	\$ 12,722,607	\$ 12,722,607	\$ 20,693,576	\$ 7,970,969

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

CHARGES TO APPROPRIATIONS OUTFLOWS	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	BUDGETARY BASIS	POSITIVE (NEGATIVE)
General Government				
City Council				
Personnel Services	\$ 61,504	\$ 61,504	\$ 38,754	\$ 22,750
Operating	16,600	16,600	15,332	1,268
Other Services and Charges	3,412,670	3,412,670	62,909	3,349,761
Contributions	40,000	40,000	27,000	13,000
City Council Total	<u>3,530,774</u>	<u>3,530,774</u>	<u>143,995</u>	<u>3,386,779</u>
Administration				
Personnel Services	373,514	373,514	412,128	(38,614)
Operating	226,250	226,250	260,713	(34,463)
Other Services and Charges	-	-	-	-
Contributions	120,000	120,000	30,000	90,000
Capital Outlay	7,000,000	7,000,000	5,952,508	1,047,492
Contingencies	1,896,631	1,896,631	-	1,896,631
Administration Total	<u>9,616,395</u>	<u>9,616,395</u>	<u>6,655,349</u>	<u>2,961,046</u>
Human Resources				
Personnel Services	674,871	674,871	659,571	15,300
Operating	648,415	648,415	638,906	9,509
General Services Total	<u>1,323,286</u>	<u>1,323,286</u>	<u>1,298,477</u>	<u>24,809</u>
Finance				
Personnel Services	311,330	311,330	265,807	45,523
Operating	66,450	66,450	74,616	(8,166)
Finance Total	<u>377,780</u>	<u>377,780</u>	<u>340,423</u>	<u>37,357</u>
Information Technology				
Personnel Services	178,281	178,281	186,326	(8,045)
Operating	600,109	600,109	477,429	122,680
Other Services and Charges	280,000	280,000	-	280,000
Capital Outlay	49,200	49,200	61,553	(12,353)
Information Technology Total	<u>1,107,590</u>	<u>1,107,590</u>	<u>725,308</u>	<u>382,282</u>
Economic Development				
Operating	65,000	65,000	50,000	15,000
Grants	12,000	12,000	-	12,000
Equipment Maintenance Total	<u>77,000</u>	<u>77,000</u>	<u>50,000</u>	<u>27,000</u>
Utility Billing				
Personnel Services	120,795	120,795	99,931	20,864
Operating	750,250	750,250	633,524	116,726
Capital Outlay	-	-	-	-
Utility Billing Total	<u>871,045</u>	<u>871,045</u>	<u>733,455</u>	<u>137,590</u>
Planning				
Personnel Services	291,267	291,267	313,107	(21,840)
Operating	88,980	88,980	70,131	18,849
Reserve	40,837	40,837	-	40,837
Planning Total	<u>421,084</u>	<u>421,084</u>	<u>383,238</u>	<u>37,846</u>
Total General Government	<u>17,324,954</u>	<u>17,324,954</u>	<u>10,330,245</u>	<u>6,994,709</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

CHARGES TO APPROPRIATIONS (OUTFLOWS)(Continued)	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	BUDGETARY BASIS	POSITIVE (NEGATIVE)
Public Safety				
Police Dispatch				
Personnel Services	586,304	586,304	529,639	56,665
Other Services & Charges	3,200	3,200	1,500	1,700
Police Dispatch Total	<u>589,504</u>	<u>589,504</u>	<u>531,139</u>	<u>58,365</u>
Police Department				
Personnel Services	3,096,318	3,096,318	2,983,130	113,188
Operating	421,300	421,300	393,225	28,075
Other Services & Charges	291,501	291,501	-	291,501
Capital Outlay	381,000	381,000	213,670	167,330
Police Total	<u>4,190,119</u>	<u>4,190,119</u>	<u>3,590,025</u>	<u>600,094</u>
Fire Department				
Personnel Services	2,435,320	2,435,320	2,455,945	(20,625)
Operating	301,340	301,340	207,845	93,495
Capital Outlay	175,585	175,585	266,484	(90,899)
Fire Total	<u>2,912,245</u>	<u>2,912,245</u>	<u>2,930,274</u>	<u>(18,029)</u>
Protective Inspections				
Personnel Services	447,996	447,996	454,755	(6,759)
Operating	59,450	59,450	27,101	32,349
Capital Outlay	-	-	-	-
Protective Inspections Total	<u>507,446</u>	<u>507,446</u>	<u>481,856</u>	<u>25,590</u>
Public Safety Total	<u>8,199,314</u>	<u>8,199,314</u>	<u>7,533,294</u>	<u>666,020</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

