

CITY OF HOLLY HILL, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005



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

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September 30, 2005
CITY OF HOLLY HILL, FLORIDA

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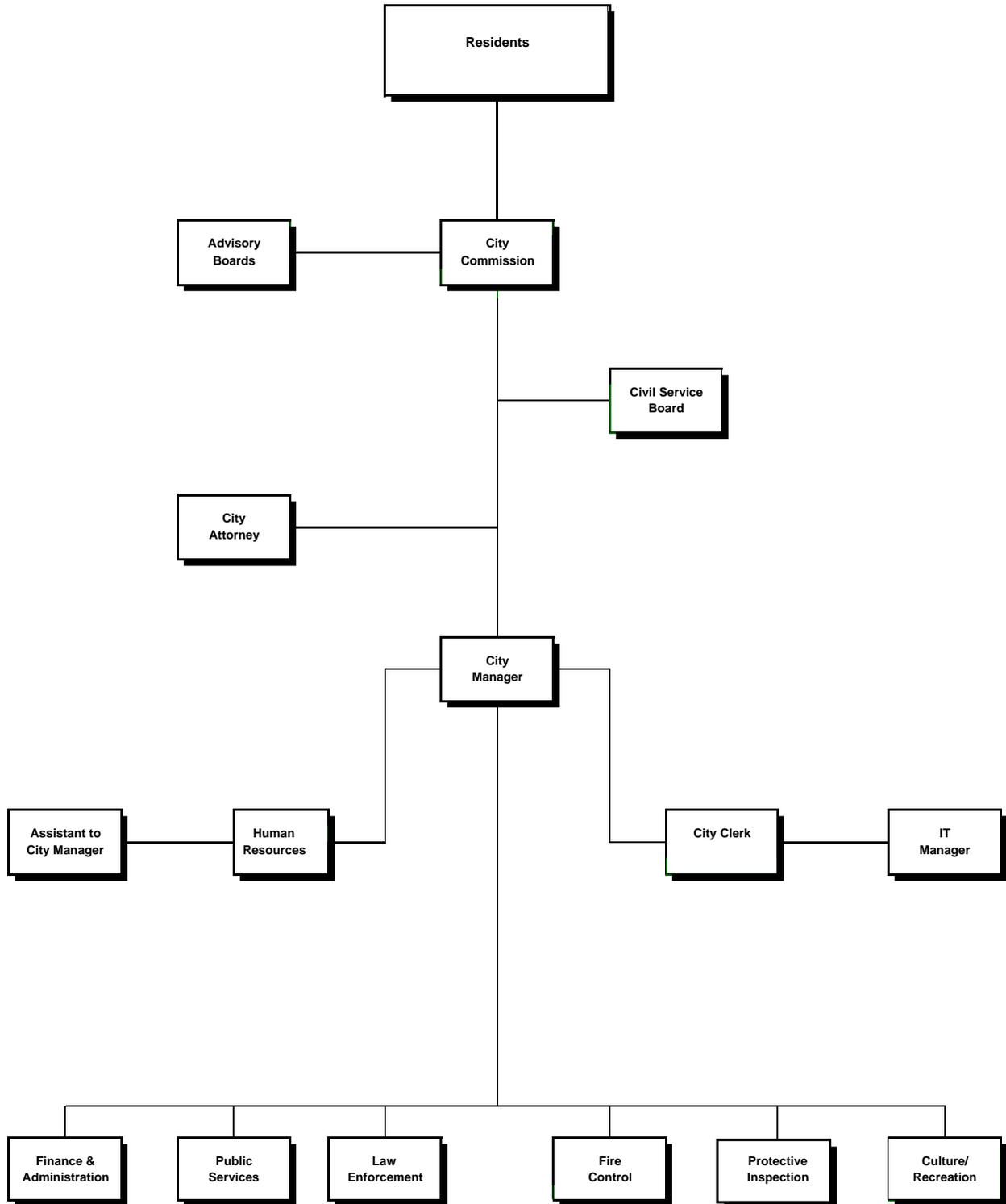
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ORGANIZATION CHART

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ORGANIZATION CHART
 For The Year Ended September 30, 2005
 CITY OF HOLLY HILL, FLORIDA



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CITY OF HOLLY HILL, FLORIDA

CERTIFICATE OF ACHIEVEMENT AWARDED

For the Year Ended September 30, 2004

*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, 2004.*

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.

