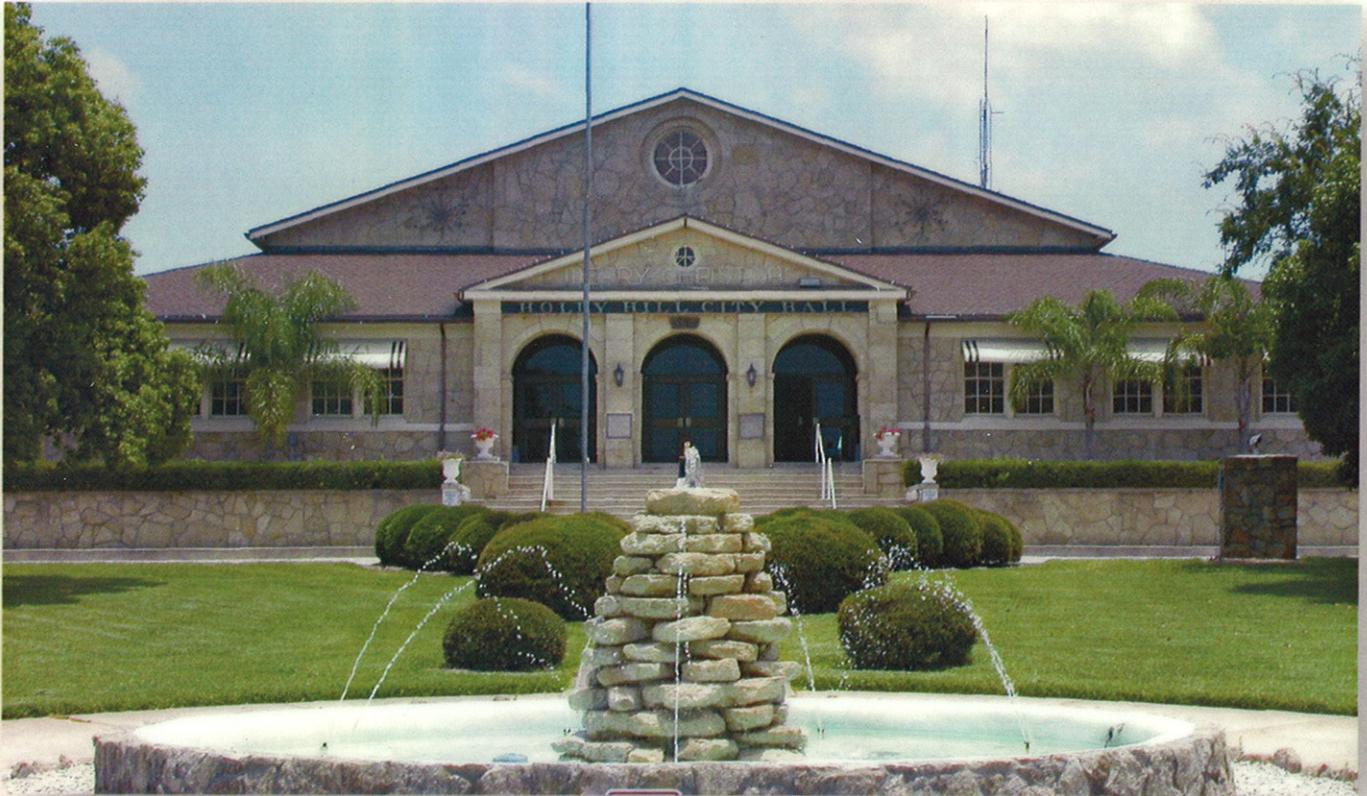


City of Holly Hill Florida



Comprehensive Annual Financial Report



Fiscal Year Ended
September 30, 2004

CITY OF HOLLY HILL, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004



CITY COMMISSION

HONORABLE WILLIAM D. ARTHUR, MAYOR

DISTRICT 1 - ARTHUR J. BYRNES

DISTRICT 2 - GILLES BLAIS

DISTRICT 3 - LOU SCHMITT

DISTRICT 4 - ROLAND VIA

CITY MANAGER

JOSEPH A. FORTE

CITY ATTORNEY

EDWARD F. SIMPSON, JR., ESQ.

DIRECTOR OF FINANCE

BRENDA GUBERNATOR

Prepared by:
Holly Hill Finance Department

TABLE OF CONTENTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

	<u>Reference</u>	<u>Pages</u>
INTRODUCTORY SECTION		
Title Page		i
Table of Contents		ii-iv
Organization Chart		v
Certificate of Achievement for Excellence in Financial Reporting		vi
Letter of Transmittal		vii-xi
FINANCIAL SECTION		
Independent Auditors' Report		1-2
Management's Discussion and Analysis		3-14
Basic Financial Statements:		
Statement of Net Assets	Statement 1	15
Statement of Activities	Statement 2	16-17
Fund Financial Statements:		
Balance Sheet-Governmental Funds	Statement 3	18-19
Reconciliation of Balance Sheet to the Statement of Net Assets	Statement 3A	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	Statement 4	21-22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	Statement 4A	23
Statement of Fund Net Assets-Proprietary Funds	Statement 5	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	Statement 6	25
Statement of Cash Flows - Proprietary Funds	Statement 7	26-27
Statement of Fiduciary Net Assets- Fiduciary Funds	Statement 8	28
Statement of Changes in Fiduciary Net Assets	Statement 9	29
Notes to the Financial Statements		30-56
Required Supplementary Information:		
Budgetary Comparison Schedule-General Fund	Schedule 1	57-60
Budgetary Comparison Schedule-Community Redevelopment Fund	Schedule 2	61
Budgetary Comparison Schedule-Stormwater Drainage Fund	Schedule 3	62
Schedules of Funding Progress	Schedule 4	63
Schedules of Employer Contributions	Schedule 5	64

TABLE OF CONTENTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	<u>Reference</u>	<u>Pages</u>
Combining and Individual Fund Statements and Schedules:		
Combining Balance Sheet-Nonmajor Governmental Funds	Exhibit 1	65-66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds	Exhibit 2	67-68
Special Revenue Funds:		
Budgetary Comparison Schedule-Nonmajor Law Enforcement Trust Fund	Exhibit 3	69
Budgetary Comparison Schedule-Nonmajor Youth Center Fund	Exhibit 4	70
Budgetary Comparison Schedule-Nonmajor Community Development Block Grant Fund	Exhibit 5	71
Budgetary Comparison Schedule-Nonmajor Local Law Enforcement Block Grant Fund	Exhibit 6	72
Debt Service Fund:		
Budgetary Comparison Schedule-Nonmajor Debt Service Fund	Exhibit 7	73
Capital Projects Fund:		
Budgetary Comparison Schedule-Nonmajor Capital Projects Fund	Exhibit 8	74
Capital Assets Used in the Operation of Governmental Funds:		
Comparative Schedules by Source	Exhibit 9	75
Schedule by Function and Activity	Exhibit 10	76-77
Schedule of Changes by Function and Activity	Exhibit 11	78
Fiduciary Funds:		
Combining Statements of Plan Net Assets	Exhibit 12	79
Combining Statement of Changes in Plan Net Assets	Exhibit 13	80

STATISTICAL SECTION

Statistical Tables:		
General Fund Revenues - By Source	Table 1	81
General Fund Expenditures - By Function	Table 2	82
Assessed and Estimated Actual Value of Taxable Property: Property Tax Levies and Collections	Table 3	83
Property Tax Rates and Tax Levies - Direct and All Overlapping Governments	Table 4	84
Debt Service Requirements to Maturity: Water and Sewer System Refunding Revenue Bonds, Series 2002	Table 5	85
Computation of Overlapping Debt	Table 6	86
Schedule of Insurance in Force	Table 7	87
Revenue Bond Coverage - Water and Sewer System Fund	Table 8	88
Demographic Statistics	Table 9	89
Property Value, Construction and Bank Deposits	Table 10	90

TABLE OF CONTENTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

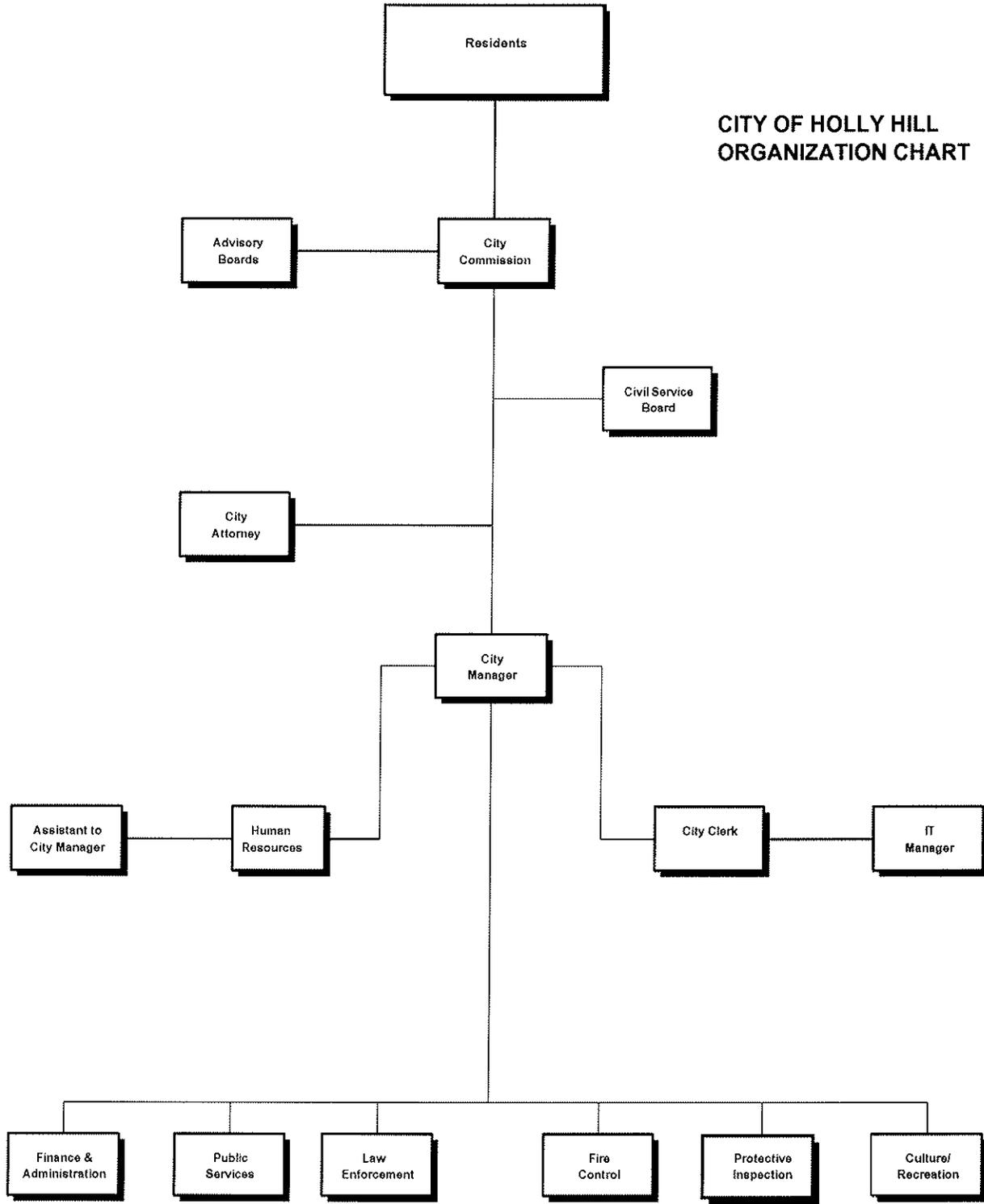
	<u>Reference</u>	<u>Pages</u>
Salaries and Surety Bonds of Principal Officials	Table 11	91
Schedule of Major Taxpayers	Table 12	92
Miscellaneous Statistical Data	Table 13	93

COMPLIANCE SECTION

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		94
Report on Compliance With Requirements Applicable to Each Major Program and Internal Controls Over Compliance in Accordance With OMB Circular A-133		95-96
Schedule of Expenditures of Federal Awards		97
Notes to Schedule of Expenditures of Federal Awards		98
Schedule of Findings and Questioned Costs		99
Management Letter	100-107	
Management Response	108-109	

ORGANIZATION CHART

**CITY OF HOLLY HILL
ORGANIZATION CHART**



CITY OF HOLLY HILL, FLORIDA

CERTIFICATE OF ACHIEVEMENT AWARDED

For the Year Ended September 30, 2003

*The Government Finance Officers Association of the United States and Canada (GFOA) awarded a **Certificate of Achievement for Excellence in Financial Reporting** to the City of Holly Hill, Florida, for its comprehensive annual financial report for the fiscal year ended September 30, 2003.*

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

CERTIFICATE OF ACHIEVEMENT
For the Year Ended September 30, 2003
CITY OF HOLLY HILL, FLORIDA

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Holly Hill,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

LETTER OF TRANSMITTAL



CITY OF HOLLY HILL

The City with a Heart

1065 Ridgewood Avenue ♥ Holly Hill, Florida 32117

www.hollyhillfl.org

April 12, 2005

Honorable Mayor Arthur, and
Members of the City Commission
City of Holly Hill, Florida

The comprehensive annual financial report of the City of Holly Hill, Florida, for the fiscal year ended September 30, 2004, is hereby submitted pursuant to the City Charter, Florida Statutes, and Chapters 10.500 and 11.45, Rules of the Auditor General of the State of Florida. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operation of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and compliance. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis, the basic financial statements, required supplementary information, and the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management's discussion and analysis, (MD&A), which immediately follows our independent auditors' report on the City's basic financial statements, provides a narrative introduction, overview, and analysis of the information and data contained in the basic financial statements. This year's MD&A includes comparative information on both the current and the immediately prior fiscal year's operations, which is helpful in reviewing the City's financial trends experienced over the past two years. MD&A complement this letter of transmittal and should be read in conjunction with it.

The City is required to make the determination whether the audit of the City's participation in federal awards and state financial assistance projects will be conducted as a single audit in conformity with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, Rules of the Auditor General. Based on the level of expenditures directly related to federal award programs and state financial assistance projects, the City was required to have its September 30, 2004 fiscal year end audit conducted as a single audit for federal program purposes only.

**Building,
Zoning,
Licensing &
Inspections**
386-248-9442
Fax 386-248-9498

**City
Clerk**
386-248-9441
Fax 386-248-9448

**City
Manager**
386-248-9425
Fax 386-248-9448

**Economic
Development**
386-248-9424
Fax 386-248-9448

Finance
386-248-9427
Fax 386-248-9448

**Human
Resources**
386-248-9440
Fax 386-248-9448

**Information
Technology**
386-248-9449
Fax 386-248-9448

**Public
Works**
386-248-9463
Fax 386-248-9499

Recreation
386-248-9460
Fax 386-248-9446

**Utility
Billing**
386-248-9432
Fax 386-248-9448

Honorable Mayor Arthur, and
Members of the City Commission
City of Holly Hill, Florida
April 20, 2004
Page 2

Accordingly, there are supplementary reports and a schedule of expenditures of federal awards relative to a single audit presented in the last section of this report. Based on the level of expenditures directly related to state financial assistance, the City was not required to have its September 30, 2004 fiscal year end audit conducted as a Florida single audit.

This report includes all funds of the City. The City provides a full range of municipal services contemplated by statute or character. They include law enforcement and fire protection, development services, sanitation and solid waste control, stormwater management services, road and street facilities, employment opportunity, industry development, health services, parks and recreation facilities, community redevelopment, and general administrative services. This report also includes the Community Redevelopment Authority. Since its governing body is the same as the City's, and a separate legal entity was not formed with its creation, their financial statements are included in the City's basic financial statements as a separate special revenue fund in a blended presentation.

ECONOMIC CONDITION AND OUTLOOK

The City is located on the eastern end of the Interstate-4 (I-4) corridor, the economic zone of Central Florida that roughly follows I-4 from Tampa through Orlando to the communities along the Atlantic coast in Volusia County.

Growth along the I-4 corridor has been exceptional and is expected to continue. Growth in the City increased about 1% during the past year, with a new subdivision off 8th Street and a new community bank on U.S 1 expected to be completed in mid to late 2005. Opportunities for additional growth still exist in an already dynamic business and industrial community. Due to limited availability of vacant land parcels and other resources the City encourages new and expanded business development on a business-by-business basis and by assisting the owners wherever possible in overcoming obstacles. Property valuations increased significantly during the past year by 10.33%. The community currently has a 4.5% unemployment rate as compared to the statewide rate of 4.7%.

Growth trends and their challenge to government are expected to continue. Maintaining service delivery to the residential and business community continues to require fresh approaches and examination of established practices to obtain and manage resources to meet those challenges.

MAJOR INITIATIVES

During the course of the year, the City Commission and staff pursued several major projects and programs. Among the most significant of those projects were:

1. Recreation Facilities – The interior of Sica Hall Community Center was completely refurbished in the spring of 2004 with funding provided by the Community Development Block Grant. City employees and sub-contractors replaced air conditioning ducts and flooring, installed a new ceiling, re-plastered walls, added new lighting fixtures and storage closets, refurbished the bathrooms and modernized the kitchen. Organizations and individuals utilizing the community center for meetings, recreation activities, and family events are delighted with the renovations. Exterior improvements are planned in 2005.

Honorable Mayor Arthur, and
Members of the City Commission
City of Holly Hill, Florida
April 20, 2004
Page 3

2. Public Safety - The City continued working on its plan to expand the Fire Department and co-locate additional personnel and equipment in a County fire station. During the year, three additional firefighters were hired to be ready to transfer in December 2004 to County Fire Station #11 located on Derbyshire Road. These firefighters will work with County firefighters to provide an increased level of fire protection to the northwest area of the city and to the unincorporated area of the county.
3. Water and Sewer - In late 2002, the City Commission awarded contracts to begin a four-year program to replace water meters throughout the city with electronic meters that provide greater accuracy in meter readings. To date, about 50% or 3,000 water meters have been replaced. This program is expected to increase revenues due to greater meter reading accuracy and to reduce personnel costs.
4. Public Works – In conjunction with the Florida Department of Transportation’s widening of Nova Road from Flomich Street north, the City in 2001, entered into a joint project agreement to relocate and extend the city’s water lines to provide water service to residents and businesses in that area. In 2002, as an option, the City decided to have FDOT also install an 8" reuse water main that will connect with the City of Ormond Beach’s reuse water line for irrigation of the City’s medians on Nova Road. The FDOT has awarded \$400,000 to the City for median beautification along the length of road through Holly Hill. The widening project is near completion and the median beautification is to be finished in 2005.
5. Stormwater Management - A \$5.6 million Stormwater Improvement project funded by the State Revolving Fund loan program started in late 2001 with the purchase of several properties for stormwater retention areas. Phase I of this project was completed in the summer of 2003 and Phase II was essentially completed in July, 2004 alleviating flooding conditions in many neighborhoods. Existing storm sewers were cleaned and refurbished, and miles of new underground storm sewers were installed. State Avenue was rebuilt from 15th Street to Calle Grande with new curbs, gutters, and asphalt surfaces. Many miles of streets were resurfaced. Also five new stormwater retention ponds were constructed and plans are underway to give them a park-like atmosphere.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Activities of all the governmental and proprietary funds are included in the annual appropriated budget.

Honorable Mayor Arthur, and
Members of the City Commission
City of Holly Hill, Florida
April 20, 2004
Page 4

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by department or division within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Any unencumbered balance of appropriations shall revert to the General Fund and be subject to future appropriations. Open encumbrances are reported as reservations of fund balance at year end. Budgetary control is maintained by a constant review of revenues and expenditures by the City Manager and Finance Director. This budgetary control is communicated to the department heads.

Cash Management The City maintains pooled cash and investment accounts for all cash and investments under its control. Cash temporarily idle during the year was invested in demand deposit and time deposit accounts and U.S. Treasury securities ranging from 12 to 24 months to maturity. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized in accordance with state statutes. All collateral on deposits was held either by the City, its agent or a financial institution's trust department in the City's name. At September 30, 2004, unrestricted cash was invested primarily in interest bearing demand deposits, with the State Board of Administration, and in U.S. Treasury obligations.

Risk Management The City contracts for all known risk elements through the purchase of insurance from outside insurance companies. In addition, various risk control techniques are in place to minimize accident related losses. These include the establishment of safety rules and procedures, accident prevention training, and the ongoing efforts of the safety committee, which is charged with (1) reviewing accident reports to identify and verify their causes; (2) recommending corrective actions; (3) reviewing employee safety suggestions; (4) hearing and investigating employee complaints; (5) investigating hazardous conditions, material or equipment; and (6) recommending awards or penalties. All insurance coverage is held by commercial carriers and no settlements in excess of claims have been incurred during the past three fiscal years.

Debt Administration At September 30, 2004, the City had several debt obligations outstanding. This debt was comprised of \$13,030,000 in outstanding Water and Sewer System Refunding Revenue Bonds, Series 2002 (rated AAA by Moody's Investor Services, AAA by Standard and Poor's Corporation and insured by MBIA Insurance Corporation) and \$7,835,989 in installment note obligations. During the year, the City made loan draws of \$2,770,179 through participation in the Florida Department of Environmental Protection, State Revolving Fund Loan Program. The proceeds were used to fund the costs related to various stormwater drainage improvement projects.