<u>CHARGES TO APPROPRIATIONS</u> <u>(OUTFLOWS)(Continued)</u>	<u>BUDGETED AMOUNTS</u>		<u>AMOUNTS</u>	<u>BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>POSITIVE</u>
			<u>BASIS</u>	<u>(NEGATIVE)</u>
Public Works				
Stormwater Management				
Operating	5,000	5,000	5,306	(306)
Capital Outlay	40,000	40,000	32,118	7,882
Stormwater Management Total	<u>45,000</u>	<u>45,000</u>	<u>37,424</u>	<u>7,576</u>
Public Works Administration Road & Street Facilities				
Personnel Services	549,397	549,397	560,359	(10,962)
Operating	286,700	286,700	237,123	49,577
Capital Outlay	160,000	160,000	132,259	27,741
Street Facilities Total	<u>996,097</u>	<u>996,097</u>	<u>929,741</u>	<u>66,356</u>
Equipment Maintenance				
Personnel Services	209,626	209,626	200,609	9,017
Operating	33,900	33,900	25,111	8,789
Capital Outlay	14,000	14,000	8,378	5,622
Equipment Maintenance Total	<u>257,526</u>	<u>257,526</u>	<u>234,098</u>	<u>23,428</u>
Parks & Facility Management				
Personnel Services	659,706	659,706	690,939	(31,233)
Operating	156,800	156,800	157,664	(864)
Other Services & Charges	-	-	-	-
Capital Outlay	34,000	34,000	32,541	1,459
Parks and Facility Management Total	<u>850,506</u>	<u>850,506</u>	<u>881,144</u>	<u>(30,638)</u>
Public Works Total	<u>2,149,129</u>	<u>2,149,129</u>	<u>2,082,407</u>	<u>66,722</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

CHARGES TO APPROPRIATIONS (OUTFLOWS)(Continued)	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	BUDGETARY BASIS	POSITIVE (NEGATIVE)
Library				
Personnel Services	274,854	274,854	251,132	23,722
Operating	42,535	42,535	40,524	2,011
Other Services & Charges	36,312	36,312	-	36,312
Capital Outlay	18,000	18,000	22,787	(4,787)
Library Total	371,701	371,701	314,443	57,258
Debt Service				
Principal and Interest	-	-	7,000	(7,000)
Debt Service Total	-	-	7,000	(7,000)
Total Charges to Appropriations	28,045,098	28,045,098	20,267,389	7,777,709
Excess (Deficiency) of Resources and Fund Transfers Over Charges to Appropriations	(15,322,491)	(15,322,491)	426,187	193,260
Fund Balance - Beginning of Year	15,322,491	15,322,491	8,781,533	6,540,958
Fund Balance - End of Year	\$ -	\$ -	\$ 9,207,720	\$ 6,734,218
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Sources/Inflows of Resources				
Actual amounts (budgetary basis) "available for appropriation" from the Budgetary comparison schedule.				\$ 20,693,576
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(7,548,900)
Total Revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.				\$ 13,144,676

City of Zephyrhills, Florida
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2018

Actual amounts (budgetary basis) of charges to appropriations from the budgetary comparison schedule	\$ 20,267,389
Differences - budget to GAAP:	<u>NONE</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - General Fund	<u>\$ 20,267,389</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
Special Revenue Fund
For the Year Ended September 30, 2018