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CERTIFICATE OF ACHIEVEMENT
For the Year Ended September 30, 2004
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, 2004

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.



Carla E. Perry

President

Jeffrey R. Emmer

Executive Director

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LETTER OF TRANSMITTAL

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CITY OF HOLLY HILL

The City with a Heart

1065 Ridgewood Avenue ♥ Holly Hill, Florida 32117

www.hollyhillfl.org

June 13, 2006

Honorable Mayor Roland Via, 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, 2005 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 City. 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, the combining and individual fund financial statements and schedules and other supplementary information. 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 complements 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.

**Building,
Zoning,
Licensing &
Inspections**
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**City
Clerk**
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Fax 386-248-9448

**City
Manager**
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**Economic
Development**
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**Utility
Billing**
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Honorable Mayor Roland Via, and
Members of the City Commission
City of Holly Hill, Florida
June 13, 2006

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, 2005 fiscal year end audit conducted as a single audit for federal program purposes only.

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, 2005 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 remained stable during the past year. However, plans were submitted and construction began in late 2005 on two 25-story condominium towers, each with 243 housing units, on the intracoastal Halifax River. Construction of these first two towers is expected to be complete in mid-2007. Two additional towers planned for this project are expected to be completed in 2010.

The opportunity for additional growth still exists in an already dynamic business and industrial community. The City is actively encouraging new and expanded business development in core commercial areas and promoting the upgrading of older residential areas by providing assistance whenever possible. Property valuations increased significantly during the past year by 15.11%. The community currently has a 3.4% unemployment rate as compared to the statewide rate of 3.7%.

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.

Honorable Mayor Roland Via, and
Members of the City Commission
City of Holly Hill, Florida
June 13, 2006

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 – Hollyland Park contains 14.8 acres with facilities for both active and passive recreation activities. Work was begun during the year to upgrade the bleachers at the five lighted ball fields, replace an existing combination restroom/concession facility with a new facility in a new location, and to construct and pave a road to provide ingress and egress on 10th Street. Additional covered picnic facilities and benches, shade/protective covers above bleachers and the playground are also planned. The upgrading of the park is expected to be completed in March 2006. Volusia County approved grant funds toward this project through the Volusia ECHO taxing authority.

In addition, the Community Development Block Grant provided funding for the Sica Hall Community Center exterior improvements that included new roofing, painting and landscaping. Sica Hall provides space for recreation activities, meetings, weddings, and other community or family events.

2. Community Redevelopment – In April, the City Commission/Community Redevelopment Agency issued a \$6.3 million bond to acquire, construct and equip certain capital improvements described in the Redevelopment Plan including a public parking facility, stormwater facilities, relocation of utility lines, landscaping, and decorative and functional amenities along the Ridgewood Avenue corridor. In addition, the bond includes the funding of grants to property owners within the Redevelopment Area to assist in the financing of the costs of landscaping improvements, façade improvements, and demolition of existing buildings.
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 66% or 4,000 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 – Hurricane recovery after the August and September 2004 hurricanes was the primary focus for the Public Works Department in late 2004 and 2005. Debris removal with the assistance of contractors and temporary workers was substantially completed by February. Repairs to city facilities including roofs, awnings, docks, park facilities, water and sewer facilities, and landscaping continued throughout the year. The seawall and dock along Sunrise Park and the Halifax River were badly damaged by the hurricanes. The City launched a project to not only repair the damage there but to improve the parks and the access to the river from the south side by dredging the area further to restore it to its original configuration. Three grants, the Volusia County Ponce DeLeon Port Authority, the Florida Inland Navigation District, and the Florida Recreation Development Assistance Program have been obtained to assist with this improvement project.

Honorable Mayor Roland Via, and
Members of the City Commission
City of Holly Hill, Florida
June 13, 2006

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. 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, 2005, 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, 2005, the City had several debt obligations outstanding. This debt was comprised of \$12,515,000 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 \$13,921,345 in installment note obligations. During the year, the City made loan draws of \$252,694 through participation in the Florida Department of

Honorable Mayor Roland Via, and
Members of the City Commission
City of Holly Hill, Florida
June 13, 2006

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 basic financial statements is included in the financial section of this report. Their reports on compliance and other matters are contained in the *Compliance* section at the end of the comprehensive annual financial report.