OTHER INFORMATION

Independent Audit The City Charter and State Statutes require an annual audit by independent certified public accountants. The accounting firm of Brent Millikan & Company, P.A., was selected by the City Commission to serve in this capacity. Their auditors' report on the general purpose financial statements is included in the financial section of this report. Their reports on compliance and other matters is contained in the *Compliance* section at the end of the comprehensive annual financial report.

Honorable Mayor Arthur, and
Members of the City Commission
City of Holly Hill, Florida
April 20, 2004
Page 5

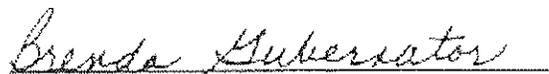
Awards The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the government for its comprehensive annual financial report for the fiscal year ended September 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 27 consecutive years. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning October 1, 2003. This is the sixteenth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

Acknowledgments The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report. In closing, without the leadership and support of the governing body of the City, preparation of this report would not have been possible.

Respectfully submitted,



Brenda Gubernator
Director of Finance

FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING FIVE PARTS:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

***COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES***

INDEPENDENT AUDITORS' REPORT

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, City Commission
and City Manager
City of Holly Hill, Florida

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 the City of Holly Hill, Florida, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Holly Hill, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Police Officers' Retirement Trust Fund, which reflect \$4,813,965 of the assets and net assets held in trust for pension benefits at September 30, 2004, and \$668,083 of contributions and investment earnings for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Police Officers' Retirement Trust Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Holly Hill, Florida, as of September 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2005, on our consideration of City of Holly Hill, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Honorable Mayor, City Commission
and City Manager
City of Holly Hill, Florida
Page 2 of 2

The Management's Discussion and Analysis and other required supplementary information on pages 3 through 14 and 57 through 64, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Hill, Florida's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brent Milliken & Co., P.A.

April 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City of Holly Hill, Florida, (hereinafter referred to as the "City"), we offer the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year that ended on September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with our letter of transmittal found in the preceding introductory section, and the City's financial statements, which follow this information. Please note. The City presents prior year comparative financial information when applicable and meaningful.

Financial Highlights

- The City's financial position remains strong as a result of the current year's operations. Overall combined assets of the City totaled \$46.0 million at the close of the 2004 fiscal year compared to \$43.6 million last year. Total assets exceeded liabilities by approximately \$23.5 million (*combined net assets*) compared with \$23.0 million one year earlier. The unrestricted component of the City's combined net assets totaled \$4.9 million at year end. This represents the unrestricted amount available to be used to meet the City's ongoing obligations to its citizens and creditors.
- Net assets of the City's governmental activities totaled \$14.3 million, an increase of approximately \$270,000 over last year's \$14.0 million, or 1.9 percent. At the same time, net assets of its business-type activities totaled \$9.2 million, an increase of approximately \$271,000 over last year's \$9.0 million, or 3.0 percent.
- During 2004, the City incurred expenses that were \$440,519 more than the \$7.0 million generated in taxes and other revenues for providing its various governmental program activities and programs (excluding interfund transfers of \$710,000). This compares favorably with excess expense of approximately \$304,000 incurred in the prior year, and net revenues of approximately \$6.2 million.
- The City's business-type activities produced net operating revenues of \$0.9 million for 2004 based on consumptive water/sewer/solid waste utility sales of \$5.6 million. Approximately \$1.5 million of additional expense was incurred in 2004 as a result of hurricane related damages incurred near the end of the fiscal year. It is anticipated that approximately 95% of these expenses will be recovered with FEMA disaster funds assistance. The operating margins in these funds continue to be capable of providing direct financial support to the City's governmental funds. Operating transfers in 2004 totaled \$710,000, compared to \$935,000 last year.
- The total costs incurred by the City in providing its various programs remained relatively stable in 2004 and 2003, after eliminating the one-time charges for disaster related expenses incurred as a result of hurricane related damages and cleanup costs. Operating expenses totaled \$7.4 million and \$6.3 million for the City's governmental activities and business-type activities, respectively.
- Unreserved fund equity in the General Fund decreased by approximately \$806,000 at the end of 2004 as a result of advancing funds of approximately \$250,000 to the Solid Waste Fund to finance a portion of the unanticipated costs of hurricane related damages. The remainder of this decrease was anticipated with the appropriation of prior years' surplus funds.

- Resources earned and available for appropriation in the current year were slightly less (0.9%) than the amounts anticipated in the General Fund's operating budget. However, General Fund expenditures were well within the City's spending limits and fell 7.4% below its revised appropriations for the year.

Overview of the Financial Statements

The City's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements (including government-wide financial statements, fund financial statements, and notes to the financial statements), and 3) required supplementary information, including budgetary comparisons and other selected financial and fiduciary fund data.

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the City's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the City's overall financial status, including its governmental activities and its business-type activities. These statements report information about the City using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the City's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the City's water and sewer utility and solid waste collection system. Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others (like the retirement plans for the City's employees), to whom the resources in question belong.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The basic financial statements of the City include a statement of net assets and a statement of activities, which are described as follows:

- A statement of net assets presents information on all of the City's assets and liabilities at the end of its fiscal year, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial condition.

- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the City's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the 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., delinquent taxes and earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*government 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 of the City include general government services, public safety (police, fire and building inspection), highways and streets, stormwater management, economic development, and recreation and leisure services. The business-type activities of the City include its water and sewer utility and solid waste utility operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary 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. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds 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. These reconciliations can be found on pages 20 and 23.

The City maintains nine 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 Community Redevelopment Trust (special revenue) Fund, and the Stormwater Drainage (special revenue) Fund, all of which are considered to be major funds. Data from the six other governmental funds are combined into a single, aggregated presentation and include the remainder of the City's special revenue, capital projects and debt service funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriations budget for each of its governmental funds in accordance with state statutes. Budgetary comparison statements have been provided for each fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 18 to 23 of this report.

Proprietary funds. The City maintains only one of two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the fiscal activities of the City's municipal water and sewer utility fund and solid waste utility fund operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City various departments and cost functions. The City does not presently use any internal service funds.

Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The proprietary fund financial statements provide separate financial information for the water and sewer utility and solid waste utility operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 24 to 27 of this report.

Fiduciary funds. The City is the trustee, or fiduciary, for its employees' pension plans. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are separately reported in the statements of fiduciary net assets and changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Rather, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on pages 28 to 29 of this report. Combining statements for these funds are found in Exhibits 12 and 13.

Notes to the Financial Statements. The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 30 to 55 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide certain pension benefits to its employees and information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the City's governmental fund activities. Required supplementary information can be found on pages 56 to 63 of this report.

Government-Wide Financial Analysis of the City as a Whole

Net Assets. As noted previously, net assets may serve over time as a useful indicator of a government's financial position. This year, the City's combined net assets increased from \$22,965,603 at the end of 2003 to \$23,505,768 at the end of 2004. Looking at the net assets of the City's governmental and business-type activities separately, we can see that the City experienced moderate growth in the net assets of its government activities (1.9%) and in its business-type activities (3.0%).

Net assets of the City's governmental activities increased by \$269,481 for the year and totaled \$14,260,774 at the end of the fiscal year. Of this amount, approximately 88% is either restricted as to the purposes they can be used for or is invested in capital assets (land, buildings and equipment). Consequently, unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$1,777,068 at the end of 2004.

Net assets of the City's business-type activities increased by \$270,684 for the year and totaled \$9,244,994 at the end of the fiscal year. Approximately 42% of its total net assets (\$3,924,901) reflects its net investment in capital assets, less that portion of related debt used to acquire those assets that is still outstanding. These capital assets are used to provide water and sewer utility services and solid waste utility services to our customers; 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 under normal circumstances 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. Long-term debt obligations associated with this capitalization totaled \$13,872,099 at the end of 2004. The following is a comparative summary of net assets at year end:

Net Assets
September 30, 2004 and 2003

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets:						
Current and other assets . . .	\$ 4,698,817	5,434,776	7,011,900	6,420,621	11,710,717	11,855,397
Capital assets, net	<u>16,754,532</u>	<u>13,757,357</u>	<u>17,578,757</u>	<u>18,020,707</u>	<u>34,333,289</u>	<u>31,778,064</u>
Total assets	<u>21,453,349</u>	<u>19,192,133</u>	<u>24,590,657</u>	<u>24,441,328</u>	<u>46,044,006</u>	<u>43,633,461</u>
Liabilities:						
Long-term debt outstanding	6,381,696	4,037,789	14,008,466	14,567,583	20,390,162	18,605,372
Other liabilities	<u>810,879</u>	<u>1,163,051</u>	<u>1,337,197</u>	<u>899,435</u>	<u>2,148,076</u>	<u>2,062,486</u>
Total liabilities	<u>7,192,575</u>	<u>5,200,840</u>	<u>15,345,663</u>	<u>15,467,018</u>	<u>22,538,238</u>	<u>20,667,858</u>
Net Assets:						
Invested in capital assets, net of related debt	11,024,444	10,344,199	3,924,901	4,528,390	14,949,345	14,872,589
Restricted	1,459,262	1,199,398	2,190,356	1,603,691	3,649,618	2,803,089
Unrestricted	<u>1,777,068</u>	<u>2,447,696</u>	<u>3,129,737</u>	<u>2,842,229</u>	<u>4,906,805</u>	<u>5,289,925</u>
Total net assets	<u>\$ 14,260,774</u>	<u>13,991,293</u>	<u>9,244,994</u>	<u>8,974,310</u>	<u>23,505,768</u>	<u>22,965,603</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets. While the statement of net assets shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and source of those changes. During 2004, the City's combined net assets totaled \$23.5 million, which is up \$0.5 million over last year's reported \$23.0 million. During this same period, the City's revenues totaled \$14.3 million, compared to \$12.0 million last year. Overall, approximately 11% of the City's total revenues come from property taxes, while almost 32% of every dollar raised comes from some type of tax collected by the City. Another 47% comes from fees charged for services, while the remaining 21% is a combination of state and federal financial assistance, operating and capital grants and donations, interest and other earnings.

The following is a comparative summary of changes in net assets for the year ended September 30, 2004:

Changes in Net Assets
For the Fiscal Years Ended September 30, 2004 and 2003

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,015,394	889,199	5,616,915	5,589,891	6,632,309	6,479,090
Operating grants/other . .	58,959	186,284	1,479,833	0	1,538,792	186,284
Capital grants/other	536,974	0	118,956	105,235	655,930	105,235
General revenues:						
Property taxes	1,593,074	1,578,138	0	0	1,593,074	1,578,138
Other taxes	2,891,221	2,825,942	0	0	2,891,221	2,825,942
Intergovernmental	768,078	538,111	0	0	768,078	538,111
Other revenues	102,981	167,551	70,093	109,342	173,074	276,893
Total revenues	<u>6,966,681</u>	<u>6,185,225</u>	<u>7,285,797</u>	<u>5,804,468</u>	<u>14,252,478</u>	<u>11,989,693</u>
Expenses:						
General government	1,426,332	1,266,274	0	0	1,426,332	1,266,274
Public safety	3,270,335	3,024,156	0	0	3,270,335	3,024,156
Transportation	886,017	809,073	0	0	886,017	809,073
Economic environment	334,097	114,213	0	0	334,097	114,213
Physical environment	457,326	311,713	0	0	457,326	311,713
Culture/recreation	909,289	922,641	0	0	909,289	922,641
Interest on long-term debt . .	123,804	41,186	0	0	123,804	41,186
Water and sewer utilities . . .	0	0	3,569,542	3,420,186	3,569,542	3,420,186
Solid waste utilities	0	0	2,735,571	1,107,784	2,735,571	1,107,784
Total expenses	<u>7,407,200</u>	<u>6,489,256</u>	<u>6,305,113</u>	<u>4,527,970</u>	<u>13,712,313</u>	<u>11,017,226</u>
Transfers in (out)	710,000	935,000	(710,000)	(935,000)	0	0
Increase in net assets	<u>\$ 269,481</u>	<u>630,969</u>	<u>270,684</u>	<u>341,498</u>	<u>540,165</u>	<u>972,467</u>

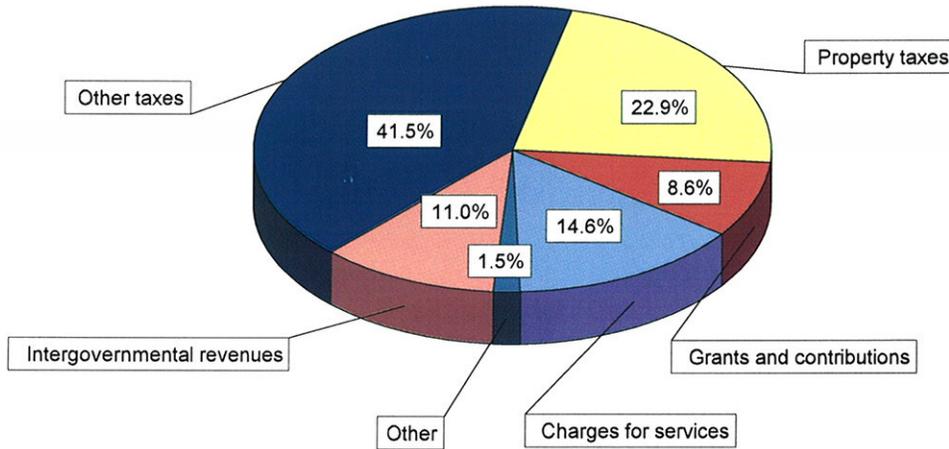
Governmental Activities

Revenues for the City's governmental activities experienced strong growth during 2004. Overall, the City's governmental revenues totaled \$6,966,681, which represents an increase of \$781,456, or 12.6% over last year's reported governmental revenues totaling \$6,185,225. This increase was primarily attributable to moderately stable increases in virtually all revenue sources, with some exceptions. During the past year, the City placed more emphasis on identifying the variable costs of providing various municipal services in an effort to explore its ability to assess charges for services in these user areas. In 2004, the City experienced an overall 14.2% increase in its charges for services, which totaled \$1,015,394, compared to \$889,199 the prior year. The City also experienced an increase in outside grant (capital) funding of approximately \$540,000 for scheduled capital improvements. These funds are not expected to be received in the subsequent fiscal year.

While revenue growth experienced for the year was approximately 12.6% overall, revenues earned from the assessment of ad valorem taxes remained extremely stable during 2004 with a minimal increase of approximately \$15,000. Ad valorem taxes totaling \$1,593,074 were collected in 2004 compared with \$1,578,138 in the prior year. The ad valorem millage rate for operating purposes was reduced in 2003 for the third consecutive year to 4.08002 mills; approximately 9% lower than the prior year's millage rate (4.5 mills) and more than 25% lower than the millage rate in place a decade ago (5.4695 mills).

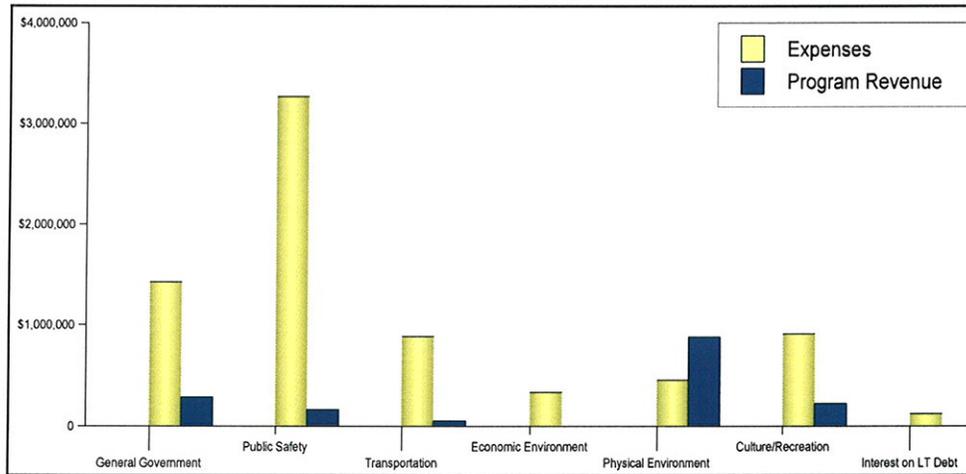
The following is a summary of the City's governmental revenues - by source:

Revenues by Source - Governmental Activities



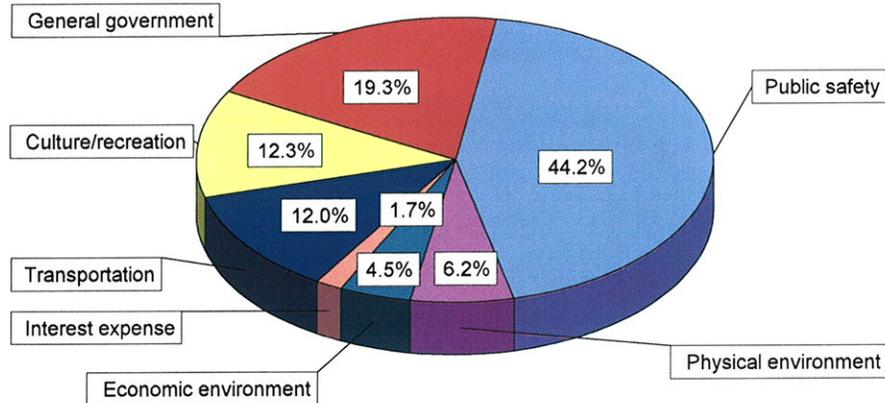
An individual comparison of the City's functional program revenues and costs of providing program services to its citizens is useful in identifying the programs, and the extent of which each are dependent on taxes and other non-exchange revenues to subsidize their program operations. They are listed in the following graph:

Expenses and Program Revenues - Governmental Activities



Expenses for the City's governmental activities grew at the same increased pace in matching revenue growth for the period. Combined governmental activities expenses totaled \$7,407,200, which represents an increase of \$917,944, or 14.1% over last year's expenses of \$6,489,256. Expense increases were recognized in all of the City's departmental areas during 2004. Over the last several years, a trend has emerged with respect to a widening gap between property taxes, which are often thought of as paying for core governmental services such as police and fire, and the actual costs of those public safety expenses. At year end, this gap was over \$1.8 million, compared to \$1.5 million in the prior year.

Expenditures by Function - Governmental Activities

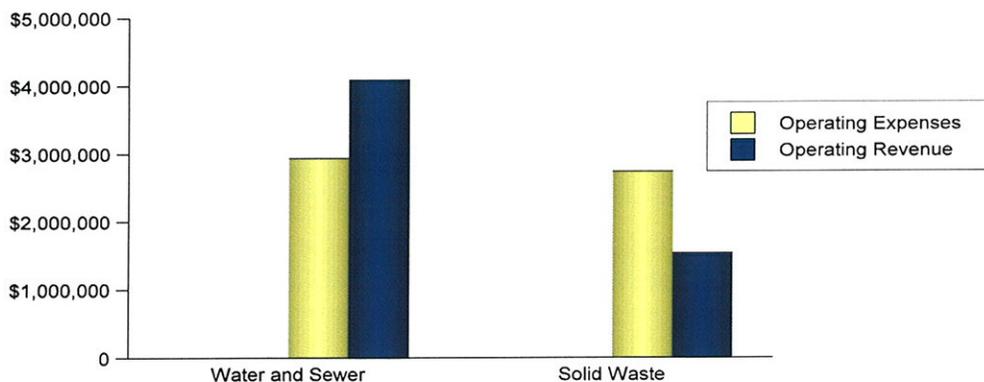


Business-type Activities

Business-type activities produced an increase in the City’s net assets of \$270,684 in 2004, compared to \$341,498 during 2003. Overall, net assets from the City’s business-type activities (\$9,244,994) account for only 39.3% of the City’s combined total net assets at September 30, 2004. The major sources of operating revenues for the City’s business-type activities include charges for services for water and sewer utilities and solid waste utilities. Combined operating revenues from these two activities remained relatively stable in 2004 and totaled \$5,616,915 compared to \$5,589,891 in the prior year. Water and sewer utility revenues increased \$38,543 over last year’s revenue, while charges for solid waste removal declined by \$11,519. Investment earnings continued to decrease from \$83,148 in 2003 to \$77,712 in 2004 as a combined result of lowered interest rates experienced on a national level and from the decline in surplus invested funds experienced this year. Capital contributions received in the water and sewer utility fund increased to \$118,956 in 2004, compared to \$105,235 in the prior year. As a cost control measure, the City has continued to contract its solid waste operations with an outside contractor since 1999.

A comparison of the City’s functional program revenues and costs of providing business-type services to its customers is useful in identifying the capabilities of producing revenues sufficient to operate their programs.

Operating Expenses and Program Revenues - Business-type Activities



Operating expenses of the business-type activities increased in 2004 to \$5,670,043, compared to \$3,879,469 in 2003. Included within these costs are approximately \$1.5 million of debris removal expenses associated with three hurricanes experienced in August and September, 2004. Approximately 95% of these costs either have been, or will be, recovered with FEMA Disaster Recovery assistance in the subsequent fiscal year. After removing this component, the remaining increase in expenses, while nominal, closely paralleled inflation and growth in the demand for services.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the current fiscal year its governmental funds reported a combined fund balance of \$3,804,142, which was down \$418,581, or 9.9%, below the \$4,222,723 reported last year. Approximately 76.9% of this amount (\$2,924,352) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$265,934), 2) to reflect the prior advance of resources to other funds which will be paid in subsequent years (\$309,700), 3) to pay debt service (\$265,229), and 4) to finance specialized law enforcement investigations (\$38,927).