	BUDGETED AMOUNT		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	BUDGETARY BASIS	POSITIVE (NEGATIVE)
RESOURCES (INFLOWS)				
Intergovernmental				
Motor Fuel Taxes	84,797	84,797	209,159	124,362
Local Option Sales Tax	1,859,579	1,859,579	2,138,886	279,307
8th Cent Motor Fuel Tax	115,000	115,000	148,937	33,937
Gas Tax Refund	18,000	18,000	24,632	6,632
Total Intergovernmental	<u>2,077,376</u>	<u>2,077,376</u>	<u>2,521,614</u>	<u>444,238</u>
Miscellaneous				
Investment Income	4,000	4,000	-	(4,000)
Total Miscellaneous	<u>4,000</u>	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>
Amount Available for Appropriation	2,081,376	2,081,376	2,521,614	440,238
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Expenditures				
Debt Service	1,357,666	1,357,666	75,885	1,281,781
Capital Outlay	809,000	809,000	710,213	98,787
Transfers to Other Funds	1,592,000	1,592,000	-	1,592,000
Contingency	1,913,454	1,913,454	-	1,913,454
Reserves	-	-	-	-
Total Expenditures	<u>5,672,120</u>	<u>5,672,120</u>	<u>786,098</u>	<u>4,886,022</u>
Excess (Deficiency) of Resources over Charges to Appropriations	(3,590,744)	(3,590,744)	1,735,516	5,326,260
Fund Balance at Beginning of Year	3,590,744	3,590,744	5,730,723	2,139,979
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,466,239</u>	<u>\$ 7,466,239</u>

Explanation of Differences Between Budgetary Outflows and GAAP Expenditures

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule

\$ 786,098

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.

-

Total expenditures as reported on the statement of revenue, expenditures and change in fund balances - Special Revenue Fund

\$ 786,098

City of Zephyrhills, Florida
Budgetary Comparison Schedule
CRA Fund
For the Year Ended September 30, 2018

RESOURCES (INFLOWS)	BUDGETED AMOUNT		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	BUDGETARY BASIS	
Taxes				
Ad Valorem City	\$ 36,000	\$ 36,000	\$ 37,067	\$ 1,067
Ad Valorem County	36,000	36,000	37,067	1,067
Total Taxes	<u>72,000</u>	<u>72,000</u>	<u>74,134</u>	<u>2,134</u>
Miscellaneous				
Interest Income	-	-	-	-
Total Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount Available for Appropriation	72,000	72,000	74,134	2,134
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Expenditures - Other Economic Environment				
Personnel Services	92,116	92,116	97,033	(4,917)
Professional Services	45,000	45,000	29,750	15,250
Contractual Services	-	-	144	(144)
Promotional Activities	5,000	5,000	3,300	1,700
Office Supplies	830	830	789	41
Operating Supplies	1,800	1,800	2,341	(541)
Telephone & Communications	1,500	1,500	2,195	(695)
Training and Dues	3,500	3,500	3,583	(83)
Incentives	25,000	25,000	5,000	20,000
Building Facade Grants	50,000	50,000	22,290	27,710
Refuse Removal	400	400	102	298
Transfers to Other Fund	-	-	-	-
Contingency & Reserves	24,326	24,326	-	24,326
Total General Government	<u>249,472</u>	<u>249,472</u>	<u>166,527</u>	<u>82,945</u>
Expenditures - Debt Service				
Debt Principal and Interest	3,051	3,051	-	3,051
Total Debt Service	<u>3,051</u>	<u>3,051</u>	<u>-</u>	<u>3,051</u>
Expenditures - Capital Outlay	-	-	-	-
Total Charges to Appropriations(Outflows)	<u>252,523</u>	<u>252,523</u>	<u>166,527</u>	<u>85,996</u>
Excess (Deficiency) of Resources over Charges to Appropriations	(180,523)	(180,523)	(92,393)	88,130
Fund Balance at Beginning of Year	180,523	180,523	216,662	36,139
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,269</u>	<u>\$ 124,269</u>
Explanation of Differences Between Budgetary Outflows and GAAP Expenditures				
Uses/Outflows of Resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 166,527
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.				-
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances - Community Reinvestment Area Fund				<u>\$ 166,527</u>