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, 2004. 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 28 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, 2004. This is the seventeenth 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

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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***

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INDEPENDENT AUDITORS' REPORT

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BM&C

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

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor Roland Via,
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, 2005, 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 \$5,137,956 of the assets and net assets held in trust for pension benefits at September 30, 2005, and \$683,910 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, 2005 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 June 13, 2006, 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 grant agreements and other matters.

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

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information, as listed in the table of contents, 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 combining and individual nonmajor fund financial statements and other supplementary information 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States 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 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.

The introductory section 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. These sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

Brent Milliken & Co., P.A.

June 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 ended September 30, 2005. 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. The City presents prior year comparative financial information when applicable and meaningful.

Financial Highlights

- The City's financial position is strengthening as a result of the current year's operations. Overall combined assets of the City totaled \$52.8 million at the close of the 2005 fiscal year compared to \$46.0 million last year. Total assets exceeded liabilities by approximately \$24.8 million (*combined net assets*) compared with \$23.5 million one year earlier. The unrestricted component of the City's combined net assets totaled \$4.1 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 \$15.1 million, an increase of approximately \$876,000 over last year's \$14.3 million, or 6.1%. At the same time, net assets of its business-type activities totaled \$9.7 million, an increase of approximately \$462,000 over last year's \$9.2 million, or 5.0%.
- During 2005, the City incurred expenses that were \$81,032 less than the \$6.1 million generated in taxes and other revenues for providing its various governmental program activities and programs (excluding interfund transfers of \$795,000). This compares favorably with excess expense of approximately \$440,500 incurred in the prior year, and net revenues of approximately \$7.0 million.
- The City's business-type activities produced net operating revenues of \$1.1 million for 2005 based on consumptive water/sewer/solid waste utility sales of \$5.9 million. Approximately \$466,000 of additional expense was incurred in 2005 as a result of hurricane related damages incurred near the end of the 2004 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 2005 totaled \$795,000, compared to \$710,000 last year.
- The total costs incurred by the City in providing its various programs remained relatively stable in 2005 and 2004, after eliminating the one-time charges for disaster related expenses incurred as a result of hurricane related damages and cleanup costs. Operating expenses totaled \$7.6 million and \$5.4 million for the City's governmental activities and business-type activities, respectively.
- Unreserved fund equity in the General Fund decreased by approximately \$154,000 at the end of 2005. This decrease was anticipated with the appropriation of prior years' surplus funds.
- Resources earned and available for appropriation in the current year were slightly higher (3.8%) 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 8.6% below its revised appropriations for the year.

Overview of the Financial Statements

The City's 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 fund 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 (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities 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 18 and 21.

The City maintains twelve 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 nine 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 16 to 21 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's 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 22 to 25 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 26 to 27 of this report. Combining statements for these funds are found in Exhibits 15 and 16.

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 28 to 52 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 53 to 60 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 \$23,505,768 at the end of 2004 to \$24,843,894 at the end of 2005. 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 (6.1%) and in its business-type activities (5.0%).

Net assets of the City's governmental activities increased by \$876,032 for the year and totaled \$15,136,806 at the end of the fiscal year. Of this amount, approximately 92% 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 \$1,174,051 at the end of 2005.

Net assets of the City's business-type activities increased by \$462,094 for the year and totaled \$9,707,088 at the end of the fiscal year. Approximately 46% of its total net assets (\$4,469,861) 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 \$13,389,622 at the end of 2005. The following is a comparative summary of net assets at year end:

Net Assets
September 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets:						
Current and other assets.....	\$ 11,120,422	4,698,817	6,783,527	7,011,900	17,903,949	11,710,717
Capital assets, net.....	<u>17,263,093</u>	<u>16,754,532</u>	<u>17,663,419</u>	<u>17,578,757</u>	<u>34,926,512</u>	<u>34,333,289</u>
Total assets.....	<u>28,383,515</u>	<u>21,453,349</u>	<u>24,446,946</u>	<u>24,590,657</u>	<u>52,830,461</u>	<u>46,044,006</u>
Liabilities:						
Long-term debt outstanding..	12,590,106	6,381,696	13,525,989	14,008,466	26,116,095	20,390,162
Other liabilities	<u>656,603</u>	<u>810,879</u>	<u>1,213,869</u>	<u>1,337,197</u>	<u>1,870,472</u>	<u>2,148,076</u>
Total liabilities	<u>13,246,709</u>	<u>7,192,575</u>	<u>14,739,858</u>	<u>15,345,663</u>	<u>27,986,567</u>	<u>22,538,238</u>
Net Assets:						
Invested in capital assets, net of related debt	5,352,066	11,024,444	4,469,861	3,924,901	9,821,927	14,949,345
Restricted	8,610,689	1,459,262	2,337,539	2,190,356	10,948,228	3,649,618
Unrestricted	<u>1,174,051</u>	<u>1,777,068</u>	<u>2,899,688</u>	<u>3,129,737</u>	<u>4,073,739</u>	<u>4,906,805</u>
Total net assets.....	\$ <u>15,136,806</u>	<u>14,260,774</u>	<u>9,707,088</u>	<u>9,244,994</u>	<u>24,843,894</u>	<u>23,505,768</u>