The general fund is the chief operating fund of the City. As of September 30, 2004, the unreserved fund balance in the general fund totaled \$1,746,494, while total fund balance declined from \$2,675,986 in 2003 to \$2,080,493 in 2004. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 25.8% of total general fund expenditures (\$6,763,658), while total fund balance represents 30.8% of that same amount. City officials have established a target threshold of 25% in unreserved funds compared to General Fund expenditures. The current unreserved balance slightly exceeds that target.

Fund balance in the general fund decreased by \$595,493 during the current fiscal. The significant portion of this decrease was planned at the onset of the current fiscal year at which time \$1,457,300 in prior year surplus funds were appropriated to finance these expenditures. Fund balance in the Stormwater Drainage Fund increased \$434,882 in 2004 as a result of the receipt of debt proceeds required to finance stormwater utility system capital improvements. Combined fund balances in the Community Redevelopment fund and all other nonmajor funds remained stable for the year with a slight increase of \$14,480.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets in the Water and Sewer Fund at the end of the current fiscal year amounted to \$2,281,777, compared to \$2,025,866 one year earlier. This year's increase of \$255,911 was composed of net earnings from operations of \$124,646 and capital contributions of \$118,956. Current year earnings were also reported after transfers to the General Fund of \$450,000.

Unrestricted net assets in the Solid Waste Fund totaled \$847,960 at the end of 2004, compared to \$816,363 at the end of the prior fiscal year. Net income for the year totaled \$27,082, which is reported net of transfers to the General Fund in the amount of \$260,000.

General Fund Budgetary Highlights

Over the year, the City Commission revised the General Fund operating budget to reflect known changes in its operating activities and spending needs. Differences between the original enacted budget and the final amended budget were not significant.

The City’s overall revenue projections were increased by \$137,600, which represents a 2.6% increase in anticipated funding. Likewise, expenditure appropriations were increased by \$137,800 near the end of the fiscal year in an effort to meet all unanticipated spending requirements. These appropriations were funded by a corresponding increase in the appropriation of prior years’ surplus funds to an amount not to exceed \$1,457,300 for the year.

Actual earned revenues were only \$53,085 less than the amounts anticipated to be received during the year, while actual expenditures incurred were \$539,242 less than anticipated for the year. Virtually all of the City’s departments contributed to a cutback in spending to achieve the current year’s operating results.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2004 and 2003, the City’s investment in capital assets for its governmental and business type activities totaled \$34,333,289 and \$31,778,064, respectively. These amounts are stated net of accumulated depreciation of \$19,926,522 and \$18,595,971 for 2004 and 2003, respectfully. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

Capital Assets
September 30, 2004 and 2003

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,950,539	1,950,539	154,739	154,739	2,105,278	2,105,278
Capital assets not depreciated .	4,777,357	1,992,015	238,822	238,716	5,016,179	2,230,731
Buildings	3,441,420	3,307,223	6,164,875	6,341,885	9,606,295	9,649,108
Improvements other than buildings	1,335,552	1,369,582	7,860,538	8,016,115	9,196,090	9,385,697
Equipment and furniture	1,257,808	1,294,844	3,159,783	3,269,252	4,417,591	4,564,096
Infrastructure	3,991,856	3,843,154	0	0	3,991,856	3,843,154
Net total	\$ <u>16,754,532</u>	<u>13,757,357</u>	<u>17,578,757</u>	<u>18,020,707</u>	<u>34,333,289</u>	<u>31,778,064</u>

Additional information on the City’s capital assets can be found in Note 8 to the financial statements.

Long-term Debt. At year end, the City had \$20,866,089 in bonds, notes and other long-term obligations outstanding, all of which are secured solely by specified revenue sources. More detailed information about the City’s long-term debt is presented in Note 9 to the financial statements.

The City has an outstanding revenue bond obligation in the amount of \$13,030,000 at year end. The proceeds of these bonds were used to finance improvements to the City's water and sewer utility system and to refund previously issued bonds outstanding. These bonds are payable from revenues generated from the water and sewer system and are payable serially through 2022.

The City has two outstanding revenue note obligations totaling \$547,845 at year end. The proceeds from these obligations were used to finance the acquisition of a new fire truck and to construct improvements to the City gymnasium and City Hall. These notes are payable from all of the City's general revenues with the exception of its ad valorem tax revenue, and by a pledge on the City's utility service tax revenues, and are due in varying amounts through 2008.

The City has two low-interest rate revenue note obligations payable to the State of Florida, Department of Environmental Protection State Revolving Fund Loan Program totaling \$7,288,244, in aggregate, at year end. The proceeds of the first FDEP loan (issued in 1998) were used to finance the construction of wastewater infiltration and inflow correction facilities. The second FDEP loan is currently being used to finance construction of needed stormwater drainage improvements. These notes are secured by the City's water and sewer utility and stormwater utility revenues, respectively, and are payable in varying amounts through 2024.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the City Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform user fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

Many factors are considered each year by the City Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform user fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 4.4% at the end of September 2004, which is slightly lower than the 4.9% rate experienced one year earlier. These estimates compare favorably to the state's 4.1% and 4.9% unemployment rates at September 2004 and 2003, respectively.
- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

During the current fiscal year, unreserved fund balance in the general fund decreased from \$2,552,300 to \$1,746,494. Based on current year budget estimates for 2005, the City has determined that it will be necessary to include approximately \$1,048,000 of prior years' surplus funds in next year's operating budget. This is planned for the continuation of major improvements to the Parks and Recreation facilities, public works security systems, new medians landscaping projects, and computer system upgrades. It has been anticipated that all of the City's spending requirements will be met with current financial resources along with an approximate 8.75% increase in the ad valorem tax millage rate for the 2005 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Finance Director, City of Holly Hill, Florida, 1065 Ridgewood Avenue, Holly Hill, Florida 32117-2898.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Statement 1

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Cash and cash equivalents.....	\$ 3,450,294	2,928,234	6,378,528
Receivables, net of allowance for uncollectible accounts.....	298,678	499,072	797,750
Internal balances.....	365,842	(365,842)	0
Due from other governments.....	518,718	1,479,833	1,998,551
Due from fiduciary pension trust.....	54,885	0	54,885
Unamortized debt issuance costs.....	10,400	218,243	228,643
Restricted assets:			
Cash and cash equivalents.....	0	2,252,360	2,252,360
Capital assets:			
Land, improvements and construction in progress.....	6,727,896	393,561	7,121,457
Other capital assets, net of depreciation.....	10,026,636	17,185,196	27,211,832
Total assets	21,453,349	24,590,657	46,044,006
Liabilities:			
Accounts payable and accrued liabilities.....	665,374	707,146	1,372,520
Deferred revenue and deposits.....	145,505	630,051	775,556
Bonds, notes, and other payables:			
Due or payable within one year.....	402,755	610,684	1,013,439
Due or payable in more than one year.....	5,327,333	13,261,415	18,588,748
Compensated absences.....	651,608	136,367	787,975
Total liabilities	7,192,575	15,345,663	22,538,238
Net assets:			
Invested in capital assets net of related debt	11,024,444	3,924,901	14,949,345
Restricted for:			
Capital projects.....	794,482	0	794,482
Community redevelopment projects.....	360,624	0	360,624
Special law enforcement.....	38,927	0	38,927
Utility plant expansion.....	0	2,053,381	2,053,381
Debt service.....	265,229	136,975	402,204
Unrestricted	1,777,068	3,129,737	4,906,805
Total net assets	\$ 14,260,774	9,244,994	23,505,768

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

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government.....	\$ 1,426,332	288,931	0	0
Public safety.....	3,270,335	61,738	53,402	49,507
Transportation.....	886,017	55,473	0	0
Economic environment.....	334,097	0	0	0
Physical environment.....	457,326	531,867	0	345,769
Culture/recreation.....	909,289	77,385	5,557	141,698
Interest on long-term debt	123,804	0	0	0
Total governmental activities.....	<u>7,407,200</u>	<u>1,015,394</u>	<u>58,959</u>	<u>536,974</u>
Business-type activities:				
Water and Sewer.....	3,569,542	4,084,770	0	118,956
Solid Waste.....	2,735,571	1,532,145	1,479,833	0
Total business-type activities.....	<u>6,305,113</u>	<u>5,616,915</u>	<u>1,479,833</u>	<u>118,956</u>
Total primary government.....	<u>\$ 13,712,313</u>	<u>6,632,309</u>	<u>1,538,792</u>	<u>655,930</u>

General revenues:

Property taxes, levied for general purposes.....	
Property taxes, levied for tax increment district.....	
Sales taxes.....	
Local option gas taxes.....	
Franchise taxes.....	
Public service taxes.....	
State revenue sharing.....	
Other intergovernmental revenues.....	
Investment earnings.....	
Miscellaneous revenue.....	
Loss on disposal of fixed assets.....	
Transfers.....	
Total general revenues and transfers.....	
Change in net assets.....	
Net assets - beginning.....	
Net assets - ending.....	

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

Statement 2

Net Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(1,137,401)		(1,137,401)
(3,105,688)		(3,105,688)
(830,544)		(830,544)
(334,097)		(334,097)
420,310		420,310
(684,649)		(684,649)
(123,804)		(123,804)
<u>(5,795,873)</u>		<u>(5,795,873)</u>
	634,184	634,184
	<u>276,407</u>	<u>276,407</u>
	910,591	910,591
<u>(5,795,873)</u>	<u>910,591</u>	<u>(4,885,282)</u>
1,459,486	0	1,459,486
133,588	0	133,588
652,814	0	652,814
278,442	0	278,442
640,107	0	640,107
1,319,858	0	1,319,858
370,603	0	370,603
397,475	0	397,475
59,977	77,712	137,689
43,004	0	43,004
0	(7,619)	(7,619)
<u>710,000</u>	<u>(710,000)</u>	<u>0</u>
<u>6,065,354</u>	<u>(639,907)</u>	<u>5,425,447</u>
269,481	270,684	540,165
<u>13,991,293</u>	<u>8,974,310</u>	<u>22,965,603</u>
<u>\$ 14,260,774</u>	<u>9,244,994</u>	<u>23,505,768</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
Assets:			
Cash and cash equivalents.....	\$ 1,496,160	424,106	967,866
Receivables, net			
Accounts receivable.....	206,248	0	49,066
Delinquent taxes.....	43,364	0	0
Due from other funds.....	370,492	0	0
Advances to other funds.....	59,700	0	0
Due from other governments.....	412,660	0	50,000
Total assets	<u>\$ 2,588,624</u>	<u>424,106</u>	<u>1,066,932</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and other current liabilities	\$ 314,852	3,782	272,450
Deferred revenues	188,869	0	0
Due to other funds.....	4,410	0	0
Advances from other funds	0	59,700	0
Total liabilities	<u>508,131</u>	<u>63,482</u>	<u>272,450</u>
Fund Balances:			
Reserved for:			
Encumbrances.....	11,820	420	0
Advances to other funds.....	309,700	0	0
Law enforcement.....	12,479	0	0
Debt service.....	0	0	0
Unreserved, reported in			
General fund.....	1,746,494	0	0
Special revenue funds	0	360,204	794,482
Total fund balances	<u>2,080,493</u>	<u>360,624</u>	<u>794,482</u>
Total liabilities and fund balances	<u>\$ 2,588,624</u>	<u>424,106</u>	<u>1,066,932</u>

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

Statement 3

Nonmajor Governmental Funds	Total Governmental Funds
562,162	3,450,294
0	255,314
0	43,364
0	370,492
0	59,700
56,058	518,718
618,220	4,697,882
49,437	640,521
0	188,869
240	4,650
0	59,700
49,677	893,740
253,694	265,934
0	309,700
26,448	38,927
265,229	265,229
0	1,746,494
23,172	1,177,858
568,543	3,804,142
618,220	4,697,882

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Statement 3A

Fund balances - total governmental funds		\$	3,804,142
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 funds.....			16,754,532
Delinquent tax revenue deferred in governmental activities are recognized in the period in which they are earned, regardless of the date of their anticipated receipt.....			43,364
Negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund.....			54,885
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities and other debt related deferred charges consist of the following:			
Notes payable.....	(5,730,088)		
Accrued interest payable.....	(24,853)		
Unamortized debt costs.....	10,400		
Compensated absences.....	(651,608)		
			<u>(6,396,149)</u>
Net assets of governmental activities		\$	<u>14,260,774</u>

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

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
Revenue:			
Taxes	\$ 3,703,531	133,588	0
Licenses and permits	277,733	0	0
Intergovernmental	1,169,217	282,498	50,000
Charges for services	149,903	0	531,867
Fines and forfeitures	46,294	0	0
Miscellaneous	105,137	6,062	6,881
Total revenue	5,451,815	422,148	588,748
Expenditures:			
Current:			
General government	1,428,653	0	0
Public safety	3,280,112	0	0
Transportation	991,204	0	0
Economic environment	0	327,646	0
Physical environment	0	0	3,144,603
Culture/recreation	853,109	0	0
Capital Outlay:			
Culture/recreation	0	0	0
Debt Service:			
Principal retirement	176,756	0	0
Interest and fiscal charges	33,824	0	0
Total expenditures	6,763,658	327,646	3,144,603
Excess of revenue over (under) expenditures	(1,311,843)	94,502	(2,555,855)
Other Financing Sources (Uses):			
Transfers in	725,866	0	332,342
Transfers out	(9,516)	0	(384,234)
Capital-related debt issued	0	0	2,770,179
Total other financing sources (uses)	716,350	0	2,718,287
Net changes in fund balances.....	(595,493)	94,502	162,432
Fund balances, beginning of year	2,675,986	266,122	632,050
Fund balances, end of year	\$ <u>2,080,493</u>	<u>360,624</u>	<u>794,482</u>

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

Statement 4

Nonmajor Governmental Funds	Total Governmental Funds
0	3,837,119
0	277,733
509,553	2,011,268
0	681,770
9,597	55,891
13,738	131,818
<u>532,888</u>	<u>6,995,599</u>
0	1,428,653
44,937	3,325,049
87,900	1,079,104
0	327,646
0	3,144,603
600	853,709
148,142	148,142
286,843	463,599
90,030	123,854
<u>658,452</u>	<u>10,894,359</u>
<u>(125,564)</u>	<u>(3,898,760)</u>
393,750	1,451,958
(348,208)	(741,958)
0	2,770,179
<u>45,542</u>	<u>3,480,179</u>
(80,022)	(418,581)
648,565	4,222,723
<u>568,543</u>	<u>3,804,142</u>

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

Statement 4A

For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Net change in fund balances - total governmental funds\$ (418,581)

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 is depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation expenses for the current period:

Capital outlay expenditures.....	3,666,353	
General fixed assets disposals.....	(37,537)	
Depreciation expense.....	<u>(631,641)</u>	2,997,175

Bond and loan proceeds are reported as financing sources in the governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. Debt proceeds issued in the current period (2,770,179)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Principal repayment in the current period 463,649

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds (increase in delinquent taxes)..... (5,638)

Increase in negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund..... 54,885

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is for the following items:

Change in compensated absences liabilities.....	(26,977)	
Change in accrued interest on bonds and notes payable	<u>(24,853)</u>	<u>(51,830)</u>

Change in net assets of governmental activities\$ 269,481

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

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS**
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Statement 5

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 2,763,628	164,606	2,928,234
Accounts receivable	357,383	141,689	499,072
Due from other funds.....	4,410	0	4,410
Due from other governments.....	0	1,479,833	1,479,833
Restricted Assets:			
Cash and cash equivalents.....	2,252,360	0	2,252,360
Total current assets	5,377,781	1,786,128	7,163,909
Property and Equipment:			
Land.....	154,739	0	154,739
Buildings and improvements.....	22,970,816	54,651	23,025,467
Machinery and equipment	6,387,393	644,662	7,032,055
	29,512,948	699,313	30,212,261
Less: accumulated depreciation	(12,203,558)	(668,768)	(12,872,326)
	17,309,390	30,545	17,339,935
Construction in progress.....	238,822	0	238,822
Net property and equipment	17,548,212	30,545	17,578,757
Unamortized debt issuance costs.....	218,243	0	218,243
Total assets	23,144,236	1,816,673	24,960,909
Liabilities:			
Current Liabilities:			
Current maturities of long-term debt.....	610,684	0	610,684
Accounts payable and accrued liabilities	275,597	567,916	843,513
Due to other funds.....	0	370,252	370,252
Deferred revenue	630,051	0	630,051
Total current liabilities	1,516,332	938,168	2,454,500
Long-term Debt:			
Revenue bonds payable (net).....	11,251,098	0	11,251,098
Notes payable (net).....	2,010,317	0	2,010,317
Total long-term debt.....	13,261,415	0	13,261,415
Total liabilities.....	14,777,747	938,168	15,715,915
Net Assets:			
Invested in capital assets, net of related debt	3,894,356	30,545	3,924,901
Restricted for debt service.....	136,975	0	136,975
Restricted for utility plant expansion.....	2,053,381	0	2,053,381
Unrestricted.....	2,281,777	847,960	3,129,737
Total net assets	\$ 8,366,489	878,505	9,244,994

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

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Statement 6

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Operating Revenue:			
Charges for Services:			
Water sales.....	\$ 1,870,028	0	1,870,028
Sewer treatment charges.....	1,961,209	0	1,961,209
Waste disposal fees.....	0	1,532,010	1,532,010
Connections, service and cut-off charges.....	59,608	0	59,608
Other revenues.....	193,925	135	194,060
Total operating revenue.....	4,084,770	1,532,145	5,616,915
Operating Expenses:			
Personal services	981,126	0	981,126
Depreciation and amortization	1,060,096	4,515	1,064,611
Utilities	263,096	128	263,224
Materials and supplies	253,579	3,178	256,757
Contractual services	248,993	2,721,035	2,970,028
Maintenance and repairs	102,275	1,012	103,287
Other charges	10,938	2,067	13,005
Bad debt expense.....	14,369	3,636	18,005
Total operating expenses	2,934,472	2,735,571	5,670,043
Operating income (loss).....	1,150,298	(1,203,426)	(53,128)
Nonoperating Revenue (Expenses):			
Interest earnings	67,037	10,675	77,712
Loss on disposal of property and equipment	(7,619)	0	(7,619)
Operating grants.....	0	1,479,833	1,479,833
Interest and debt expense.....	(635,070)	0	(635,070)
Net nonoperating revenue.....	(575,652)	1,490,508	914,856
Income before transfers.....	574,646	287,082	861,728
Transfer to General Fund.....	(450,000)	(260,000)	(710,000)
Net income (loss).....	124,646	27,082	151,728
Capital contributions.....	118,956	0	118,956
Net increase in net assets.....	243,602	27,082	270,684
Net assets, beginning of year	8,122,887	851,423	8,974,310
Net assets, end of year	\$ 8,366,489	878,505	9,244,994

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2004
CITY OF NEW HOLLY HILL, FLORIDA

Statement 7

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Cash Flows From Operating Activities:			
Cash received from customers.....	\$ 4,087,468	1,527,847	5,615,315
Cash paid for personal services.....	(1,061,326)	0	(1,061,326)
Cash paid to suppliers.....	(867,830)	(1,970,083)	(2,837,913)
Net cash provided by operating activities.....	2,158,312	(442,236)	1,716,076
Cash Flows From Noncapital and Related Financing Activities:			
Operating transfers (out)	(450,000)	(260,000)	(710,000)
Net cash provided by (used in) noncapital and related financing activities	(450,000)	(260,000)	(710,000)
Cash Flows From Capital and Related Financing Activities:			
Capital contributions.....	118,956	0	118,956
Acquisition and construction of capital assets	(468,741)	0	(468,741)
Debt reduction outlays.....	(597,776)	0	(597,776)
Interest paid on capital debt obligations.....	(636,161)	0	(636,161)
Net cash provided by (used in) capital and related financing activities	(1,583,722)	0	(1,583,722)
Cash Flows From Investing Activities:			
Interest received	67,037	10,675	77,712
Net increase (decrease) in cash and cash equivalents	191,627	(691,561)	(499,934)
Cash and cash equivalents, beginning of year	4,824,361	856,167	5,680,528
Cash and cash equivalents, end of year	\$ 5,015,988	164,606	5,180,594
Cash and Cash Equivalents:			
Current assets.....	\$ 2,763,628	164,606	2,928,234
Restricted assets.....	2,252,360	0	2,252,360
Total cash and cash equivalents.....	\$ 5,015,988	164,606	5,180,594

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - (Continued)
For the Fiscal Year Ended September 30, 2004
CITY OF NEW HOLLY HILL, FLORIDA

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 1,150,298	(1,203,426)	(53,128)
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation and amortization.....	1,060,096	4,515	1,064,611
Provision for bad debts.....	14,369	3,636	18,005
Changes in assets and liabilities:	0		
Accounts receivable	(14,664)	(4,298)	(18,962)
Due from other funds	(6,180)	0	(6,180)
Accounts payable	15,461	387,085	402,546
Accrued liabilities.....	(80,200)	0	(80,200)
Due to other funds	1,770	370,252	372,022
Customer deposits	17,362	0	17,362
Net cash provided by operating activities.....	<u>\$ 2,158,312</u>	<u>(442,236)</u>	<u>1,716,076</u>

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

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Statement 8

<hr/>		
Assets:		
Cash and cash equivalents	\$	751
Accounts receivable:		
From brokers.....	20,236	
From employer.....	2,178	
From state.....	11,602	
Accrued interest.....	41,804	
Total accounts receivable.....		75,820
Investments, at fair value		
Money market funds	285,012	
U.S. Treasuries.....	440,306	
U.S. government agencies	881,095	
U.S. corporate debt obligations	1,392,373	
U.S. corporate equity securities	3,846,077	
Total investments		6,844,863
Total assets		6,921,434
Liabilities:		
Accounts payable.....		7,920
Net assets:		
Held in trust for pension benefits.....	\$	<u>6,913,514</u>

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Statement 9

Additions:		
Contributions from:		
Employer	\$	204,090
State		113,335
Plan members		169,934
		<u>487,359</u>
Total contributions.....		
		487,359
Investment income:		
Net realized and unrealized appreciation		
(depreciation) in fair value of investments.....		356,145
Interest and dividend earnings		183,989
		<u>540,134</u>
Less: investment management fees		(71,589)
		<u>468,545</u>
Total investment income		468,545
		<u>955,904</u>
Total additions		955,904
Deductions:		
Benefit payments		429,118
Refunds/withdrawals		133,327
Administrative expenses		37,225
		<u>599,670</u>
Total deductions.....		599,670
		<u>356,234</u>
Net increase (decrease).....		356,234
Net assets held in trust for pension benefits:		
Beginning of year		<u>6,557,280</u>
End of year	\$	<u><u>6,913,514</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Holly Hill, Florida (the "City"), have been prepared in conformance with accounting principals generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for promulgating governmental accounting and financial reporting principles. The following is a summary of the City's significant accounting policies:

A. Reporting Entity

The City is a municipal corporation created by the Laws of Florida, Chapter 67-1274, located in Volusia County. The City was originally incorporated under the general laws of Florida on July 1, 1901 (Records of Incorporations, Volusia County, Vol. I, p. 101). This incorporation was validated in 1903 by Laws of Florida, Chapter 5346 (1903). The legislative branch of the City is composed of an elected five-member City Commission consisting of the Mayor and four commissioners. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Commission-appointed City Manager.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds controlled by or dependent upon the City (the primary government). In evaluating the City as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the City's financial statements.