City of Zephyrhills, Florida
Budgetary Comparison Schedule
Impact Fee Fund
For the Year Ended September 30, 2018

RESOURCES (INFLOWS)	BUDGETED AMOUNT		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			BUDGETARY	BUDGET
			BASIS	POSITIVE
				(NEGATIVE)
Impact Fees				
Transportation Impact Fees	\$ 340,000	\$ 340,000	\$ 814,837	\$ 474,837
Police Impact Fees	25,000	25,000	64,958	39,958
Fire Impact Fees	25,000	25,000	69,766	44,766
Park Impact Fees	55,000	55,000	129,272	74,272
Total Impact Fees	<u>445,000</u>	<u>445,000</u>	<u>1,078,833</u>	<u>633,833</u>
Miscellaneous				
Interest Income	7,180	7,180	-	(7,180)
Total Miscellaneous	<u>7,180</u>	<u>7,180</u>	<u>-</u>	<u>(7,180)</u>
Amount Available for Appropriation	452,180	452,180	1,078,833	626,653
CHARGES TO APPROPRIATIONS				
(OUTFLOWS)				
Expenditures - Public Works Roads and Streets				
Capital Outlay	165,000	165,000	-	165,000
Transfer to Other Fund	-	-	-	-
Contingency	3,307,976	3,307,976	-	3,307,976
Public Works Total	<u>3,472,976</u>	<u>3,472,976</u>	<u>-</u>	<u>3,472,976</u>
Expenditures - Public Safety				
Capital Outlay	-	-	-	-
Transfer to Other Fund	77,900	77,900	77,900	-
Contingency	50,674	50,674	-	50,674
Total Public Safety	<u>128,574</u>	<u>128,574</u>	<u>77,900</u>	<u>50,674</u>
Expenditures - Parks and Recreation				
Capital Outlay	200,000	200,000	-	200,000
Transfer to Other Fund	-	-	-	-
Contingency	415,481	415,481	-	415,481
Total Parks and Recreation	<u>615,481</u>	<u>615,481</u>	<u>-</u>	<u>615,481</u>
Total Charges to Appropriations	4,217,031	4,217,031	77,900	4,139,131
Excess (Deficiency) of Resources over Charges to Appropriations	(3,764,851)	(3,764,851)	1,000,933	(4,765,784)
Fund Balance at Beginning of Year	3,764,851	3,764,851	3,948,804	(3,948,804)
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,949,737</u>	<u>\$ (8,714,588)</u>
Explanation of Differences Between Budgetary Outflows and GAAP Expenditures				
Uses/Outflows of Resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ -
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.				<u>(77,900)</u>
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances - Impact Fee Fund				<u>\$ (77,900)</u>

City of Zephyrhills, Florida
Schedule of Proportionate Share of the
Net Pension Liability
Year Ended September 30, 2018

Florida Retirement System Pension Plan	2018	2017	2016	2015
City's Proportion of the Net Pension Liability	0.038666806%	0.037380409%	0.002149501%	0.030772788%
City's Proportionate Share of the Net Pension Liability	\$ 11,646,642	\$ 11,056,874	\$ 8,749,305	\$ 3,974,718
City's Covered-Employee Payroll	\$ 7,200,895	\$ 6,827,988	\$ 6,128,532	\$ 5,705,626
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	161.74%	161.93%	142.76%	69.66%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	84.26%	83.89%	84.88%	92.00%

Note: The amounts presented for each fiscal year were determined as of June 30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

Retiree Health Insurance Subsidy Program	2018	2017	2016	2015
City's Proportion of the Net Pension Liability	0.024733200%	2.382665900%	0.003005484%	0.021462044%
City's Proportionate Share of the Net Pension Liability	\$ 2,617,787	\$ 2,547,656	\$ 2,585,031	\$ 2,188,791
City's Covered-Employee Payroll	\$ 8,081,312	\$ 7,613,600	\$ 6,847,236	\$ 6,511,208
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	32.39%	33.46%	37.75%	33.62%
Plan Fiduciary Net Position as Percentage of the total Pension Liability	2.15%	1.64%	0.97%	0.50%

Note: The amounts presented for each year were determined as of June 30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information only for those years for which information is available.

City of Zephyrhills, Florida
Schedule of Contributions
Year Ended September 30, 2018

Florida Retirement System Pension Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,134,207	\$ 982,209	\$ 921,616	\$ 773,394
Contributions in Relation to the Contractually Required Contribution	(1,134,207)	(982,209)	(921,616)	(773,394)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 7,167,015	\$ 6,951,887	\$ 6,573,547	\$5,812,778
Contributions as a Percentage of Covered Employee Payroll	15.83%	14.13%	14.02%	13.31%

Note: The amounts presented for each fiscal year were determined as of September 30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

Retiree Health Insurance Subsidy Program

	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 134,178	\$ 128,676	\$ 121,021	\$ 89,615
Contributions in Relation to the Contractually Required Contribution	(134,178)	(128,676)	(121,021)	(89,615)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 8,084,233	\$ 7,768,892	\$ 7,288,794	\$6,623,826
Contributions as a Percentage of Covered Employee Payroll	1.66%	1.66%	1.66%	1.35%

Note: The amounts presented for each fiscal year were determined as of September 30.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION
(Not Required)

City of Zephyrhills, Florida
Utility Fund
Schedule of Operating Income (Loss)
For the Years Ended September 30, 2018 and 2017, Respectively

	<u>2018</u>	<u>2017</u>
Revenues:		
Installation Fees	\$ 99,288	\$ 35,672
Water and Sewer Service	7,965,898	8,460,634
Miscellaneous Revenues	66,659	88,028
Total Revenues	<u>8,131,845</u>	<u>8,584,334</u>
Operating Expenses:		
Administration		
Salaries	109,045	129,688
Employee Benefits	74,958	121,481
Professional Services	19,387	2,073
Education, Travel and Dues	6,954	5,145
Telephone	894	1,032
Office Supplies and Expenses	486	491
Operating Supplies	520	305
Leases and Rents	1,200	1,190
Vehicle & Equipment Repair	254	247
Gas & Oil	997	1,282
Other	128	1,574
Depreciation	-	128,444
Administration Allocation from General Fund	1,870,000	2,072,086
Administration Allocation from Airport Fund	176,850	176,850
Other Expense Transfer to General Fund	-	-
Payment in Lieu of Taxes to General Fund	-	-
Total Expenses - Administration	<u>2,261,673</u>	<u>2,641,888</u>

City of Zephyrhills, Florida
Utility Fund
Schedule of Operating Income (Loss)
For the Years Ended September 30, 2018 and 2017, Respectively

Operating Expenses (Continued)	2018	2017
Water Department		
Salaries	394,067	412,474
Overtime	16,962	4,487
Employee Benefits	344,964	332,896
Professional Services	68,272	109,496
Master Water Plan	-	-
Water Tank Maintenance	21,471	20,351
Property Tax	74	75
Education, Travel and Dues	13,221	6,231
Telephone	7,814	6,935
Electric	102,146	94,309
Other Utility Charges	133	1,039
Leases and Rentals	249	280
Repairs and Maintenance - Building	292	9,059
Repairs and Maintenance - Equipment	76,693	71,816
Repairs and Maintenance - Vehicles	7,421	11,926
Repairs and Maintenance - Infrastructure	-	-
Small Tools	3,038	6,215
Operating Supplies	31,349	21,925
Office Supplies and Postage	2,096	351
Uniforms	7,543	3,666
Chemicals and Chlorine Gas	21,623	26,313
Laboratory Analysis	13,902	16,921
Gas & Oil	12,292	23,161
Depreciation	1,295,367	1,017,078
Other	513	632
Total Expenses - Water Department	2,441,502	2,197,636