Blended Component Unit. The City of Holly Hill Community Redevelopment Fund was created by Ordinance 2426 to account for the receipt and expenditure of property tax revenues from the tax increment financing district to support City redevelopment. Although legally separate, the same elected City Commission members serve as the governing board of the Community Redevelopment Fund. Since the City is financially accountable for the activities of the Fund, its governing board is the same, and its relationship to the City is significant, its financial activities are reported on a blended basis as if it were part of the primary government as a special revenue fund.

B. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement of Accounting Standards No. 40, *Deposit and Investment Risk Disclosures* (SGAS 40). The City elected to implement the provisions of SGAS 40 for the year ended September 30, 2004. Statement 40 modifies and updates the disclosure requirements related to deposit risks, custodial credit risk and concentrations of credit risk for all state and local governmental entities. It requires the disclosure of investments to be organized by investment type and does not allow the aggregating of dissimilar investments into a single investment type. The adoption of Statement No. 40 had no substantial effect on the City's basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

C. Government-Wide and Fund Financial Statements

The government-wide financial statements, comprised of the Statement of Net Assets and the Statement of Activities, report aggregated information for the overall government for all of the activities of the primary government and the discretely presented component units. The primary government is reported in two columns to separately report governmental activities from business-type activities. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements as is further disclosed below under the heading *Interfund Activity Eliminations and Reclassifications*.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange revenues are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

The Statement of Net Assets presents the overall government's financial position at year-end. The Statement of Activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net assets for the period. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the government, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other nonexchange revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual business-type funds are reported in separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

Taxes, intergovernmental revenue, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Nonexchange transactions are grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

Derived Tax Revenue, defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.

Imposed Nonexchange Revenue, result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.

Government-mandated Nonexchange Transactions, frequently establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and the recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often offer resources on a reimbursement ("expenditure-driven") basis at the time the recipient has incurred allowable costs under the applicable program.

Voluntary Nonexchange Transactions, result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as deferred revenue.

Proprietary fund and pension trust fund financial statements are reported using the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Based on the accounting and reporting standards set forth in Government Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the City has opted to apply only those

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989, as it pertains to the accounting for proprietary fund activity.

The City's accounts are organized on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The focus of the governmental and proprietary fund financial statements is on major funds, as defined and determined based on criteria established under Governmental Accounting Standards Boards Statement No. 34.

The City reports the following major governmental funds:

General Fund - The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.

Community Redevelopment Trust Fund - The Community Redevelopment Trust Fund is a special revenue fund established by the City for the economic development of designated areas of the City that receives special incremental ad-valorem tax levies to pay for rehabilitation and redevelopment of the specified area in need of improvement to sustain the tax base.

Stormwater Drainage Fund - The Stormwater Drainage Fund is a special revenue fund used to account for user charges assessed to citizens for the operation, maintenance and improvement of the City's stormwater drainage systems. Federal awards and state financial assistance are also a major source of revenue to assist with the financing of capital improvements to these facilities.

The City reports the following major proprietary funds:

Water and Sewer System - The Water and Sewer System Fund accounts for the costs and recovery of costs in the form of user charges related to the production, treatment and distribution of potable water, along with the collection, treatment and disposal of sewage waste with the City. The maintenance and improvement of utility plant required to provide these goods and services are financed primarily from user charges. Physical plant expansion is financed primarily from revenue bond obligations and other long-term debt borrowings.

Solid Waste Fund - The Solid Waste Fund provides the community with refuse and recycling services provided by third-party contracted vendors, the costs of which are primarily recovered by user charges.

Additionally, the City reports the following non-major fund types:

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, or capital projects) which are legally restricted to finance particular functions or activities of the City. These funds include the Law Enforcement Trust Fund, Youth Center Fund, Community Development Block Grant Fund, and the Local Law Enforcement Block Grant Fund.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This fund type is used to provide for the debt servicing of the City's outstanding State Revolving Fund Loan commitments, dated January 30, 2001, September 10, 2001, July 24, 2002 and June 24, 2003.

Capital Projects Funds - Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Pension Trust Funds - Pension trust funds (Municipal Police Officers' Retirement Fund and the Municipal Firefighters' Pension Trust Fund) are accounted for by the City to provide data on the accumulation of financial resources to pay pension benefits to qualified participants in the City's Police and Fire pension trust funds.

Amounts reported in the funds as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances due to and due from these different types of activities within the primary government.

The City reports as program revenues: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing activities. For the City, operating revenues come from municipal golf course greens fees and related charges and refuse and recycling collection fees for sanitation services, which are the principal ongoing operations of the City's Golf Course and Sanitation Fund. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City's investment policies are governed by state statutes and local resolution. These policies authorize the City to invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

All of the City's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares. All fiduciary (police and fire pension) fund investments are stated at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances," when applicable.

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends. Utility operating sales are generally recognized on the basis of cycle billings rendered quarterly. Unbilled accounts receivable are accrued by the City at September 30th, to recognize the sales revenues earned between the last meter reading date made in mid-September through the end of the fiscal year.

3. *Inventories and Prepaid Items*

When determined material, the cost of inventory is accounted for on the consumption basis wherein inventories are charged as expenditures when used, rather than when purchased. All inventories are valued at cost, which approximates market, by using the first-in, first-out valuation method. The effect of this method is to flow the costs of the materials and supplies in the order in which they are purchased and to assign a balance sheet inventory valuation more nearly at current replacement value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds of the City's revenue note obligations, as well as certain resources set aside for their repayment, are classified as restricted assets in the government-wide financial statements because their use is limited by applicable legal indentures imposed by applicable bond covenants and other legal indentures. The restricted assets are used to report resources set aside to 1) provide a reserve for debt service, 2) provide a reserve for maintenance and replacement costs, and 3) acquire capital assets.

5. *Capital Assets*

Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities. Whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the City. To ease implementation efforts, GASB Statement No. 34, provides the City with an extended transition period for reporting existing general infrastructure assets. However, the City has elected to report all known

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

infrastructure assets and related depreciation expense on these assets, for those assets acquired up to, and including, the year of implementation of the pronouncement in the entity-wide statement of net assets and statement of activities.

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated useful life of more than one-year. The capitalization policy for building and improvements other than buildings require assets with an initial cost to be \$5,000 or more before it is capitalized. For all infrastructure assets, costs must exceed \$5,000 before the assets are capitalized. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Contributed assets are recorded at fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized if they meet the dollar threshold above for capitalization.

Proprietary fund capital assets that are constructed include construction period interest that is capitalized net of interest earned on unexpended construction funds in accordance with the applicable provisions of Financial Accounting Standard No. 62, and depreciated over the remaining useful life of the related asset.

Maintenance and repairs of property and replacements and renewals of items determined to be less than units of property, are charged to operating expenses.

Depreciation is reported for the primary government using the straight-line method (half-year convention in year of acquisition) calculated on a service-life basis to amortize the cost of the asset over their estimated economic useful lives, which are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	20-50 years
Improvements other than buildings	10-50 years
Equipment	3-30 years
Infrastructure	20-50 years

6. *Compensated Absences*

The portion of employees payroll costs paid subsequent to year-end attributable to services performed prior to year-end, including accumulated unpaid vacation and sick-leave, is recorded and recognized as a current liability. The portion of the liability for compensated absences attributable to periods beyond the current year are recognized as a long-term liability.

Employee vacation leave is based upon the number of years of employment with the City and a portion must be used as time off annually and the remainder can be used as time off or accrued. The maximum amount accrued varies with the general and fire personnel and the police personnel, 90 days and 93.5 days, respectively. Upon termination, the employee receives a cash benefit equal to the number of days accrued based on the employee's current wage rate.

Sick leave is granted to all full time employees. General and fire personnel can accumulate, at a rate of one day per month, up to a maximum of 90 days. Upon retirement or death, employees are paid 100% of their accumulated unpaid sick leave. Upon resignation, only those employees with 15 years of service are paid 50% of their accumulated unpaid sick leave. Police personnel are granted extended leave to be used for

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

illnesses involving absences of three or more days. The extended leave accrues at a rate of four hours per month. There is no maximum accumulated amount, however payment is based on the number of years of service with a maximum of 825 hours.

7. Deferred Revenue

Deferred revenues are reported when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

8. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond discounts and debt issuance costs are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the effective interest method. Unamortized bond discounts are presented in aggregate on the financial statements as a reduction of the carrying cost of the related long-term debt. Unamortized debt issuance costs are presented as other assets. In the fund financial statements, governmental fund types recognize premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Following the governmental fund balance sheet is a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. A detailed explanation of these differences is provided in this reconciliation.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets for all governmental and proprietary funds were adopted in compliance with Florida law. The basis on which the budgets are prepared is consistent with the basis of accounting utilized by the various fund types. The governmental funds' budgets are prepared on the modified accrual basis of accounting. The proprietary funds' budgets are prepared on a full accrual basis of accounting. The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or about July 1st, the City Manager submits a preliminary budget to the City Commission for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the City Commission, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The City Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Sections 54 to 57 of the City Charter. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

- The City Manager may transfer funds between line-item appropriations within a department at the request of a department head in accordance with Article I, Section 30-27 of the City's Code of Ordinances.
- Budgetary control is exercised at the department level.
- Every appropriation lapses at the close of the fiscal year.

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2004, total fund expenditures exceeded budgetary appropriations in the nonmajor Debt Service Fund by \$372,871. The over-expenditures in this fund were funded in their entirety by transfers from the Stormwater Drainage Fund greater than amounts anticipated.

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City was 4.08002 mills for the year ended September 30, 2004.

The property tax calendar is as follows:

Valuation Date	January 1
Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1
Within 35 days of certification of value, the City must advise the Property Appraiser of the prior year millage rate, current year proposed millage rate, current year rolled-back rate and the date, time and meeting place of the tentative budget hearing.	August 4
City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September 18
Property Appraiser certified the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2002 through March 2003, with the following applicable discounts:	November through March

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

<u>Month Paid</u>	<u>Discount Percent</u>
November	4
December	3
January	2
February	1
March	0

All unpaid taxes on real and tangible personal property become delinquent.	April 1
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April/May
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).	June 1
A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes	August 28

NOTE 5 - DEPOSITS AND INVESTMENTS

At September 30, 2004, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>			
		<u>Less Than 1</u>	<u>From 1-5</u>	<u>From 6-10</u>	<u>Over 10</u>
Repurchase agreements	\$ 2,035,000	2,035,000	-	-	-
Local government surplus funds					
trust fund	7,371,172	7,371,172	-	-	-
Money market funds	285,012	285,012	-	-	-
U.S. Treasuries	440,306	170,094	248,881	21,331	-
U.S. agencies	881,095	239,775	131,757	-	509,563
Domestic corporate bonds	1,392,373	67,408	929,346	346,074	49,545
Domestic corporate equities	<u>3,846,077</u>	<u>3,846,077</u>	-	-	-
Totals	<u>\$16,251,035</u>	<u>14,014,538</u>	<u>1,309,984</u>	<u>367,405</u>	<u>559,108</u>

Interest Rate Risk. Generally, the City limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the City's surplus funds are invested in the City's pooled cash accounts, which are included in overnight repurchase agreements, or in the Local Government Surplus Funds Trust Fund. Investments held in the City's Police and Fire pension trust funds are generally held to maturity to provide a stable investment interest rate platform which is vital to the projection of actuarial pension costs in the future. While potential current period fair value losses can occur with these investments in any given year,

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

the ultimate realization of fair value losses is mitigated by the holding of these investments to maturity. Investments in U.S. Treasuries typically include discounted, fixed-price notes and bonds that mature within one to five years. The fair value of these short-term investments are less sensitive to interest rate increases since they are held to maturity. Investments in U.S. agencies typically include long-term, fixed-rate collateralized mortgage obligations with maturities of greater than ten years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate bonds are generally made to guaranty the production of cash flows necessary to fund the plan's required payments and operating expenses. These fixed rate investments earn slightly higher rates of return, which are necessary to support the plan's blended interest rate assumptions. Their fair values are inversely sensitive to changes in interest rates.

Credit Risk. The provisions of Section 218.415, Florida Statutes, require that the investment activity of the City be conducted in accordance with a written investment plan adopted by the governing body. Under that plan, the City's basic allowable investment instruments include: Local Government Surplus Funds Trust Fund (a 2a-7 like fund); negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the U.S. Government; interest bearing time deposits or savings accounts in banks organized under the laws of this state, in national banks organized under the laws of the United States and doing business and situated in this state, in savings and loan associations which are under state supervision or in federal savings and loan associations located in this state and organized under federal law and federal supervision; money market accounts that invest in U.S. Government obligations; obligations of Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates; or the Federal Home Loan Bank or its district banks or obligations guaranteed by the Government National Mortgage Association; obligations of the Federal National Mortgage Association including Federal National Mortgage Association participation certificates and mortgage pass-through certificates guaranteed by the Federal National Mortgage Association.

Investments in the City's pension trust funds are limited by state statutes (Chapters 175 and 185, Florida Statutes) and by an investment policy adopted by the funds' Board of Trustees. The basic allowable investment instruments include obligations of, or obligations the principal and interest of which are guaranteed by, the U.S. Government; time deposits or savings accounts of a national bank, a state bank insured by the Federal Deposit Insurance Corporation, or a savings, building and loan association insured the Federal Savings and Loan Insurance Corporation; money market accounts that invest in U.S. Government obligations; bonds issued by the State of Israel; and bonds, stocks or other evidence of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S., any state or organized territory of the U.S., or the District of Columbia.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2004, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$7,371,172, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City's \$2,000,000 investment in repurchase agreements was collateralized with securities held by the Trust Department of the City's depository bank in their name. All remaining deposits of the City were adequately covered by federal depository insurance. All investments held by the City's police and fire pension trust funds were uninsured, unregistered and held by the Plans' brokerage firms, who are also the counterparty for these particular securities.

NOTE 6 - RECEIVABLES - NET

The City's accounts receivable at September 30, 2004, consists of the following:

Governmental Activities:

General Fund:

Delinquent taxes receivable	\$	43,364	
Accounts receivable-franchise/utility service payments ...		155,991	
Lien collections receivable		44,011	
Employees purchase program		24,494	
Other miscellaneous receivables		<u>18,719</u>	
		286,579	
Less allowance for doubtful accounts		<u>(36,967)</u>	
Total General Fund accounts receivable, net	\$		249,612

Special Revenue Fund:

Stormwater Drainage Fund:

Accounts receivable	\$	54,823	
Less allowance for doubtful accounts		<u>(5,757)</u>	
Total special revenue fund accounts receivable, net			<u>49,066</u>
Total governmental activities accounts receivable, net	\$		<u>298,678</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Business-Type Activities:

Water and Sewer Fund:		
Billed accounts receivable	\$	307,174
Unbilled accounts receivable		103,434
Solid Waste:		
Billed accounts receivable		113,206
Unbilled accounts receivable		<u>43,973</u>
		567,787
Less allowance for doubtful accounts		<u>(68,715)</u>
Total business-type activities accounts receivable, net	\$	<u>499,072</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual fund short-term interfund receivables and payables expected to be repaid within the next fiscal year at September 30, 2004, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Law Enforcement Trust	\$ 240
	Solid Waste	370,252
Water and Sewer	General	<u>4,410</u>
Total		<u>\$ 374,902</u>

Long-term advances to and from other funds not expected to be repaid within the next fiscal year at September 30, 2004, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Redevelopment	<u>\$ 59,700</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Interfund transfers between the City's governmental and business-type funds during the fiscal year ended September 30, 2004, are as follows:

Fund	Transfer To	Transfer From
Governmental Activities:		
General Fund:		
Local Law Enforcement Block Grant	\$ 9,516	0
Law Enforcement Trust	0	2,439
Community Development Block Grant	0	13,427
Water and Sewer	0	450,000
Solid Waste	0	260,000
Law Enforcement Trust:		
General Fund	2,439	0
Local Law Enforcement Block Grant:		
General Fund	0	9,516
Community Development Block Grant:		
General Fund	13,427	0
Stormwater Drainage	332,342	0
Stormwater Drainage:		
Community Development Block Grant	0	332,342
Debt Service	384,234	0
Debt Service:		
Stormwater Drainage	<u>0</u>	<u>384,234</u>
Totals - governmental activities	<u>\$ 741,958</u>	<u>1,451,958</u>
Business-type Activities:		
Water and Sewer:		
General	\$ 450,000	0
Solid Waste:		
General	<u>260,000</u>	<u>0</u>
Totals - business-type activities	<u>710,000</u>	<u>1,451,958</u>
Totals - all activities	<u>\$ 1,451,958</u>	<u>1,451,958</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

NOTE 8 - CAPITAL ASSETS

A summary of the capital assets activity for the year ended September 30, 2004, is as follows:

	Balances 09/30/03	Addition	Deletions	Balances 09/30/04
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,950,539	0	0	1,950,539
Construction work in progress	<u>1,992,015</u>	<u>2,785,342</u>	<u>0</u>	<u>4,777,357</u>
Total capital assets not being depreciated	<u>3,942,554</u>	<u>2,785,342</u>	<u>0</u>	<u>6,727,896</u>
Capital assets being depreciated:				
Buildings	4,042,446	214,584	0	4,257,030
Improvements other than buildings	2,026,365	38,914	0	2,065,279
Machinery and equipment	2,934,087	252,296	159,333	3,027,050
Infrastructure	<u>7,351,595</u>	<u>379,878</u>	<u>0</u>	<u>7,731,473</u>
Total capital assets being depreciated ...	<u>16,354,493</u>	<u>885,672</u>	<u>159,333</u>	<u>17,080,832</u>
Less accumulated depreciation for:				
Buildings	(735,223)	(80,387)	0	(815,610)
Improvements other than buildings	(656,783)	(72,944)	0	(729,727)
Machinery and equipment	(1,639,243)	(247,135)	(117,136)	(1,769,242)
Infrastructure	<u>(3,508,441)</u>	<u>(231,176)</u>	<u>0</u>	<u>(3,739,617)</u>
Total accumulated depreciation	<u>(6,539,690)</u>	<u>(631,642)</u>	<u>(117,136)</u>	<u>(7,054,196)</u>
Total capital assets being depreciated, net	<u>9,814,803</u>	<u>254,030</u>	<u>42,197</u>	<u>10,026,636</u>
Governmental activities capital assets, net	<u>\$13,757,357</u>	<u>3,039,372</u>	<u>42,197</u>	<u>16,754,532</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 154,739	0	0	154,739
Construction work in progress	<u>238,716</u>	<u>452,367</u>	<u>452,261</u>	<u>238,822</u>
Total capital assets not being depreciated	<u>393,455</u>	<u>452,367</u>	<u>452,261</u>	<u>393,561</u>
Capital assets being depreciated:				
Buildings	10,855,040	44,707	0	10,899,747
Improvements other than buildings	11,917,101	253,632	45,013	12,125,720
Machinery and equipment	<u>6,911,392</u>	<u>170,296</u>	<u>49,633</u>	<u>7,032,055</u>
Total capital assets being depreciated ...	<u>29,683,533</u>	<u>468,635</u>	<u>94,646</u>	<u>30,057,522</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	Balances 09/30/03	Additions	Deletions	Balances 09/30/04
Less accumulated depreciation for:				
Buildings	(4,513,155)	(221,717)	0	(4,734,872)
Improvements other than buildings	(3,900,986)	(401,590)	(37,394)	(4,265,182)
Machinery and equipment	<u>(3,642,140)</u>	<u>(279,765)</u>	<u>(49,633)</u>	<u>(3,872,272)</u>
Total accumulated depreciation	<u>(12,056,281)</u>	<u>(903,072)</u>	<u>(87,027)</u>	<u>(12,872,326)</u>
Total capital assets being depreciated, net	<u>17,627,252</u>	<u>(434,437)</u>	<u>7,619</u>	<u>17,185,196</u>
Business-type capital assets, net	<u>\$18,020,707</u>	<u>17,930</u>	<u>459,880</u>	<u>17,578,757</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 65,083
Public safety	114,883
Transportation	164,484
Economic environment	1,385
Physical environment	125,442
Culture/recreation	<u>160,365</u>
Total depreciation expense - governmental activities	<u>\$ 631,642</u>

Business-type activities:

Water and Sewer Fund	\$ 898,557
Solid Waste Fund	<u>4,515</u>
Total depreciation expense - business-type activities	<u>\$ 903,072</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

NOTE 9 - LONG-TERM DEBT

Governmental Activities

The City has entered into several long-term debt obligations where it pledges specific income streams or income derived from the acquired or constructed assets to pay debt service. During the current year, proceeds of \$2,780,579 were received to finance construction projects to expand the City's primary stormwater management and collection facilities under loans from the Florida Department of Environmental Protection State Revolving Fund loan program. The City's revenue obligations outstanding at September 30, 2004 are summarized as follows:

Revenue Notes Payable:

Promissory notes payable to the State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement - 3.27% construction loan (\$361,764) dated January 30, 2001; 3.16% loan (\$928,400) dated September 10, 2001; 2.12% loan (\$1,579,330) dated July 24, 2002; 1.99% loan (\$2,795,506) dated June 27, 2003, in the aggregate amount of \$5,665,000 for local stormwater pollution control and drainage improvements, with combined total payments of \$181,075, due semi-annually, on January 15 and July 15, commencing on January 15, 2004 through 2024; secured with stormwater management service charges (\$252,797 currently payable)	\$ 5,182,243
Promissory notes payable to Sun Bank of Volusia County:	
5.30% Non-Ad Valorem Revenue Note, Series 2001 dated February 20, 2001; \$23,692 due semi-annually through 2006; secured by all non-ad valorem revenues of the City (\$32,408 currently payable)	32,408
4.84% Utility Service Tax Revenue Note, Series 1998A, dated April 14, 1998; payments of \$58,775 fixed principal plus interest due semi-annually through 2008; secured by utility service tax revenues (\$117,550 currently payable)	<u>515,437</u>
Total revenue notes payable	5,730,088
Less: current maturities	<u>(402,755)</u>
Governmental activities long-term revenue note debt	5,327,333
Long-term portion of obligation for compensated absences payable by the City's General Fund (net of \$85,168 in amounts currently payable)	<u>651,608</u>
Total governmental activities long-term debt	<u><u>\$ 5,978,941</u></u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

A summary of changes in the City's governmental activities long-term debt for the year is as follows:

	Balances 09/30/03	Additions	Deletions	Balances 09/30/04
Notes Payable:				
County of Volusia, Florida	\$ 15,389	0	15,389	0
Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans	2,688,507	2,780,579	286,843	5,182,243
Sun Bank of Volusia County:				
5.30% promissory note	76,275	0	43,867	32,408
4.84% Utility Service Tax Revenue Note, Series 1998A	632,987	0	117,550	515,437
Obligation for compensated absences	<u>624,631</u>	<u>397,104</u>	<u>370,127</u>	<u>651,608</u>
Totals	<u>\$ 4,037,789</u>	<u>3,177,683</u>	<u>833,776</u>	<u>6,381,696</u>

Aggregate debt service requirements to maturity on governmental activities long-term debt obligations is as follows:

Fiscal Year	FDEP SRF Loan	SunTrust 5.30%	SunTrust 4.84%	Total
09/30/05	\$ 372,606	33,470	141,075	547,151
09/30/06	353,616	0	135,385	489,001
09/30/07	353,616	0	129,696	483,312
09/30/08	353,616	0	124,007	477,623
09/30/09	353,616	0	46,331	399,947
Thereafter	<u>4,697,936</u>	<u>0</u>	<u>0</u>	<u>4,697,936</u>
Total	<u>6,485,006</u>	<u>33,470</u>	<u>576,494</u>	<u>7,094,970</u>
Less: interest	<u>(1,302,763)</u>	<u>(1,062)</u>	<u>(61,057)</u>	<u>(1,364,882)</u>
Net amount	<u>\$ 5,182,243</u>	<u>32,408</u>	<u>515,437</u>	<u>5,730,088</u>

Under the terms of its revenue note obligations, the City has agreed to maintain certain restricted funds and to comply with the covenants contained in such agreements which require specific actions to be taken by the City. The resolution also provides that monies on deposit in the various accounts may be invested in permitted investments, the definition of which includes various securities backed by the full faith and credit of the U.S. Government or its agencies, depository accounts fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, commercial paper, money market funds, and bankers' acceptances meeting requirements defined in the bond resolution, units of participation in the Local Government Surplus Funds Trust Fund, and any other investments allowed by Florida law.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

The annual debt service and mandatory term bond amortization requirements to maturity is as follows:

Fiscal Year	Bonds	Note	Total
September 30, 2005	\$ 1,072,482	186,240	1,258,722
September 30, 2006	1,074,606	186,240	1,260,846
September 30, 2007	1,078,706	186,240	1,264,946
September 30, 2008	1,076,656	186,240	1,262,896
September 30, 2009	1,076,882	186,240	1,263,122
Thereafter	<u>13,996,123</u>	<u>1,770,513</u>	<u>15,766,636</u>
Total requirements	19,375,455	2,701,713	22,077,168
Less: interest	<u>(6,345,455)</u>	<u>(595,712)</u>	<u>(6,941,167)</u>
Net amount	<u>\$ 13,030,000</u>	<u>2,106,001</u>	<u>15,136,001</u>

The authorization for the Water and Sewer System Refunding Revenue Bonds, Series 2002 (the "Series 2002 bonds") provides that the City will not issue additional obligations unless they are payable on a parity with the Series 2002 bonds and only upon the conditions and within the limitations of the authorizing resolution. The bonds are payable from and secured by a first lien upon and pledge of the net revenues derived from the operation of the City's water and sewer system. The bonds do not constitute general indebtedness of the City, and the City is not obligated to levy any taxes for the payment thereof.

Under the terms of its bond resolution and revenue note obligations, the City has agreed to maintain certain restricted funds and to comply with the covenants contained in such agreements which require specific actions to be taken by the City. The resolution also provides that monies on deposit in the various bond accounts may be invested in permitted investments, the definition of which includes various securities backed by the full faith and credit of the U.S. Government or its agencies, depository accounts fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, commercial paper, money market funds, and bankers' acceptances meeting requirements defined in the bond resolution, units of participation in the Local Government Surplus Funds Trust Fund, and any other investments allowed by Florida law.

The note payable to the State of Florida, Department of Environmental Protection, State Revolving Fund Loan is secured by pledged revenues of the City; however, the lien on the pledged revenues is subordinate to the right of payment and security to the Series 2002 bonds.

NOTE 10 - PENSION PLANS

General Employees - Defined Benefit Pension Plan

Plan Description. (Pre-01/01/96 general employees) The City contributes to the Florida Retirement System (the "FRS") of the State of Florida, a cost-sharing, multiple-employer public employee retirement system created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Administration, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 121, F.S. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Florida Retirement System, Department of Administration, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, FL 32399-1560, or calling 850-488-5706.

Funding Policy. The FRS funding policy provides for required monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

The City funded all required contributions to the plan for the fiscal years ended September 30, 2004, 2003, and 2002, which were \$90,677, \$70,284, and \$85,244, respectively. There were no employee contributions made during these years. The following is a summary of employer contribution percentages for qualifying compensation paid to general participants/DROP participants in effect during each of the past three fiscal years ended September 30, 2004, 2003, and 2002 by retirement plan periods:

	<u>Regular Employees</u>	<u>DROP Employees</u>
From July 1, 2001 to June 30, 2002	7.30%	12.67%
From July 1, 2002 to June 30, 2003	5.76%	9.11%
From July 1, 2003 to June 30, 2004	7.39%	9.11%
From July 1, 2004 to September 30, 2004	7.39%	9.11%

General Employees - Defined Contribution Plan

The City contributes to the Florida Municipal Pension Trust Fund, a defined contribution plan which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Resolution No. 61 and Ordinance No. 2417, as amended, the City established this plan for all full time employees hired on or after January 1, 1996 by revoking its participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

The City, as the sponsoring employer, is responsible for amending pension provisions and contribution requirements for the plan. The plan was amended during the year to include recent income tax law provisions applicable to employee benefit plans that were applicable to the plan. The City has the power to amend plan provisions at any time.

All qualified employees at least 18 years of age become eligible to participate in the plan on the first date of the month following the date of employment. Employees voluntarily contribute to the plan. If employees contribute 2% or more to the plan, the city contributes 10% to the plan. To accommodate both employer and employee contributions the City utilizes a Section 457(b) deferred compensation plan to receive employee contributions and a Section 401(a) plan to receive employer contributions.

Employees immediately vest in the elective deferral contributions made to the Plan. For bargaining unit employees, a graded vesting schedule for employer contributions provides for 100% vesting after 10 years of service. Non-bargaining unit employees are 100% vested after one completed year of service to the City. The vested portions of the accounts or contributions to the plan are available to the participants immediately upon termination of service. Normal retirement benefits are available upon attaining age 60. The plan does not provide for an early retirement date prior to the normal retirement date of age 60.

The required employer contributions to the Plan for the fiscal years ended September 30, 2004, 2003, and 2002 were \$79,974, \$45,362, and \$82,841, respectively. Employee contributions to the Plan for the fiscal years ended September 30, 2004, 2003, and 2002 were \$81,431, \$58,514, and \$38,450, respectively.

As a part of the plan, account forfeitures are accumulated to offset the cost of future City contribution requirements. For the year ended September 30, 2004, accumulated plan forfeitures totaling \$54,837 were used to offset current year funding requirements. At September 30, 2004, cumulative plan forfeitures totaled \$5,193, all of which may be used to reduce the City's portion of its subsequent years' contribution requirements.

Police Officers and Firefighters - Defined Benefit Pension Plans:

Plan Description. The City maintains and administers separate single-employer pension plans for all eligible police officers and firefighters, which assets are included in the Municipal Police Officers' Retirement Trust Fund (the "Police Plan") and Municipal Firefighters' Pension Trust Fund (the "Fire Plan"). Both Plans issue publicly available stand-alone financial reports that include financial statements and required supplementary information for the plans. The Police Plan report may be obtained by writing to City of Holly Hill, Florida Police Officers' Retirement Trust Fund, Post Office Box 251485, Holly Hill, FL 32125 or calling (386) 248-9475. The Fire Plan report may be obtained by writing to City of Holly Hill, Florida Firefighters' Retirement System Pension Trust Fund, 1065 Ridgewood Avenue, Holly Hill, FL 32117-2898 or calling (386) 248-9473.

All certified police officers and firefighters are eligible to participate in the respective systems after employment. Benefits vest with eligible employees after ten years of participation. The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which created the funds, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Police Plan and the Fire Plan can be found in Chapters 185 and 175, Florida Statutes, respectively. These statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, State appropriations and income from

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

investments from accumulated funds. The act also provides that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the funds by an appropriation from current funds or from any revenues which may be lawfully used for said purposes in an amount sufficient to make up the deficiency. The investments of the two funds are administered, managed, and operated by their respective boards of trustees using the services of the City staff, local financial institutions, and third-party fund custodians.

Full-time, uniformed police officers are eligible to participate in the Police Plan upon employment by the City. Full-time, uniformed firefighters are eligible to participate in the Fire Plan upon employment with the City. Employees vest with full benefits after 10 years of service. Normal retirement occurs for police officers at the earlier of age 55 and 10 years of credited service or 20 years of credited service regardless of age but no earlier than age 55 for vested terminations. Normal retirement for firefighters occurs at age 50. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees.

Current membership in the pension plans is composed of the following:

	<u>Police Plan</u>	<u>Fire Plan</u>
Participant data as of October 1, 2003, the date of the most recent actuarial valuation:		
Retirees and beneficiaries currently receiving benefits	12	6
Vested terminated employees	0	1
Active employees:		
Fully vested	8	0
Nonvested	<u>18</u>	<u>12</u>
Total participants	<u>38</u>	<u>19</u>

Summary of Significant Accounting Policies of the Plans. The accrual basis of accounting is utilized in presenting the pension trust funds combining balance sheet and combining statement of revenue, expenses and changes in fund balance. Plan receivables are short term and consist of contributions due from the City, State and/or from plan members. Plan liabilities would generally include benefits due to plan members and beneficiaries and accrued investment and administrative expenses and are recognized when due and payable in accordance with the terms of the Plans. The difference between total plan assets and total plan liabilities at the reporting date are captioned net assets held in trust for pension benefits reserved for employees' pension benefits and represent the net assets held in trust for pension benefits.

Investments are reported at fair value and are managed by third party money managers. Investments that do not have an established market are reported at estimated fair value. Performance reporting, administrative expenses, and the City's asset valuation are based on the custodians' determination of value.

Contribution Requirements and Contributions Made. The City provides contributions to the Police Plan and Fire Plan under the authority of Chapters 185 and 175, Florida Statutes, respectively and pursuant to City ordinances. Employees covered under the plans are required to make contributions of 11.2% [Police Plan] and 10.0% [Fire Plan] of their compensation. The City is required to contribute the remaining amounts necessary to fund the Plans based on the funding amounts determined by the Plans' actuaries.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

The City has adopted GASB Statement No. 27 on pension accounting and reporting. This statement requires the computation of a net pension obligation (NPO) or asset which would result if the City's contributions to the pension funds did not equal the annual pension cost as computed by the plan actuaries. During the current year, the City evaluated both plans to determine the net pension obligation or assets at the end of 2003.

The City's annual pension cost and net pension obligations to the Police and Fire Plans were as follows:

Municipal Police Officers' Retirement Trust Fund

<u>Fiscal Year Ending</u>	<u>Actuarial Determined Contribution</u>	<u>Percentage of ADC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2003	\$ 14,537	100.0%	\$ 0
09/30/2002	25,404	100.0%	0
09/30/2001	0	100.0%	0

The actuarially determined contribution is reduced by funds received from the State of Florida that are required to be deposited directly into the Plan as stipulated by Ch. 185, F.S. For the past three years the City has not had to contribute to the Municipal Police Officers' Retirement Trust Fund above the amount covered by the State of Florida Casualty Insurance Premium Tax monies.

Municipal Firefighters' Pension Trust Fund

<u>Fiscal Year Ending</u>	<u>Actuarial Determined Contribution</u>	<u>Percentage of ADC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2003	\$ 74,407	100%	\$ (54,885)
09/30/2002	69,527	100%	(55,776)
09/30/2001	42,883	142%	(56,682)

The Fire Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (part VII, Chapter 112, Florida Statutes) in 1980. Accordingly, the City has funded the actuarially determined required contributions for all years from October 1, 1987, through the transition date, October 1, 1997. Thus, the Net Pension Obligation on October 1, 1997 is \$-0-

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

The development of the Net Pension Obligation (NPO) in the Fire Plan through October 1, 2003 is as follows:

	<u>09/30/01</u>	<u>09/30/02</u>	<u>09/30/03</u>
Actuarially determined contribution	\$ 42,883	69,527	74,407
Interest on NPO	(2,949)	(4,251)	(4,183)
Adjustment	<u>3,577</u>	<u>5,157</u>	<u>75,298</u>
Annual Pension Cost	43,511	70,433	75,298
Contributions made	<u>60,875</u>	<u>69,527</u>	<u>74,407</u>
Increase in NPO	(17,364)	906	891
NPO - beginning of year	<u>(39,318)</u>	<u>(56,682)</u>	<u>(55,776)</u>
NPO - end of year	<u>\$ (56,682)</u>	<u>(55,776)</u>	<u>(54,885)</u>

The above negative pension obligation has been included in the accrual-based government-wide statements of net assets and activities, as required.

The actuarial valuations for both plans were prepared in accordance with GASB Statements No. 25 and 27. Significant actuarial assumptions used in the valuations for each plan are as follows:

	<u>Police Plan</u>	<u>Fire Plan</u>
Contribution rates as of 09/30/03:		
City (employer)	1.6%	16.5%
City for Members	8.0%	0.0%
Plan Members	11.2%	10.0%
Annual pension cost	\$14,537	\$75,298
Contributions made	\$14,537	\$74,407
Actuarial valuation dates	10/01/02	10/01/02
Actuarial cost method	Aggregate	Aggregate
Amortization method	N/A	N/A
Remaining amortization period	N/A	N/A
Asset valuation method	4yr. Smoothed Market	4yr. Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.0%	7.5%
Projected salary increases *	6.0%	5.0%
*Includes inflation at	3.0%	2.5%
Cost of living adjustments	0.0%	0.0%

N/A - The amortization method and period are not applicable for this plan since the Aggregate Actuarial Cost Method does not identify or separately amortize unfunded actuarial liabilities.

Related Party Transactions. The City held no securities which were included in the assets of the Police Plan or Fire Plan.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Required Supplementary Information. The required supplementary information pursuant to GASB No. 25 is contained in Schedules 1 and 2 presented immediately following these notes to the financial statements.

NOTE 11 - DEFERRED EMPLOYEE BENEFITS

The City offers its City Manager participation in a Money Purchase Plan and Trust, created in accordance with Section 401(a) of the Internal Revenue Code. The assets of this plan are administered by the International City Managers Association Retirement Corporation. Upon separation from service for reasons of death, disability or attainment of age 59½ (normal retirement age) the participant may elect to commence receiving benefits which equal accumulated employers' contributions plus earnings thereon. All benefits vest with the employee at the date of contribution. The City contributes 14.26% of the participant's salary to the Plan. For the year ended September 30, 2004, the City's covered payroll was \$87,372 and contributions were \$12,459.

The City also offers an alternative Section 457 plan to accommodate supplemental employee elective deferrals for employees covered in the City's defined benefit plans. The assets of this plan are also administered by the International City Managers Association Retirement Corporation. Supplemental employee contributions to the Plan for the fiscal year ended September 30, 2004 totaled \$32,849.

NOTE 12 - LEGAL MATTERS

The City is engaged in routine litigation incidental to the conduct of their respective business and municipal affairs. In the opinion of their Counsel, no legal proceedings are pending against them, not covered by insurance, which would inhibit their ability to perform their operations or materially affect their financial condition.