City of Zephyrhills, Florida
Utility Fund
Schedule of Operating Income (Loss)
For the Years Ended September 30, 2018 and 2017, Respectively

Operating Expenses (Continued)	<u>2018</u>	<u>2017</u>
Sewer Department		
Salaries	576,378	568,540
Overtime	41,422	17,582
Employee Benefits	345,442	365,979
Professional Services	83,681	35,269
Wastewater Master Plan	-	-
Electrical Engineering	-	-
Education, Travel and Dues	11,740	10,067
Telephone	7,047	5,593
Contract Hauling	79,844	75,807
Electric	297,864	299,554
Other Utility Charges	6,412	8,302
Repairs and Maintenance - Building	8,205	9,774
Repairs and Maintenance - Equipment	180,637	135,915
Repairs and Maintenance - Vehicles	38,957	12,939
Repairs and Maintenance - Infrastructure	-	5,625
Small Tools	9,535	8,009
Operating Supplies	27,999	19,039
Office Supplies and Postage	576	412
Uniforms	10,368	5,268
Chemicals and Chlorine Gas	137,357	108,556
Laboratory Analysis	19,831	13,082
Gas & Oil	12,373	24,075
Depreciation	1,276,012	1,254,925
Other	1,913	473
Total Expenses - Sewer Department	<u>3,173,593</u>	<u>2,984,785</u>
Total Operating Expenses	<u>7,876,768</u>	<u>7,824,309</u>
Total Operating Income (Loss)	<u>\$ 255,077</u>	<u>\$ 760,025</u>

City of Zephyrhills, Florida
Sanitation Fund
Schedule of Operating Income (Loss)
For the Years Ended September 30, 2018 and 2017, Respectively

	<u>2018</u>	<u>2017</u>
Revenues		
Service	\$ 1,615,966	\$ 1,440,722
Miscellaneous Revenues	16,991	5,482
Total Operating Revenues	<u>1,632,957</u>	<u>1,446,204</u>
Operating Expenses		
Salaries	367,846	405,096
Overtime	22,071	16,053
Employee Benefits	123,129	185,490
Education, Travel and Dues	1,481	-
Telephone	1,012	3,526
Landfill Fees	14,852	12,078
Repairs and Maintenance - Vehicles	87,337	77,107
Repairs and Maintenance - Equipment	5,668	8,066
Refuse Removal	683	904
Dumpsters & Recycle Bins	24,069	28,433
Operating Supplies	13,544	14,121
Gas & Oil	44,991	68,912
Depreciation	213,401	179,215
Professional Services	-	344
Tools, Small Equipment	1,409	-
Uniforms	2,755	2,179
Other	5,986	3,071
Administrative Expense Allocation from General Fund	890,000	704,973
Administrative Expense Allocation from Airport Fund	-	31,440
Payment in Lieu of Taxes to General Fund	-	-
Total Operating Expenses	<u>1,820,234</u>	<u>1,741,008</u>
Total Operating Income (Loss)	<u>\$ (187,277)</u>	<u>\$ (294,804)</u>

City of Zephyrhills, Florida
Airport Fund
Schedule of Operating Income (Loss)
For the Years Ended September 30, 2018 and 2017, Respectively