NOTE 13 - COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures from current or prior years which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 1

	Original	Final	Actual Amounts	Variance With Final Budget
Revenue:				
Taxes:				
General property taxes:				
Current ad valorem taxes	\$ 1,430,200	1,460,000	1,458,299	(1,701)
Delinquent ad valorem taxes	20,000	20,000	6,825	(13,175)
Local option gas tax	152,000	154,700	160,515	5,815
2nd Local option gas tax	115,000	116,300	117,927	1,627
Franchise taxes	631,800	674,100	640,107	(33,993)
Utility service taxes	1,340,000	1,324,000	1,319,858	(4,142)
Total taxes	<u>3,689,000</u>	<u>3,749,100</u>	<u>3,703,531</u>	<u>(45,569)</u>
Licenses and permits:				
Business	200,000	175,000	170,434	(4,566)
Nonbusiness	94,700	105,700	107,299	1,599
Total licenses and permits	<u>294,700</u>	<u>280,700</u>	<u>277,733</u>	<u>(2,967)</u>
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice	15,000	28,300	32,338	4,038
Department of Homeland Security.....	0	57,400	42,692	(14,708)
State Grants:				
Department of Law Enforcement	0	6,800	6,815	15
State Shared Revenues:				
State revenue sharing proceeds	310,000	339,700	370,603	30,903
Mobile home licenses	19,000	17,000	16,466	(534)
Alcoholic beverage licenses	7,000	7,000	7,681	681
Local government half-cent sales tax	650,000	650,000	652,814	2,814
Motor fuel tax rebate	800	600	597	(3)
Firefighters' supplemental revenue	600	1,000	2,111	1,111
Other Shared Revenues:				
Other local grants.....	0	24,000	22,287	(1,713)
County shared revenues	13,000	13,000	14,813	1,813
Total intergovernmental revenue	<u>1,015,400</u>	<u>1,144,800</u>	<u>1,169,217</u>	<u>24,417</u>
Charges for services:				
General government	8,800	10,000	11,198	1,198
Public safety	4,000	5,500	5,847	347
Transportation	43,900	56,900	55,473	(1,427)
Culture/recreation	112,000	80,000	77,385	(2,615)
Total charges for services	<u>168,700</u>	<u>152,400</u>	<u>149,903</u>	<u>(2,497)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 1

	Original	Final	Actual Amounts	Variance With Final Budget
Fines and forfeitures:				
Court cases	\$ 63,500	46,500	45,419	(1,081)
Local ordinance violations	4,500	2,500	875	(1,625)
Total fines and forfeitures	68,000	49,000	46,294	(2,706)
Miscellaneous Revenues:				
Interest earnings	59,000	50,000	38,853	(11,147)
Sale of fixed assets	20,500	32,400	27,510	(4,890)
Contributions and donations	0	4,500	7,919	3,419
Miscellaneous revenues	52,000	42,000	30,855	(11,145)
Total miscellaneous revenue	131,500	128,900	105,137	(23,763)
Total revenue	5,367,300	5,504,900	5,451,815	(53,085)
Expenditures:				
General Government:				
Legislative:				
Personal services	36,300	36,300	33,004	3,296
Operating expenditures	54,600	55,600	54,253	1,347
	90,900	91,900	87,257	4,643
Executive:				
Personal services	317,600	327,200	315,044	12,156
Operating expenditures	45,500	45,500	40,187	5,313
	363,100	372,700	355,231	17,469
Financial and Administrative:				
Personal services	496,200	496,200	480,080	16,120
Operating expenditures	267,300	304,600	283,419	21,181
	763,500	800,800	763,499	37,301
Other General Government:				
Personal services	21,900	21,900	18,049	3,851
Operating expenditures	131,000	176,500	151,057	25,443
Capital outlay	37,800	37,800	36,660	1,140
Grants and aids	77,800	77,800	16,900	60,900
	268,500	314,000	222,666	91,334
Total general government	1,486,000	1,579,400	1,428,653	150,747
Public Safety:				
Law Enforcement:				
Personal services	1,600,500	1,600,500	1,579,186	21,314
Operating expenditures	182,500	200,800	177,707	23,093
Capital outlay	58,100	58,100	58,076	24
	1,841,100	1,859,400	1,814,969	44,431

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 1

	Original	Final	Actual Amounts	Variance With Final Budget
Fire Protection:				
Personal services	\$ 962,700	962,700	910,914	51,786
Operating expenditures	111,500	161,400	135,212	26,188
Capital outlay	81,200	81,200	73,196	8,004
	<u>1,155,400</u>	<u>1,205,300</u>	<u>1,119,322</u>	<u>85,978</u>
Building Inspection:				
Personal services	250,600	250,600	232,851	17,749
Operating expenditures	112,000	115,000	98,905	16,095
Capital outlay	14,100	14,100	14,065	35
	<u>376,700</u>	<u>379,700</u>	<u>345,821</u>	<u>33,879</u>
Total public safety	3,373,200	3,444,400	3,280,112	164,288
Transportation:				
Road and Street Facilities:				
Personal services	365,400	365,400	339,895	25,505
Operating expenditures	208,200	333,000	298,598	34,402
Capital outlay	355,500	355,500	352,711	2,789
	<u>929,100</u>	<u>1,053,900</u>	<u>991,204</u>	<u>62,696</u>
Total transportation	929,100	1,053,900	991,204	62,696
Culture/Recreation:				
Parks:				
Personal services	335,200	335,200	323,247	11,953
Operating expenditures	176,700	176,700	133,952	42,748
Capital outlay	223,800	87,300	30,155	57,145
	<u>735,700</u>	<u>599,200</u>	<u>487,354</u>	<u>111,846</u>
Recreation:				
Personal services	251,500	251,500	242,355	9,145
Operating expenditures	145,000	145,000	114,525	30,475
Capital outlay	24,000	8,900	8,875	25
	<u>420,500</u>	<u>405,400</u>	<u>365,755</u>	<u>39,645</u>
Total culture/recreation	1,156,200	1,004,600	853,109	151,491
Debt Service:				
Principal retirement:				
General government	126,000	126,000	117,550	8,450
Public safety.....	59,300	59,300	59,206	94
	<u>185,300</u>	<u>185,300</u>	<u>176,756</u>	<u>8,544</u>
Interest and fiscal charges:				
General government	29,700	29,700	29,677	23
Public safety.....	5,600	5,600	4,147	1,453
	<u>35,300</u>	<u>35,300</u>	<u>33,824</u>	<u>1,476</u>
Total debt service	220,600	220,600	210,580	10,020

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 1

	Original	Final	Actual Amounts	Variance With Final Budget
Total expenditures	\$ 7,165,100	7,302,900	6,763,658	539,242
Excess of revenue over (under) expenditures	(1,797,800)	(1,798,000)	(1,311,843)	486,157
Other Financing Sources (Uses):				
Transfers from:				
Law Enforcement Trust Fund	0	2,500	2,439	61
Community Development Block Grant Fund..	0	0	13,427	(13,427)
Water and Sewer Fund	450,000	450,000	450,000	0
Solid Waste Fund	260,000	260,000	260,000	0
Appropriated fund balance.....	1,195,100	1,457,300	0	(1,457,300)
Transfers to:				
Law Enforcement Block Grant Fund	(2,300)	(10,400)	(9,516)	884
Capital Projects Fund	(105,000)	(361,400)	0	361,400
Total financing sources (uses)	1,797,800	1,798,000	716,350	(1,108,382)
Net change in fund balance.....	0	0	(595,493)	(595,493)
Fund balance, beginning of year	2,675,986	2,675,986	2,675,986	0
Fund balance, end of year	\$ 2,675,986	2,675,986	2,080,493	(595,493)

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 2

	Original	Final	Actual Amounts	Variance With Final Budget
Revenue:				
Taxes:				
General property taxes:				
Current ad valorem taxes	\$ 134,800	133,600	133,588	(12)
Intergovernmental Revenue:				
Shared revenues from other local units.....	266,800	282,500	282,498	(2)
Miscellaneous Revenue:				
Interest earnings	3,000	3,000	6,062	3,062
Total revenue.....	404,600	419,100	422,148	3,048
Expenditures:				
Economic Environment:				
Personal services	174,300	174,300	161,556	12,744
Operating expenditures	44,000	44,000	26,776	17,224
Capital outlay	186,300	466,800	139,314	327,486
Total economic environment	404,600	685,100	327,646	357,454
Excess of revenue over (under) expenditures	0	(266,000)	94,502	(354,406)
Other Financing Sources (Uses):				
Appropriated fund balance.....	0	266,000	0	(266,000)
Net change in fund balance.....	0	0	94,502	(620,406)
Fund balance, beginning of year	266,122	266,122	266,122	0
Fund balance, end of year	\$ 266,122	266,122	360,624	(620,406)

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
STORMWATER DRAINAGE FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Schedule 3

	Original	Final	Actual Amounts	Variance With Final Budget
Revenue:				
Intergovernmental Revenue:				
Shared revenues from other local units.....	\$ 0	0	50,000	50,000
Charges for Services:				
Physical Environment:				
Stormwater management fees	521,300	525,000	531,867	6,867
Miscellaneous Revenue:				
Interest earnings	17,350	12,000	6,881	(5,119)
Miscellaneous.....	50	0	0	0
	17,400	12,000	6,881	(5,119)
Total revenue.....	538,700	537,000	588,748	51,748
Expenditures:				
Physical Environment:				
Personal services	146,600	157,500	154,563	2,937
Operating expenditures	127,600	112,100	51,427	60,673
Capital outlay	288,000	3,118,000	2,938,613	179,387
Total transportation	562,200	3,387,600	3,144,603	242,997
Total revenue over (under) expenditures.....	(23,500)	(2,850,600)	(2,555,855)	294,745
Other Financing Sources (Uses):				
Proceeds of long-term debt.....	0	3,000,000	2,770,179	(229,821)
Appropriated fund balance.....	204,600	0	0	0
Transfers from (to):				
Community Development Block Grant Fund..	0	227,500	332,342	104,842
Stormwater Drainage Debt Service Fund.....	(181,100)	(376,900)	(384,234)	(7,334)
Total other financing sources.....	23,500	2,850,600	2,718,287	(132,313)
Net change in fund balance.....	0	0	162,432	162,432
Fund balance, beginning of year	632,050	632,050	632,050	0
Fund balance, end of year	\$ 632,050	632,050	794,482	162,432

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Schedule 4

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Assets in Excess of) AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b - a)/c)
Municipal Firefighters' Pension Trust Fund						
10/01/1998	\$1,831,190	\$1,831,190	\$0	100.00%	\$326,669	0.00%
10/01/1999	\$1,964,236	\$1,964,236	\$0	100.00%	\$381,325	0.00%
10/01/2000	\$2,044,098	\$2,044,098	\$0	100.00%	\$339,489	0.00%
10/02/2001	\$2,089,520	\$2,089,520	\$0	100.00%	\$402,803	0.00%
10/02/2002	\$2,100,744	\$2,100,744	\$0	100.00%	\$467,323	0.00%
10/02/2003	\$2,120,170	\$2,120,170	\$0	100.00%	\$466,503	0.00%
Municipal Police Officers' Retirement Trust Fund						
10/01/1998	\$4,440,281	\$4,654,807	\$214,526	95.39%	\$796,342	26.94%
10/01/1999	\$4,911,757	\$5,060,316	\$148,559	97.06%	\$870,214	17.07%
10/01/2000	\$5,500,526	\$6,064,771	\$564,245	90.70%	\$744,912	75.75%
10/02/2001	\$5,532,568	\$5,532,568	\$0	100.00%	\$871,152	0.00%
10/02/2002	\$5,430,534	\$5,430,534	\$0	100.00%	\$744,912	0.00%
10/02/2003	\$5,267,378	\$5,267,378	\$0	100.00%	\$870,214	0.00%

Source: Foster & Foster, Inc., Actuaries
 Valuations dated 10/01/2003

REQUIRED SUPPLEMENTARY INFORMATION

Schedule 5

SCHEDULES OF CONTRIBUTIONS OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES

September 30, 2004

CITY OF HOLLY HILL, FLORIDA

Fiscal Year Ended	Annual Required Contribution	Employer Contributions	State Contributions	Total Contributions	Percentage Contributed
Municipal Firefighters' Pension Trust Fund					
09/30/1998	\$87,446	\$89,109	\$37,878	\$126,987	145.22%
09/30/1999	\$83,017	\$55,985	\$28,077 *	\$84,062	101.26%
09/30/2000	\$70,054	\$41,977	\$28,077 *	\$70,054	100.00%
09/30/2001	\$70,960	\$60,875	\$28,077 *	\$88,952	125.36%
09/30/2002	\$97,604	\$69,527	\$28,077 *	\$97,604	100.00%
09/30/2003	\$102,484	\$74,407	\$28,077 *	\$102,484	100.00%

* "Frozen" per Chapter 175, Florida Statutes, as amended

Municipal Police Officers' Retirement Trust Fund					
09/30/1998	\$0	\$0	\$51,839	\$51,839	100.00%
09/30/1999	\$12,003	\$0	\$48,760	\$48,760	100.00%
09/30/2000	\$26,549	\$0	\$45,177	\$45,177	100.00%
09/30/2001	\$5,651	\$0	\$45,613	\$45,613	100.00%
09/30/2002	\$71,017	\$25,404	\$51,038	\$76,442	100.00%
09/30/2003	\$75,278	\$14,537	\$60,741	\$75,278	100.00%

Source: Foster & Foster, Inc., Actuaries
Valuations dated 10/01/2003

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds - are used to account for revenues derived from specific taxes or other earmarked revenue sources that are legally restricted to expenditures for particular purposes.

Law Enforcement Trust Fund - to account for the restricted revenues received from the sale of confiscated property and for the expenditure of the funds for restricted law enforcement purposes.

Youth Center - to account for the receipt and expenditure of program funds authorized by the Youth Center Advisory Board.

Community Development Block Grant - to account for the receipt and expenditure of program funds from the Community Development Block Grant program.

Local Law Enforcement Block Grant - to account for the receipt and expenditure of program funds from the Local Law Enforcement Block Grant program.

Debt Service Fund - is created and used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - is created to account for the financial resources to be used for the acquisition or construction of major capital facilities by the City of Holly Hill except those financed by proprietary funds.

Capital Assets Used in the Operation of Governmental Funds - Include major tangible assets that benefit more than a single fiscal period

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	Nonmajor Special Revenue Funds			
	Law Enforcement Trust	Youth Center	Community Development Block Grant	Local Law Enforcement Block Grant
Assets:				
Cash and cash equivalents	\$ 26,422	23,172	0	0
Due from other governments	2,260	0	0	0
Total assets	\$ 28,682	23,172	0	0
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 1,994	0	0	0
Due to other funds	240	0	0	0
Total liabilities	2,234	0	0	0
Fund Balances:				
Reserved for:				
Encumbrances	0	0	0	0
Law enforcement	26,448	0	0	0
Debt service	0	0	0	0
Unreserved	0	23,172	0	0
Total fund balances	26,448	23,172	0	0
Total liabilities and fund balances	\$ 28,682	23,172	0	0

Exhibit 1

Total Nonmajor Special Revenue Funds	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
49,594	265,229	247,339	562,162
2,260	0	53,798	56,058
<u>51,854</u>	<u>265,229</u>	<u>301,137</u>	<u>618,220</u>
1,994	0	47,443	49,437
240	0	0	240
<u>2,234</u>	<u>0</u>	<u>47,443</u>	<u>49,677</u>
0	0	253,694	253,694
26,448	0	0	26,448
0	265,229	0	265,229
23,172	0	0	23,172
<u>49,620</u>	<u>265,229</u>	<u>253,694</u>	<u>568,543</u>
<u>51,854</u>	<u>265,229</u>	<u>301,137</u>	<u>618,220</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

	Nonmajor Special Revenue Funds			
	Law Enforcement Trust	Youth Center	Community Development Block Grant	Local Law Enforcement Block Grant
Revenue:				
Intergovernmental	\$ 1,022	0	433,669	21,064
Fines and forfeitures	9,597	0	0	0
Miscellaneous	83	5,557	0	50
Total revenue	10,702	5,557	433,669	21,114
Expenditures:				
Current:				
Public safety	14,307	0	0	30,630
Transportation.....	0	0	87,900	0
Culture/recreation.....	0	600	0	0
Capital Outlay:				
Culture/recreation.....	0	0	0	0
Debt Service:				
Principal retirements.....	0	0	0	0
Interest payments.....	0	0	0	0
Total expenditures	14,307	600	87,900	30,630
Excess of revenue over (under) expenditures	(3,605)	4,957	345,769	(9,516)
Other Financing Sources (Uses):				
Transfers in	0	0	0	9,516
Transfers (out).....	(2,439)	0	(345,769)	0
Total other financing sources (uses).....	(2,439)	0	(345,769)	9,516
Net changes in fund balances.....	(6,044)	4,957	0	0
Fund balances, beginning of year	32,492	18,215	0	0
Fund balances, end of year	\$ 26,448	23,172	0	0

Exhibit 2

Total Nonmajor Special Revenue Funds	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
455,755	0	53,798	509,553
9,597	0	0	9,597
5,690	4,002	4,046	13,738
<u>471,042</u>	<u>4,002</u>	<u>57,844</u>	<u>532,888</u>
44,937	0	0	44,937
87,900	0	0	87,900
600	0	0	600
0	0	148,142	148,142
0	286,843	0	286,843
0	90,030	0	90,030
<u>133,437</u>	<u>376,873</u>	<u>148,142</u>	<u>658,452</u>
337,605	(372,871)	(90,298)	(125,564)
9,516	384,234	0	393,750
(348,208)	0	0	(348,208)
<u>(338,692)</u>	<u>384,234</u>	<u>0</u>	<u>45,542</u>
(1,087)	11,363	(90,298)	(80,022)
<u>50,707</u>	<u>253,866</u>	<u>343,992</u>	<u>648,565</u>
<u>49,620</u>	<u>265,229</u>	<u>253,694</u>	<u>568,543</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LAW ENFORCEMENT TRUST FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice.....	\$ 0	0	1,022	1,022
Fines and Forfeitures:				
Confiscated property	0	0	9,597	9,597
Miscellaneous:				
Interest earnings.....	0	0	83	83
Total revenue	<u>0</u>	<u>0</u>	<u>10,702</u>	<u>10,702</u>
Expenditures:				
Current:				
Public Safety:				
Operating expenditures.....	0	15,000	14,307	693
Capital outlay.....	0	2,500	0	2,500
Total expenditures.....	<u>0</u>	<u>17,500</u>	<u>14,307</u>	<u>3,193</u>
Excess of revenue over (under) expenditures	0	(17,500)	(3,605)	7,509
Other Financing Sources (Uses):				
Appropriated fund balance.....	0	20,000	0	(20,000)
Transfer (to) from other funds:				
General Fund.....		(2,500)	(2,439)	
Total financing sources (uses)	<u>0</u>	<u>17,500</u>	<u>(2,439)</u>	<u>(20,000)</u>
Net change in fund balance.....	0	0	(6,044)	(12,491)
Fund balances, beginning of year	<u>32,492</u>	<u>32,492</u>	<u>32,492</u>	<u>0</u>
Fund balances, end of year	<u>\$ 32,492</u>	<u>49,992</u>	<u>26,448</u>	<u>(12,491)</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR YOUTH CENTER FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Miscellaneous:				
Miscellaneous contributions.....	\$ 0	4,800	5,557	757
Total revenue	0	4,800	5,557	757
Expenditures:				
Current:				
Culture/recreation:				
Operating expenditures.....	0	4,800	600	4,200
Net change in fund balance.....	0	0	4,957	4,957
Fund balances, beginning of year	18,215	18,215	18,215	0
Fund balances, end of year	\$ 18,215	18,215	23,172	4,957

BUDGETARY COMPARISON SCHEDULE
NONMAJOR COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Housing and Urban Development.....	\$ 105,600	238,700	433,669	194,969
Expenditures:				
Current:				
Transportation:				
Capital outlay.....	105,600	91,600	87,900	3,700
Excess of revenue over (under) expenditures	0	147,100	345,769	198,669
Other Financing Sources (Uses):				
Transfer (to) from other funds:				
General Fund.....	0	(14,000)	(13,427)	573
Stormwater Drainage Fund.....	0	(133,100)	(332,342)	(199,242)
Total financing sources (uses)	0	(147,100)	(345,769)	(198,669)
Net change in fund balance.....	0	0	0	0
Fund balances, beginning of year	0	0	0	0
Fund balances, end of year	\$ 0	0	0	0

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LOCAL LAW ENFORCEMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 6

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice.....	\$ 21,100	21,100	21,064	(36)
Miscellaneous:				
Interest earnings.....	0	100	50	(50)
Total revenue	21,100	21,200	21,114	(86)
Expenditures:				
Current:				
Public Safety:				
Operating expenditures.....	500	12,600	11,711	889
Capital outlay.....	22,900	19,000	18,919	81
Total expenditures.....	23,400	31,600	30,630	970
Excess of revenue over (under) expenditures	(2,300)	(10,400)	(9,516)	884
Other Financing Sources (Uses):				
Transfer from General Fund.....	2,300	10,400	9,516	(884)
Net change in fund balance.....	0	0	0	0
Fund balances, beginning of year	0	0	0	0
Fund balances, end of year	\$ 0	0	0	0

BUDGETARY COMPARISON SCHEDULE
NONMAJOR DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 7

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Miscellaneous:				
Interest earnings.....	\$ 0	0	4,002	4,002
Expenditures:				
Debt Service:				
Principal retirement.....		0	286,843	(286,843)
Interest payments.....		0	90,030	(90,030)
Total expenditures.....	0	0	376,873	(376,873)
Excess of revenue over (under) expenditures	0	0	(372,871)	(372,871)
Other Financing Sources (Uses):				
Transfer from Stormwater Drainage Fund	0	0	384,234	384,234
Net change in fund balance.....	0	0	11,363	11,363
Fund balances, beginning of year	253,866	253,866	253,866	0
Fund balances, end of year	\$ 253,866	253,866	265,229	11,363

BUDGETARY COMPARISON SCHEDULE
NONMAJOR CAPITAL PROJECTS FUND
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 8

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue:				
Intergovernmental:				
State grant:				
Florida Department of Environmental Protection.....	\$ 50,000	0	53,798	53,798
Miscellaneous:				
Interest earnings.....	0	3,000	4,046	1,046
Total revenue.....	50,000	3,000	57,844	54,844
Expenditures:				
Capital Outlay:				
Transportation.....	100,000	0	0	0
Culture/recreation.....	55,000	659,700	148,142	511,558
Total expenditures.....	155,000	659,700	148,142	511,558
Excess of revenue over (under) expenditures	(105,000)	(656,700)	(90,298)	566,402
Other Financing Sources (Uses):				
Transfer from General Fund	105,000	361,400	0	(361,400)
Appropriated fund balance.....	0	295,300	0	(295,300)
Total other financing sources (uses).....	105,000	656,700	0	(656,700)
Net change in fund balance.....	0	0	(90,298)	(90,298)
Fund balances, beginning of year	343,992	343,992	343,992	0
Fund balances, end of year	\$ 343,992	343,992	253,694	(90,298)

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE**

Exhibit 9

September 30, 2004 and 2003
CITY OF HOLLY HILL, FLORIDA

	2004	2003
Governmental Funds Capital Assets:		
Land	\$ 1,950,539	1,950,539
Buildings	4,257,028	4,042,446
Improvements other than buildings	2,065,279	2,026,365
Machinery and equipment	3,027,050	2,934,087
Infrastructure	7,731,473	7,351,595
Construction work in progress	4,777,357	1,992,015
Total governmental funds capital assets	\$ 23,808,726	20,297,047
 Investments in Governmental Funds Capital Assets by Source:		
General Fund	\$ 11,729,945	11,003,607
Special Revenue Funds	7,809,644	5,061,785
Capital Projects Fund	4,269,137	4,231,655
Total investments in governmental funds capital assets	\$ 23,808,726	20,297,047

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Function	Land	Buildings	Improvements Other Than Buildings
General Government	\$ 217,023	928,946	129,286
Public Safety.....	50,000	435,320	44,749
Public Works	13,536	83,784	353,111
Physical Environment	555,167	50,135	37,009
Economic Environment	0	0	13,820
Culture/Recreation	1,114,813	2,758,843	1,487,304
 Total governmental funds capital assets.....	 \$ <u>1,950,539</u>	 <u>4,257,028</u>	 <u>2,065,279</u>

Exhibit 10

Machinery and Equipment	Infrastructure	Construction Work in Progress	Total
568,513	0	0	1,843,768
1,308,530	0	0	1,838,599
467,889	4,373,994	0	5,292,314
329,734	3,191,891	4,733,702	8,897,638
0	0	0	13,820
<u>352,384</u>	<u>165,588</u>	<u>43,655</u>	<u>5,922,587</u>
<u>3,027,050</u>	<u>7,731,473</u>	<u>4,777,357</u>	<u>23,808,726</u>

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 11

Function	Governmental Funds Capital Assets 10/01/2003	Additions	Deletions	Governmental Funds Capital Assets 09/30/2004
General Government	\$ 1,770,267	73,501	0	1,843,768
Public Safety	1,800,376	150,190	111,967	1,838,599
Public Works	4,975,721	386,371	69,778	5,292,314
Physical Environment	6,060,996	2,839,154	2,512	8,897,638
Economic Environment	13,820	0	0	13,820
Culture/Recreation	5,675,867	273,572	26,852	5,922,587
Total governmental funds capital assets.. \$	<u>20,297,047</u>	<u>3,722,788</u>	<u>211,109</u>	<u>23,808,726</u>

COMBINING STATEMENTS OF PLAN NET ASSETS
FIDUCIARY FUNDS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 12

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Pension Trust Fund	Total- Fiduciary Funds
Assets:			
Cash and cash equivalents	\$ 0	751	751
Investments:			
Money market funds	227,731	57,281	285,012
U.S. Treasuries.....	248,881	191,425	440,306
U.S. agencies	371,532	509,563	881,095
U.S. corporate debt obligations	1,186,613	205,760	1,392,373
U.S. corporate equities	2,739,835	1,106,242	3,846,077
Accrued interest receivable	32,968	8,836	41,804
Due from brokers	6,405	13,831	20,236
Due from City of Holly Hill, Florida	0	2,178	2,178
Due from State of Florida	0	11,602	11,602
Total assets	4,813,965	2,107,469	6,921,434
Liabilities:			
Accounts payable	0	7,920	7,920
Net Assets:			
Net assets reserved for employees' pension benefits	\$ <u>4,813,965</u>	<u>2,099,549</u>	<u>6,913,514</u>

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Exhibit 13

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Pension Trust Fund	Total- Fiduciary Funds
Additions:			
Contributions from:			
Employer	\$ 107,162	96,928	204,090
State	71,625	41,710	113,335
Plan members	112,890	57,044	169,934
Total contributions.....	291,677	195,682	487,359
Investment income:			
Net realized and unrealized appreciation (depreciation) in fair value of investments	296,740	59,405	356,145
Interest and dividend earnings	126,459	57,530	183,989
	423,199	116,935	540,134
Less: investment management fees	(46,793)	(24,796)	(71,589)
Total investment income	376,406	92,139	468,545
Total additions	668,083	287,821	955,904
Deductions:			
Benefit payments	290,908	138,210	429,118
Refunds/withdrawals	102,317	31,010	133,327
Administrative expenses	18,807	18,418	37,225
Total deductions.....	412,032	187,638	599,670
Net increase	256,051	100,183	356,234
Net assets held in trust for pension benefits:			
Beginning of year	4,557,914	1,999,366	6,557,280
End of year	\$ 4,813,965	2,099,549	6,913,514

STATISTICAL SECTION

Statistical tables differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. These tables reflect social and economic data, financial trends and the fiscal capacity of the City of Holly Hill, Florida.

GENERAL FUND REVENUES - BY SOURCE
LAST TEN FISCAL YEARS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA
 (Amounts in \$)

Table 1

Fiscal Year	Total	Taxes	Licenses and Permits	Intergovernmental	Charges for Services (1)	Fines and Forfeits	Miscellaneous
1995	5,161,162	2,825,642	188,062	1,147,940	854,831	46,859	97,828
1996	5,100,361	2,903,615	215,032	1,145,089	568,051	49,605	218,969
1997	4,949,140	2,859,618	219,428	1,060,025	595,622	57,484	156,963
1998	4,633,584	3,159,746	197,426	921,033	113,272	81,317	160,790
1999	4,934,157	3,202,707	245,185	1,135,902	116,708	77,588	156,067
2000	5,042,210	3,279,961	179,580	1,170,485	137,894	73,361	200,929
2001	5,911,489	4,032,557	241,509	1,115,166	140,734	96,481	285,042
2002	5,259,121	3,597,639	247,330	1,071,285	133,964	77,199	131,704
2003	5,318,086	3,643,684	264,819	1,071,666	139,344	46,180	152,393
2004	5,451,815	3,703,531	277,733	1,169,217	149,903	46,294	105,137

(1) Includes sanitation revenues through 1997.

GENERAL FUND EXPENDITURES - BY FUNCTION
LAST TEN FISCAL YEARS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA
(Amounts in \$)

Table 2

Fiscal Year	Total	General Government	Public Safety	Transportation	Culture/ Recreation	Debt Service
1995	5,477,498	1,256,993	2,459,806	960,144	800,555	0
1996	4,890,722	1,134,574	2,352,963	517,567	885,618	0
1997	4,758,054	1,187,115	2,350,099	642,129	578,711	0
1998	5,328,393	1,127,297	2,401,183	583,501	546,508	669,904
1999	4,861,917	1,170,422	2,279,242	553,042	631,882	227,329
2000	4,986,324	1,026,223	2,443,962	584,862	701,394	229,883
2001	5,733,307	1,327,157	2,726,312	690,707	725,538	263,593
2002	6,155,154	1,644,990	2,633,784	835,439	772,047	268,894
2003	6,238,718	1,225,562	2,975,450	1,020,172	801,294	216,240
2004	6,763,658	1,428,653	3,280,112	991,204	853,109	210,580

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY:
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA
(*\$ in thousands*)**

Table 3

Fiscal Year	Net Assessed Value (1)	Estimated Actual Value (2)		Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Outstanding Delinquent Taxes Receivable	Percent of Levy Outstanding
1995	364,891	384,096	95%	1,444	1,383	95.8%	66	4.6%
1996	368,068	383,404	96%	1,438	1,343	93.4%	82	5.7%
1997	374,322	381,961	98%	1,474	1,378	93.5%	84	5.7%
1998	379,373	387,115	98%	1,505	1,405	93.4%	85	5.6%
1999	398,980	403,010	99%	1,498	1,419	94.7%	65	4.3%
2000	416,963	416,963	100%	1,517	1,430	94.3%	66	4.4%
2001	456,695	456,695	100%	1,675	1,618	96.6%	30	1.8%
2002	473,096	477,875	99%	1,631	1,568	96.1%	44	2.7%
2003	504,672	509,770	99%	1,615	1,550	96.0%	49	3.0%
2004	518,946	565,120 (3)	92%	1,653	1,607	97.2%	43	2.6%

(1) Obtained from the County of Volusia, Florida, Finance Department.

(2) Computed based on level of assessment percentage obtained from Florida Department of Revenue.

(3) Just value from Form DR-403AM

PROPERTY TAX RATES AND TAX LEVIES (1)
DIRECT AND ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Table 4

Fiscal Year	Holly Hill	Volusia County School District	Volusia County	Southeast Volusia Mosquito Control	Ponce Inlet and Port Authority	Halifax Hospital	St. Johns Water Management District	Florida Inland Navigation District	Endangered and Recreation Lands
TAX RATES									
<i>(per \$1,000 of assessed value)</i>									
1995	5.46950	10.27700	5.53200	0.28700	0.09400	2.26400	0.48200	0.04900	0.18400
1996	5.55375	10.88700	5.98900	0.26200	0.09400	2.25500	0.48200	0.04000	0.18300
1997	5.53591	10.82100	6.03600	0.23800	0.09300	2.23100	0.48200	0.03800	0.18100
1998	5.51831	10.48700	6.20100	0.23800	0.09000	2.18900	0.48200	0.05000	0.17700
1999	5.25000	10.37600	6.20400	0.23800	0.09000	2.15200	0.48200	0.04800	0.17400
2000	5.09007	9.91700	6.37300	0.23800	0.09000	2.15174	0.48200	0.04400	0.16900
2001	5.09007	9.15800	6.36700	0.23800	0.09000	2.50000	0.47200	0.04100	0.16300
2002	4.75000	9.01500	6.60400	0.23800	0.09000	2.50000	0.46200	0.03850	0.11040
2003	4.50000	8.89900	6.60400	0.23800	0.09000	2.38000	0.46200	0.03850	0.00000
2004	4.08002	8.51700	6.20400	0.23800	0.09000	3.00000	0.46200	0.03850	0.00000
TAX LEVIES									
<i>(\$ in thousands)</i>									
1995	\$ 1,444	2,714	1,461	76	25	598	127	13	49
1996	\$ 1,466	2,875	1,581	69	25	595	127	11	48
1997	\$ 1,434	2,803	1,563	62	24	578	125	10	47
1998	\$ 1,495	2,841	1,680	64	24	593	130	14	48
1999	\$ 1,491	2,946	1,762	68	26	611	137	13	49
2000	\$ 1,514	2,724	1,894	71	27	744	140	12	48
2001	\$ 1,672	3,008	2,091	78	30	821	155	13	54
2002	\$ 1,560	2,961	2,169	78	30	821	151	12	36
2003	\$ 1,541	3,047	2,261	81	31	815	158	13	0
2004	\$ 1,592	3,323	2,421	93	35	1,170	180	15	0

(1) Obtained from the County of Volusia, Florida, Finance Department.
 (2) Includes Tax Roll data from the immediately preceding fiscal year (fiscal year collections include levy from the prior year).

DEBT SERVICE REQUIREMENTS TO MATURITY
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2002
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Table 5

Payment Date	Principal	Coupon Rate	Interest	Total
10/01/2004	\$ 505,000	2.000%	\$ 283,791	\$ 788,791
04/01/2005			278,741	278,741
10/01/2005	515,000	2.500%	278,741	793,741
04/01/2006			272,303	272,303
10/01/2006	530,000	3.000%	272,303	802,303
04/01/2007			264,353	264,353
10/01/2007	550,000	3.100%	264,353	814,353
04/01/2008			255,828	255,828
10/01/2008	565,000	3.500%	255,828	820,828
04/01/2009			245,941	245,941
10/01/2009	585,000	3.600%	245,941	830,941
04/01/2010			235,411	235,411
10/01/2010	605,000	3.800%	235,411	840,411
04/01/2011			223,916	223,916
10/01/2011	625,000	3.875%	223,916	848,916
04/01/2012			211,806	211,806
10/01/2012	655,000	4.000%	211,806	866,806
04/01/2013			198,706	198,706
10/01/2013	680,000	4.100%	198,706	878,706
04/01/2014			184,766	184,766
10/01/2014	710,000	5.000%	184,766	894,766
04/01/2015			167,016	167,016
10/01/2015	745,000	5.000%	167,016	912,016
04/01/2016			148,391	148,391
10/01/2016	780,000	4.400%	148,391	928,391
04/01/2017			131,231	131,231
10/01/2017	810,000	4.375%	131,231	941,231
04/01/2018			113,006	113,006
10/01/2018	850,000	4.625%	113,006	963,006
04/01/2019			93,350	93,350
10/01/2019	890,000	4.750%	93,350	983,350
04/01/2020			72,213	72,213
10/01/2020	930,000	4.750%	72,213	1,002,213
04/01/2021			50,125	50,125
10/01/2021	980,000	5.000%	50,125	1,030,125
04/01/2022			25,625	25,625
10/01/2022	<u>1,025,000</u>	5.000%	<u>25,625</u>	<u>1,050,625</u>
	\$ <u>13,535,000</u>		\$ <u>6,629,247</u>	\$ <u>20,164,247</u>

COMPUTATION OF OVERLAPPING DEBT
END OF FISCAL YEAR
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA
(\$ in thousands)

Table 6

Name of Governmental Unit	Net General Obligation Debt Outstanding	Percent Applicable to the Governmental Unit	City of Holly Hill Share of Debt
Volusia County School District	\$18,052	2.59%	<u>\$468</u>

Source: Confirmed by individual taxing district

SCHEDULE OF INSURANCE IN FORCE
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Table 7

Type of Coverage	Name of Company and Policy Number	Policy Period From - To	Details of Coverage	Liability Limits	Annual Premium (Gross)
Preferred Governmental Insurance Trust (PGIT)					
Policy #PK FL1 0642004 02-01					
General Liability EMT / Paramedic Law Enforcement		10/01/03 - 10/01/04	General Liability Deductible \$10,000 Law Enforcement Liability Deductible \$15,000	\$1,000,000 Per Occurrence \$2,000,000 General Aggregate Limit \$1,000,000 Per Occurrence \$1,000,000 Aggregate Limit	\$90,274
Public Officials Liability			Wrongful Acts/Professional Liab. Deductible \$25,000	\$1,000,000 each loss and in aggregate	
Auto Coverage		10/01/03 - 10/01/04	Automobile Liability \$1,000 deductible	\$1,000,000 Liability \$10,000 Personal Injury Protection \$5,000 Medical Payments Uninsured Motorists Rejected	\$46,922
Property, Boiler & Machinery		10/01/03 - 10/01/04	\$5,000 deductible \$5,000 deductible per occurrence for breakdowns \$20,000 deductible per occurrence for flood	\$25,414,345 blanket for building and contents - Includes mechanical breakdowns	\$96,730
Inland Marine Contractor's equipment		10/01/03 - 10/01/04	Off-road equipment / mobile equipment / emergency service portable equipment / rented / borrowed / leased equipment \$5,000 deductible Fine arts / valuable papers \$5,000 deductible Computer equipment & media \$5,000 deductible	\$821,523 listed property \$200,000 listed property \$450,000 listed property	\$4,358
Crime/Employee Dishonesty		10/01/03 - 10/01/04	Honesty Blanket Bond Theft, Disappearance & Destruction Forgery or Alteration Computer Fraud \$1,000 deductible	\$100,000 per loss \$10,000 Inside & Outside Premises \$50,000 \$100,000	\$867
Hunt Insurance Group Policy # SRG8045349A Police & Firefighters Accidental Death & Dismemberment		04/15/03 - 04/15/07	Accidental death in line of duty Plus intentional death and dismemberment Total principal sum	\$259,000 each incident \$259,000 each incident \$259,000 in aggregate	\$5,063
Preferred Governmental Insurance Trust (PGIT) Policy #001000000005103 Workers' Compensation		10/01/03 - 10/01/04	Statutory	Statutory, employers' liability \$1,000,000	\$202,747
Commerce & Industry Petroleum Liability Insurance Policy #FPL7510482 Environmental Protection		06/25/04 - 06/25/05	Fuel Storage Tank \$10,000 deductible	\$1,000,000 Each Incident \$1,000,000 Each Aggregate	\$872
McKinley Financial Services, PAL Program Accident & Liability Insurance		01/01/04 - 01/01/05	Holly Hill Police Athletic League \$2,500 Accidental death and dismemberment benefit \$100 deductible	\$1,000,000 Per Occurrence \$2,000,000 General Aggregate Limit \$10,000 medical maximum	\$2,387

REVENUE BOND COVERAGE
WATER AND SEWER SYSTEM FUND
LAST TEN FISCAL YEARS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA
(\$ in thousands)

Table 8

Fiscal Year	Gross Revenue (1)	Operating Expenses (4)	Net Revenues	Debt Service Requirements			Debt Service Coverage (Times)
				Principal	Interest	Total	
1995	3,088	1,469	1,619	240	885	1,125 (2)	1.44
1996	3,216	1,418	1,798	245	876	1,121 (2)	1.60
1997	3,461	1,363	2,098	255	865	1,120 (2)	1.87
1998	3,553	1,350	2,203	270	853	1,123 (2)	1.96
1999	3,712	1,513	2,199	280	841	1,121 (2)	1.96
2000	4,039	1,448	2,591	295	827	1,122 (2)	2.31
2001	4,130	1,506	2,624	310	812	1,122 (2)	2.34
2002	4,492	1,677	2,815	330	551	881 (2)(5)	3.20
2003	4,245	1,778	2,467	0	578	578 (3)	4.27
2004	4,263	1,874	2,389	505	568	1,073 (3)	2.23

- (1) Included in gross revenue for debt service coverage are water and sewer utility fees, connection charges and interest earnings from the Water and Sewer Utility.
- (2) Debt service expenditures for Series 1992 Bonds.
- (3) Debt service expenditures for Series 2002 Bonds (first year principal amortization in 2004).
- (4) Operating expenses for debt service coverage exclude depreciation, amortization, and City administrative charges.
- (5) Debt service expenditures for fiscal year 2002 included principal and interest payments of \$736,632 on the Series 1992 Bonds and \$144,370 of accrued interest on the Series 2002 Bonds.

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Table 9

Fiscal Year		Population (1)	School Enrollment (2)		Unemployment Rate (3)
1995	(5)	11,539	1,894	(6)	4.9%
1996	(5)	11,370	1,887	(6)	4.2%
1997	(5)	11,310	1,872	(6)	4.0%
1998	(5)	11,325	2,066	(6)	3.4%
1999	(5)	11,383	1,888	(6)	3.0%
2000	(4)	12,119	1,813	(6)	3.0%
2001	(5)	12,180	1,992	(6)	4.0%
2002	(5)	12,503	1,689	(6)	5.3%
2003	(5)	12,504	1,681	(6)	5.3%
2004	(5)	12,612	1,574	(6)	5.0%

(1) County of Volusia, Florida, Planning Department

(2) Volusia County School District

(3) Florida Department of Labor

(4) U. S. Bureau of Census

(5) Bureau of Economic and Business Research

(6) Volusia County unemployment rate

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA
(All amounts in thousands)

Table 10

Fiscal Year	(1)				(2) Bank Deposits	(3)	
	Commercial Construction		Residential Construction			Real Property Taxable Values	
	Units	Value	Units	Value		Commercial	Residential
1995	10	\$1,312	61	\$692	\$124,705	\$2,572,444	\$8,065,756
1996	16	\$1,735	55	\$1,582	\$118,817	\$2,581,370	\$8,279,475
1997	16	\$3,777	41	\$739	\$117,928	\$2,591,135	\$8,641,481
1998	40	\$4,657	84	\$1,322	\$125,678	\$2,695,780	\$9,038,351
1999	50	\$2,997	96	\$1,031	\$115,258	\$2,815,170	\$9,417,447
2000	58	\$4,137	86	\$1,119	\$116,162	\$2,950,481	\$9,908,884
2001	69	\$5,133	107	\$9,025	\$116,752	\$3,231,614	\$10,716,106
2002	87	\$5,563	102	\$1,779	\$115,179	\$3,839,917	\$12,391,231
2003	59	\$2,261	124	\$4,280	\$137,269	\$4,308,395	\$14,129,561
2004	59	\$2,261	124	\$4,280	\$137,269	\$4,308,395	\$14,129,561

(1) City of Holly Hill, Building and Inspection Department

(2) Florida Bankers Association

(3) County of Volusia, Property Appraiser (represents county-wide values)

SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Table 11

Title of City Official	Annual Salary	Years of Service	Amount of Surety Bond
Mayor	\$12,000	10 years, 9 months	\$100,000 blanket amount on all
City Commissioners (4)	\$8,000	2 years, 2 months to 15 years, 8 months	
City Attorney (retainer)	\$7,500	Over 28 years	--
City Manager	\$76,482	5 years, 2 months	--
City Clerk	\$44,881	5 years, 3 months	--
Finance Director	\$67,225	13 years, 7 months	--
Human Resources Director	\$51,461	7 years, 5 months	--
Director of Emergency Services	\$73,459	3 years, 5 months	--
Public Services Director	\$73,459	9 years, 9 months	--
Building Official	\$57,489	Over 24 years	--

SCHEDULE OF MAJOR TAXPAYERS
September 30, 2004
CITY OF HOLLY HILL, FLORIDA

Table 12

Rank	Taxpayer Name	Type of Business	Assessed Values	Percent of Assessed Value
1.	Holly Hill R.H.F. Housing, Inc.	Bishops Glen Retirement Center	\$11,673	2.07%
2.	Charleston Place LTD	Aprtment Complex	\$6,885	1.22%
3.	Sun Communities, operating Holly Forest Mobile Home Park	Mobile Home Park	\$6,878	1.22%
4.	Florida Power & Light	Electric power utility	\$6,867	1.22%
5.	Publix Super Markets, Inc.	Grocery - Supermarket	\$5,556	0.98%
6.	Highlander Corp	R.W. Contractors, Inc.	\$5,177	0.92%
7.	HK New Plan Exc Prop	% Property Tax Dept 124	\$4,878	0.86%
8.	Riverwalk Plaza LTD	Shopping Plaza	\$4,763	0.84%
9.	KMC Telecom Leasing II, Inc.	Communications Utility	\$4,496	0.80%
10.	BellSouth Telecommunications, Inc.	Communications utility	\$4,367	0.77%
Totals			<u>\$61,540</u>	<u>10.90%</u>

Source: Volusia County Property Appraiser

MISCELLANEOUS STATISTICAL DATA
 September 30, 2004
 CITY OF HOLLY HILL, FLORIDA

Table 13

Date of Incorporation:	July 1, 1901	Recreation:	
Date First Charter Adopted:	1901	Parks (total 81.5 acres):	10
Date Present Charter Adopted:	1941	Dog Park Facility 2.7 acres	1
Form of Government:	Commission/Manager	Playgrounds	4
Population:	12,612	Recreation buildings	5
Area - Square Miles:	5.0	Tennis courts	2
Miles of Streets and Sidewalks:		Racquetball courts	2
Paved Streets	61.0 miles	Shuffleboard courts	9
Unpaved Streets	0.5 miles	Baseball/softball fields	5
Sidewalks	33.0 miles	Community centers	2
Miles of Storm Sewers:		Public fishing piers	3
Storm sewers	42.0 miles	Boat ramp	1
Sanitary sewers	75.0 miles	Wooden pier overlook	3
Fire Protection:		Municipal gymnasium	1
Number of stations:	1	Concrete bike paths (miles)	1.5
Number of Firefighters	12	Swimming pools	1
Number of fire hydrants	298	Multi-purpose field	1
Police Protection:		Education: Volusia County School District	
Number of stations:	1	Elementary schools	1
Number of Police officers	26	Secondary schools	1
Number of Reserve officers	6	Students:	
Animal Control officers	1	Kindergarten to grade 5	644
Municipal Employees:		Grades 6 to 8	930
Civil service	110	Total	<u>1,574</u>
Exempt	1	Education personnel:	
Water Treatment Plant:		Instructional	127
Design capacity	2.3 MGD	Noninstructional	81
Current production rate	1.262 MGD	Administrative	7
Users	5,955	Street Lights:	
Water Pollution Control Plant:		High pressure Sodium Vapor:	
Design capacity	2.4 MGD	6,300 lumen	673
Current production rate	1.542 MGD	9,500 lumen	86
Users	4,967	16,000 lumen	35
		22,000 lumen	139
		50,000 lumen	2
		White Way underground 1,000 lumen	6

COMPLIANCE SECTION

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor, City Commission
and City Manager
City of Holly Hill, Florida

We have audited the general-purpose financial statements of City of Holly Hill, Florida, as of and for the year ended September 30, 2004, and have issued our report thereon dated April 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Holly Hill, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Holly Hill, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Commission and management, the Auditor General of the State of Florida, and federal and state awarding agencies, and is not intended to be used by anyone other than these specified parties.