	2018	2017
Revenues		
Rental Income	\$ 226,437	\$ 218,081
Tie-Downs	9,959	29,458
Fuel and Oil Sales	523,787	534,870
Hangar Rental	467,380	513,672
Fuel Flowage Fees	4,076	4,067
Miscellaneous	232,705	33,896
Charges to Other Funds	176,850	208,290
Total Operating Revenues	<u>1,641,194</u>	<u>1,542,334</u>
Operating Expenses		
Professional Services	14,040	20,144
Administration Allocation from General Fund	320,000	255,000
Salaries	227,687	193,924
Overtime	4,624	1,709
Employee Benefits	33,588	127,160
Credit Card Processing	25,259	26,110
Advertising	950	305
Education, Travel and Dues	654	730
Telephone	3,606	5,804
Electricity	22,773	23,927
Water and Sewer	4,542	4,788
Refuse Disposal	844	898
Repairs and Maintenance - Vehicles	1,288	3,041
Repairs and Maintenance - Building	(2,464)	13,387
Repairs and Maintenance - Equipment	5,568	13,679
Repairs and Maintenance - Infrastructure	42,906	18,119
Gas and Oil for Resale	421,982	443,891
Vehicle Expense Gas & Oil	2,191	7,766
Operating Supplies	3,432	4,656
Office Supplies	481	912
Other Expenses	5,513	7,749
Depreciation	799,899	804,376
Taxes	-	-
Total Operating Expenses	<u>1,939,363</u>	<u>1,978,075</u>
Total Operating Income (Loss)	<u>\$ (298,169)</u>	<u>\$ (435,741)</u>

Other Reports and Schedules of Independent Auditors

ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS, ISSUED BY THE COMPTROLLER GENERAL
OF THE UNITED STATES; AND THE *RULES OF THE
AUDITOR GENERAL* OF THE STATE OF FLORIDA

City of Zephyrhills, Florida
Schedule of Federal and State Financial Assistance
For the Fiscal Year Ended September 30, 2018

Program Name	Federal CFDA No./State CSFA No.	Contract Number	Expenditures
Federal			
US Dept of Transportation Taxiway B Design	CFDA 20.106	3-12-0089-015-2017	1,562,938 *
<u>Total Federal Expenditures:</u>			<u>\$ 1,562,938</u>
State of Florida			
Florida Department of Transportation - Joint Participation Zephyrhills Municipal Airport Construction of Taxiway B	CSFA 55.004	432993-1-94-01 #GOT65	175,112
Florida Department of Transportation - Joint Participation Zephyrhills Municipal Airport Storm Water Master Plan	CSFA 55.004	440675-1-94-01 GO149	100,947
Florida Department of Transportation - Joint Participation Zephyrhills Municipal Airport Wind Cone	CSFA 55.004	440698-1-94-01 #GO151	29,165
Florida Department of Transportation - Joint Participation Zephyrhills Municipal Airport Crack Sealing 1/19 Improvements	CSFA 55.004 CSFA 55.004 CSFA 55.004	432947-1-94-01 GO936 431260-1-94-01 #GOH39 429581-1-94-01 #GO152	888,099 200,030 252,029 <u>1,340,158 *</u>
<u>Sub Total: CFSA 55.004</u>			<u>1,645,382</u>
<u>Total State of Florida Expenditures:</u>			<u>\$ 1,645,382</u>
<u>Total Federal & State Expenditures:</u>			<u>\$ 3,208,320</u>

*Audited as major program

City of Zephyrhills, Florida
Notes to the Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2018

NOTE 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the “Schedule”) includes the federal and state grant activity of the City of Zephyrhills, Florida, under programs of the federal and state governments for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. code of *Federal Regulations* part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Rules of the Auditor General* of the State of Florida. Because the Schedule presents only a selected portion of the operations of the City of Zephyrhills, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Zephyrhills.

NOTE 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. There were no amounts passed through to other entities during the year.

Note 3. Indirect Cost Rate

The City of Zephyrhills has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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***

May 31, 2019

The City Council of Zephyrhills
Zephyrhills, 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, 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 Zephyrhills, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Zephyrhills basic financial statements, and have issued our report thereon dated May 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) 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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Zephyrhills, Florida’s internal control.

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

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

Compliance and Other Matters

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

Purpose of the Report

This report is intended 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 control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baggett, Reutimann & Associates, CPAs PA
BAGGETT, REUTIMANN & ASSOCIATES, CPAs, PA
Signed Electronically by Baggett, Reutimann & Associates, CPAs PA, CN: JR103 email: jrd@baggetcpa.com

Report on Compliance for Each Major Federal and State Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance and Chapter 10.650 Rules of the Auditor General

Independent Auditors' Report

May 31, 2019

The City Council of Zephyrhills
Zephyrhills, Florida

Report on Compliance for Each Major Federal and State Program

We have audited City of Zephyrhills' (the City), compliance with the types of compliance requirements described in the Uniform Guidance *Compliance Supplement* that could have a direct and material effect on each of the City's major federal and state programs for the year ended September 30, 2018. The City's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with the requirements of Federal and State statutes, regulations, contracts and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650 Rules of the Auditor General, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Florida Single Audit Act*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, others within the entity, the City Council, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

City of Zephyrhills, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of Auditors’ Report Issued:	Unqualified
Internal Control over financial reporting:	No
- Material Weakness(es) identified?	No
- Significant Weakness(es) identified?	No
Noncompliance material to financial statements noted?	No

Federal and State Program Awards

Internal Control over major programs:	
- Material Weakness(es) indentified?	No
- Significant Weakness(es) identified?	No
Type of auditors’ report issued on compliance for major federal and state programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>Uniform Guidance and Chapter 10.656 Rules Of the Auditor General</i>	No

**City of Zephyrhills, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018**

Section I – Summary of Auditors’ Results (cont’d)

Identification of Major Programs

Federal:

<u>CFDA Number</u>	<u>Name of Federal Projects</u>
20.106	US Dept. of Transportation Construction of Taxiway B

Dollar threshold used to distinguish between type A and type B programs for state programs: \$750,000

State:

<u>CSFA Number</u>	<u>Name of State Projects</u>
55.004	Florida Dept of Transportation Joint Participation-Zephyrhills Municipal Airport

Dollar threshold used to distinguish between type A and type B programs for state programs: \$493,615

Auditee qualified as a low-risk auditee? No

Section II – Financial Statement Findings

None

Section III – Federal and State Awards Findings and Questioned Costs

None

Section IV – Schedule of Prior Year Findings Federal and State Projects

There were no prior audit findings related to Federal or State projects in the prior year.

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

May 31, 2019

Honorable City Council
City of Zephyrhills
Zephyrhills, Florida

We have examined the City of Zephyrhills, Florida's (the City) compliance with Section 218.415, Florida Statutes regarding the investment of public funds during the period ended September 30, 2018, as required by Section 10.556, *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

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

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, the City, its management, and is not intended to be and should not be used by anyone other than these specified parties. However, this letter is a matter of public record and its distribution is not limited.

Baggett, Reutimann & Associates, CPAs PA
BAGGETT, REUTIMANN & ASSOCIATES, CPAs, PA
Signed Electronically by Baggett, Reutimann & Associates, CPAs PA, CN: JRB10 email: jrb@brbaggettpa.com

Management Letter

May 31, 2019

Honorable City Council
City of Zephyrhills
Zephyrhills, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Zephyrhills, Florida, as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated May 31, 2019.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Uniform Guidance and Chapter 10.650 Rules of the Auditor General, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General.

Other Report and Schedule

We have issued our Independent Auditors' 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*; Independent Auditors' Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated May 31, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Zephyrhills, Florida, was incorporated pursuant to Florida Legislature Spec. Acts 1925, Chap. 11327, Sec. 1, as amended by Spec. Acts 1927, Chap. 13564, Sec 1. The City of Zephyrhills has no component units. The City operates under a Council-Manager form of government.

Financial Condition

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

Pursuant to Sections 10.554(1) (i) 5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Zephyrhills 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.

Annual Financial Report

Sections 10.554(1) (i) 5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City of Zephyrhills for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1) (a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2018. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

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

Purpose of this Letter

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

Baggett, Reutimann & Associates, CPAs PA
BAGGETT, REUTIMANN & ASSOCIATES, CPAs, PA
Signed Electronically by Baggett, Reutimann & Associates, CPAs PA, CN: J8183 email: jrl@baggettcpa.com