Brent Millikan & Co., P.A.

April 12, 2005

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR
FEDERAL PROGRAM AND STATE PROJECT**

The Honorable Mayor, City Commission
and City Manager
City of Holly Hill, Florida

Compliance

We have audited the compliance of City of Holly Hill, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. The City of Holly Hill, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Holly Hill, Florida's management. Our responsibility is to express an opinion on City of Holly Hill, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about City of Holly Hill, Florida'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. Our audit does not provide a legal determination of City of Holly Hill, Florida's compliance with those requirements.

In our opinion, City of Holly Hill, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of City of Holly Hill, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Holly Hill, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

The Honorable Mayor, City Commission
and City Manager
City of Holly Hill, Florida
Page 2 of 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program or state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of City of Holly Hill, Florida as of and for the year ended September 30, 2004, and have issued our report thereon dated April 12, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Holly Hill, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission and management, the Auditor General of the State of Florida, and federal and state awarding agencies, and is not intended to be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

April 12, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2004

CITY OF HOLLY HILL, FLORIDA

Federal Agency Pass-through Entity Federal Program	CFDA No.	Contract Grant No.	Expenditures
U.S. Department of Housing and Urban Development			
Indirect Programs:			
Passed through County of Volusia, Florida			
Subrecipient CDBG-Sidewalk improvements.....	14.218	N/A	\$ 93,716
Subrecipient CDBG-Drainage/street improvements.....	14.218	N/A	238,626
Subrecipient CDBG-Sica Hall renovations.....	14.218	N/A	<u>101,327</u>
Total U.S. Department of Housing and Urban Development.			<u>433,669</u>
U.S. Department of Justice			
Direct Programs:			
Local Law Enforcement Block Grant	16.592	2003-LB-BX-2462	21,064
Bulletproof Vest Partnership Grant Program	16.607	N/A	1,022
COPS Grant	16.710	1997-UMWX0166	4,051
COPS More 2002	16.710	2002-CMWX0190	13,287
Indirect Programs:			
Passed through Florida Department of Law Enforcement			
Byrne Formula Grant Program.....	16.579	04-CI-J3-06-74-02-012	<u>15,000</u>
Total U.S. Department of Justice.....			<u>54,424</u>
U.S. Department of Environmental Protection			
Indirect Programs:			
Passed through Florida Department of Environmental Protection			
State Revolving Loan Fund	66.458	SW12070906P	<u>2,770,179</u>
Total U.S. Department of Environmental Protection			<u>2,770,179</u>
U.S. Department of Homeland Security:			
Federal Emergency Management Administration:			
Indirect Programs:			
Passed through Florida Department of Community Affairs			
Emergency Preparedness and Response.....	83.554	EMW-2003-FG-07929	42,692
Community Emergency Response Team	83.565	04CI-1L-06-74-02-207	6,815
Public Assistance Grants.....	97.036	127-31350-00	<u>1,421,530</u>
Total U.S. Department of Homeland Security.....			<u>1,471,037</u>
Total Expenditures of Federal Awards			<u>\$ 4,729,309</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

For the Year Ended September 30, 2004
CITY OF HOLLY HILL, FLORIDA

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Holly Hill, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. LOANS OUTSTANDING

The City of Holly Hill, Florida, had the following loan balances outstanding at September 30, 2004. The expenditures incurred during the year ended September 30, 2004 are included in the expenditures of federal awards presented in the schedule.

Program Title	Federal CFDA Number	Expenditures Incurred	Outstanding Loan Amount
U.S. Department of Environmental Protection:			
Passed-through - Florida Department of Environmental Protection:			
Statewide Surface Water Restoration and Wastewater Projects (#CS12070906P)	66.458	\$ 2,770,179	\$ 5,207,096

3. SUBRECIPIENTS

No subrecipient payments were made by the City of Holly Hill, Florida during the year ended September 30, 2004.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2004

CITY OF HOLLY HILL, FLORIDA

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Holly Hill, Florida.
2. No reportable conditions were disclosed during the audit of the financial statements or reported in the Independent Auditors' Report on Compliance and on Internal Controls over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Holly Hill, Florida, were disclosed during the audit.
4. There are no reportable conditions disclosed relating to the audit of the major federal programs and state projects reported in the Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Program and State Project.
5. The auditor's report on compliance for the major federal programs and state projects for the City of Holly Hill, Florida, expresses an unqualified opinion.
6. The audit disclosed no audit findings which are required to be reported.
7. The programs/projects tested as major programs/projects included the following:

Federal Program:	Federal CFDA No.
U.S. Department of Environmental Protection: Capitalization Grants for State Revolving Funds	66.458
U.S. Department of Homeland Security: Public Assistance Grants	97.036
State Projects - None.	

8. The threshold for distinguishing Type A and Type B programs/projects was \$300,000 for major federal programs.
9. The City of Holly Hill, Florida was determined to be a low-risk auditee pursuant to OMB Circular A-133.

- | | |
|--|------|
| B. Findings - Financial Statements -
OMB Circular A-133, Subpart E, Section 505(d)(2): | None |
| C. Findings and Questioned Costs - Major Federal Programs -
OMB Circular A-133, Subpart E, Section 505(d)(3): | None |
| D. Findings and Questioned Costs - Major State Projects -
Chapter 10.550, Rules of the Auditor General: | None |
| E. Other Issues | None |

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

The Honorable Mayor, and
Members of the City Commission
City of Holly Hill, Florida

We have audited the financial statements of City of Holly Hill, Florida, as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated April 12, 2005.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our independent auditor's report on compliance and internal control over financial reporting, independent auditor's report on compliance and internal control over compliance applicable to each major federal program and state project, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated April 12, 2005, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not corrective actions have been taken to address significant findings and recommendations reported in the preceding annual financial audit report have been corrected. The recommendations made in the preceding annual financial audit report have been corrected except for those reported below under the heading *Prior Year Findings and Recommendations*.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that City of Holly Hill, Florida, complied with Section 218.415, Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)3.), recommendations to improve financial management, accounting procedures, and internal control are reported in Exhibit A under the heading *Current Year Findings and Recommendations*.

The Honorable Mayor, and
Members of the City Commission
City of Holly Hill, Florida
Page 2 of 2

The Rules of Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. These matters are reported in Exhibit A under the heading *Current Year Findings and Recommendations*.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Holly Hill, Florida was originally incorporated under the general laws of Florida on July 1, 1901 (Records of Incorporations, Volusia County, Vol. I, p. 101). This incorporation was validated in 1903 by Laws of Florida, Chapter 5346 (1903). The City of Holly Hill Community Redevelopment Authority was created by Ordinance No. 2426.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that City of Holly Hill, Florida, is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for City of Holly Hill, Florida for the fiscal year ended September 30, 2004, filed with the Department of Banking Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

As required by the Rules of the Auditor General (Sections 10.554(h)(6)c. and 10.556(8)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of use of the City Commission and management, the Auditor General of the State of Florida, and federal and state awarding agencies, and is not intended to be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

April 12, 2005

As required by Section 10.554(1)(h), Rules of the Auditor General of the State of Florida, we make the following disclosures:

Prior Year Findings and Recommendations

A. Violations of Laws, Rules, and Regulations

FDEP Loan Requirement - Debt Service Account

Under the terms of the State of Florida, Department of Environmental Protection (FDEP) Drinking Water State Revolving Fund Loan Agreement, the City was required to establish a Loan Debt Service Account for the purpose of receiving the required monthly deposits to pay the next upcoming semi-annual principal and interest payment on the obligation in accordance with the provisions of Article III, Section 3.01 of the Loan Agreement.

Last year, we recommend that the Debt Service Account be established and funded at the earliest possible convenience to be in compliance with the applicable loan covenant.

Current Year Status - This matter was corrected in the current year.

B. Illegal or Improper Expenditures – None

C. Improper or Inadequate Accounting Procedures - None

D. Other Matters

Utilities Inventories

Sound procedures for the taking of physical inventories is important in assuring that inventory reflected in the financial records does physically exist and that the operating results of the proprietary operation are not adversely affected from the exclusion of material inventories. However, this is not a substitute for reliable accounting and reporting procedures.

We recommended that a perpetual inventory system be established to control selected inventory items that are readily convertible to personal use and items with high unit costs. Periodic physical counts should be made of these items in order to detect pilferage or usage not charged to jobs, and the physical count should be reconciled to the perpetual records.

Once established, perpetual records would:

- Reduce the frequency of physical inventory counts.
- Provide better accounting control over the flow of goods and increase the possibility of detecting theft or unrecorded shipments.
- Provide management with more valuable tools to monitor realization and spot usage inefficiencies.
- Provide more reliable cost and accounting data as a basis for determining operating results.

Current Year Status - We continued to note that no steps were taken to reconcile the interim valuations of fuel and utilities stores to adequately allocate the costs of such purchases in the appropriate accounting periods and to account for the custodial responsibilities associated with these items. While such valuations are continuously made and monitored to reduce the City's investment in these supplies, any changes in the City's current bulk purchasing requirements made in anticipation of potentially hedging increased fuel or supplies cost increases could materially affect interperiod results of operations at the end of your respective accounting cycles.

We continue to recommend that procedures be considered to adequately account for the acquisition, storage and utilization of all City-owned inventories to reduce the risk of loss, and to adequately reflect the results of operations of the user funds.

Current Year Findings and Recommendations

- A. Violations of Laws, Rules, and Regulations - None
- B. Illegal or Improper Expenditures -None
- C. Improper or Inadequate Accounting Procedures

Employee Personal Computer Financing Assistance Program

Under recently revised generally accepted auditing standards, we are required to conduct a series of interviews with various members of management and employees of the City to inquire about the susceptibility your financial statements to material misstatements that may occur as the result of fraudulent and/or abusive activities. These discussions typically include an open exchange of ideas (that is, brainstorming) and include direct inquiries of your management's and employees' knowledge of the existence of any potential fraudulent activities that may have occurred during the audit period being examined. During these inquiries, we were informed that the City experienced one isolated instance where an employee intentionally misrepresented the purchase of a personal computer to obtain unauthorized personal access to the financing proceeds associated with its cost under the City's Employee Personal Computer Financing Assistance Program. We were also informed that after continued and persistent inquiries by the City's Finance personnel to obtain the adequate supporting documentation of the purchase (to corroborate the advancing of the financing proceeds to the employee) without success, this unresolved matter was subsequently turned over to the City's Police Department for investigation. As a direct result of that formal internal Police Department investigation, it was subsequently discovered that the supporting documentation originally supplied by the employee could not be adequately corroborated. After the employee was confronted with the results of the formal investigation, the employee tendered a resignation from employment with the City, which was accepted. Subsequent to the employee's resignation, all funds advanced were fully recovered.

We were impressed with both management's prompt and sincere willingness to disclose this matter to our auditors, and with its immediate secondary followup response to fully investigate and appropriately resolve this matter. Furthermore, the actions taken subsequent to the resolution of the investigation were exemplary.

To avoid similar instances in the future, we recommend that serious consideration should be given to requiring that all employee computer purchases associated with this program be conducted through the City's current procurement program to ensure that adequate documentation of such purchases are obtained in advance, and that no employee advances for these purchases from outside vendors are permitted.

D. Other Matters

Employee Cell Phone Usage and Payment Arrangements

During our testing of the City's compliance with its existing procurement policies and procedures, we noted several instances where employee shared cell phone minutes incurred for certain billing periods substantially exceeded the maximum minutes allowed under the respective contractual arrangements. As a result, substantial additional payments (some in excess of 50% of the original contract amount) resulted from this usage. After reviewing this matter in more detail, we observed that one member of management's use often exceeded the minimum of the entire pool of shared minutes, which was not adequate for the number of individuals included in the shared pool. While some of these instances were attributed to the periods of time associated with the City's hurricane response actions taken in August and September of 2004, we noted that these actions occurred throughout the fiscal year.

We recommend that steps should be considered to re-evaluate the cell phone usage requirements of all individuals sharing pooled minutes to determine if separate, more economical, billing arrangements should be made for those who have substantially greater needs than others to reduce these costs to the City.

Destruction/Disposal of Confidential Information

We noted that the City does not have any internal procedures in place associated with the destruction or disposal of office materials and papers generated throughout the conduct of its business affairs.

We recommend that steps should be considered to contract with an outside waste disposal agency for the destruction and/or shredding of its waste documentation to avoid the accidental dissemination of certain personnel and other private and confidential information through the normal solid waste disposal process. Additionally, most contractors offer the ability to redirect this waste to paper recycling facilities which have the ability to conserve these resources for future use.

Information Systems Technology Architecture and Control Environment

During the audit, our Firm's Information Systems Analyst performed a comprehensive review of the City's computerized information systems technology and architecture. Our staff met with several members of management and the City's IT Manager to discuss the inherent capabilities and constraints associated with the City's various current information and financial systems. We noted that at the present time, there is no employed backup individual in place to share or to independently diversify the responsibilities assumed exclusively by the IT Manager position. We also noted that one member of the Finance Department currently fills in for the IT Manager when he is out by ensuring that the scheduled tape backups occur and that the tapes have been moved offsite to the Recreation Center. However, we did note that the IT Manager is currently conducting interviews for a qualified assistant to provide for the diversification of these exclusive control and maintenance duties.

In the current situation, the City's IT Manager has exclusive authority and control over all of the City's IT systems. In this role, he has complete access and exclusive control over the City's financial accounting systems, and he exclusively manages all user passwords and server authentication requirements and has complete access and control over all employees' incoming/outgoing email activity.

We strongly recommend that you should seriously consider the formal development of a standby alternative action plan that requires the complete development of written documentation which adequately supports and documents all IT activity of the City. We suggest that this documentation should include complete written systems documentation of all current and existing system applications, controls and oversight responsibilities. It should also contain documentary summaries of all current oversight authorizations assumed by the IT Manager that would mitigate the impact of the loss, or impairment of the sole individual who is designated with this exclusive oversight responsibility in the event of any unforeseen or anticipated circumstances. Potentially, we believe that the City needs to be fully prepared for a situation in which they may have to lock down the virtual private network connection, exchange server, and extranets, to reconfigure the existing internet firewall and to modify all existing passwords, while maintaining the current network configuration and IT infrastructure in order to keep the City's business up and running in the event of the temporary or permanent loss of these individuals.

We also strongly recommend that the City should consider hiring an assistant to the IT Manager position. Additionally, we recommend that the City should be prepared to contract with an outside network advisor that could assist with securing the city's data and information infrastructure should the need arise in the future.

Municipal Governance

Monitoring for fraud

In June 2003 the Comptroller General of the United States issued the 2003 revision of *Government Auditing Standards*, which incorporated the American Institute of Certified Public Accountants' promulgation Statements on Auditing Standards, No. 99 (SAS 99), *Consideration of Fraud in a Financial Statement Audit*. SAS 99 includes a document titled "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud," which spells out specific recommendations to help the City Commission, audit committee, management and others to prevent and detect fraud – from unproductive behavior and employee theft to misappropriation of assets and fraudulent financial reporting. This document identifies the measures an organization should consider taking to prevent, deter, and detect fraud. It maintains that the City should establish three fundamental practices:

- A culture of honesty and high ethics
- Anti-fraud processes and controls
- An appropriate oversight process

Management is responsible for overseeing the activities carried out by employees and for implementing and monitoring anti-fraud processes and controls. However, it is possible that senior management may initiate or participate in the concealment of a fraudulent act, because fraud can occur when management overrides internal controls. For that reason, an audit committee or appointed members of the Commission should supervise the activities of senior management. SAS 99 makes it clear that while management designs and implements anti-fraud systems and procedures, strong oversight by the Commission, or audit committee, is absolutely crucial.

Accordingly, we recommend that the Commission discuss these matters with management and adopt an active oversight process to evaluate management's identification of fraud risks, implementation of anti-fraud measures and maintenance of the appropriate supervision of the activities of senior management, in addition to the activities involving all of the City's personnel.

In addition, we recommend that management read the excerpt titled "Management Anti-fraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud" to better understand the new requirements of this standard and for assistance in developing ways to enhance the City's internal controls to specifically address fraud risk factors, identify anti-fraud processes and controls, monitor such processes and controls and to provide a means for reporting any wrongdoing.

Best Practices for Municipalities

In addition, the Sarbanes-Oxley Act of 2002, although not specifically applicable to local governments, sets out some best practices for corporate governance, which have been adopted or are being considered by other public sector entities, including municipalities. Because the City should continually improve its financial reporting and also has a need to be responsive and proactive with debt rating agencies, we believe it is important that the Council and senior management carefully

consider the following best practices arising from the Act and determine what related actions make the most sense for the City at the present time:

- Senior financial managers should adopt a code of ethics and consider methods to ensure compliance with this code.
- A confidential complaint (whistle-blower) mechanism should be made available to employees to communicate concerns about accounting, auditing, or internal control processes.
- Consideration should be given to implementing Section 302 of the Act. Section 302 requires the CEO and CFO to assert that the financial statements have no material misstatements or omissions and that they have evaluated disclosure controls and procedures.
- Section 404 of the Act addresses internal controls which are fundamental to sound financial reporting and safeguarding of assets. A recommended practice is to document and evaluate internal controls over a planned period of time.



CITY OF HOLLY HILL

The City with a Heart

1065 Ridgewood Avenue ♥ Holly Hill, Florida 32117

www.hollyhillfl.org

May 4, 2005

To the Honorable Mayor, City Commission
And City Manager

RESPONSE TO MANAGEMENT COMMENTS FYE 9/30/04

Utilities Inventories

The Finance Director and staff will continue to work with the City Manager and the various departments to establish the procedures necessary for the taking of physical inventories and to establish a perpetual inventory system that will provide reliable accounting and reporting of inventories.

Employee Personal Computer Financing Assistance Program

Serious consideration is being given to the suggestion that all employee computer purchases associated with this program will be conducted through the City's purchasing program to ensure that adequate documentation of such purchases is obtained in advance, and no employee will receive an advance to make purchases from outside vendors.

Employee Cell Phone Usage and Payment Arrangement

A re-evaluation of employee cell phone and usage requirements will be made to determine individual usage requirements and the value of all individuals sharing pooled minutes. We will also seriously consider providing an allowance to certain employees whose job duties require the use of a cell phone based on their usage requirements.

Destruction/Disposal of Confidential Information

The City currently complies with state public records and record retention laws and contracts with a qualified company to maintain its files in storage for the lengths of time required. Annually, records are reviewed to determine those that are to be destroyed and the destruction certificates are prepared and approved. The company then destroys the records as required. The City will consider contracting with an outside agency to dispose of any duplicates of records that may contain confidential information.

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Manager**
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RESPONSE TO MANAGEMENT COMMENTS FYE 9/30/04 (Continued)
May 4, 2005

INFORMATION SYSTEMS TECHNOLOGY ARCHITECTURE AND CONTROL ENVIRONMENT

The City has budgeted and recently hired an assistant to the IT Manager to diversify the authority and control the IT Manager has over all of the City's IT systems. We will also review the current action plans and documentation of the systems to mitigate the loss or impairment of these individuals in the event of any unforeseen or anticipated circumstances.

Monitoring for Fraud

The Finance Director and City Manager will work with the City Commission and department staff to incorporate the recommendations made for establishing the measures necessary to prevent, deter, and detect fraud within the city organization.



Brenda Gubernator
Finance Director