At the end of the current and prior fiscal years, the City reports positive balances in all three categories of net assets, both for the government as a whole, and for its separate governmental and business-type activities.

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 2005, the City's combined net assets increased \$1.3 million while the City's revenues increased approximately \$2.3 million. Overall, approximately 12% of the City's total revenues come from property taxes, while almost 34% of every dollar raised comes from some type of tax collected by the City. Another 49% comes from fees charged for services, while the remaining 17% 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, 2005:

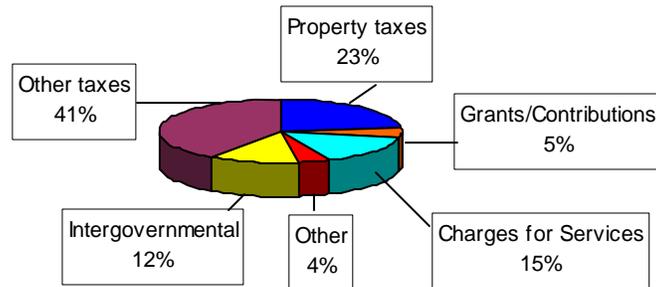
Changes in Net Assets
For the Fiscal Years Ended September 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services.....	\$ 1,179,842	1,015,394	5,992,920	5,616,915	7,172,762	6,632,309
Operating grants/other	47,815	58,959	465,949	1,479,833	513,764	1,538,792
Capital grants/other.....	336,710	536,974	98,700	118,956	435,410	655,930
General revenues:						
Property taxes	1,786,769	1,593,074	-	-	1,786,769	1,593,074
Other taxes	3,101,236	2,891,221	-	-	3,101,236	2,891,221
Intergovernmental.....	949,055	768,078	-	-	949,055	768,078
Other revenues	<u>296,612</u>	<u>102,981</u>	<u>133,501</u>	<u>70,093</u>	<u>430,113</u>	<u>173,074</u>
Total revenues.....	<u>7,698,039</u>	<u>6,966,681</u>	<u>6,691,070</u>	<u>7,285,797</u>	<u>14,389,109</u>	<u>14,252,478</u>
Expenses:						
General government.....	1,537,736	1,426,332	-	-	1,537,736	1,426,332
Public safety	3,556,976	3,270,335	-	-	3,556,976	3,270,335
Transportation.....	537,269	886,017	-	-	537,269	886,017
Economic environment.....	420,463	334,097	-	-	420,463	334,097
Physical environment.....	226,225	457,326	-	-	226,225	457,326
Culture/recreation	1,193,577	909,289	-	-	1,193,577	909,289
Interest on long-term debt.....	144,761	123,804	-	-	144,761	123,804
Water and sewer utilities.....	-	-	3,842,182	3,569,542	3,842,182	3,569,542
Solid waste utilities.....	-	-	<u>1,591,794</u>	<u>2,735,571</u>	<u>1,591,794</u>	<u>2,735,571</u>
Total expenses	<u>7,617,007</u>	<u>7,407,200</u>	<u>5,433,796</u>	<u>6,305,113</u>	<u>13,050,983</u>	<u>13,712,313</u>
Transfers in (out)	<u>795,000</u>	<u>710,000</u>	<u>(795,000)</u>	<u>(710,000)</u>	-	-
Increase in net assets.....	\$ <u>876,032</u>	<u>269,481</u>	<u>462,094</u>	<u>270,684</u>	<u>1,338,126</u>	<u>540,165</u>

Governmental Activities

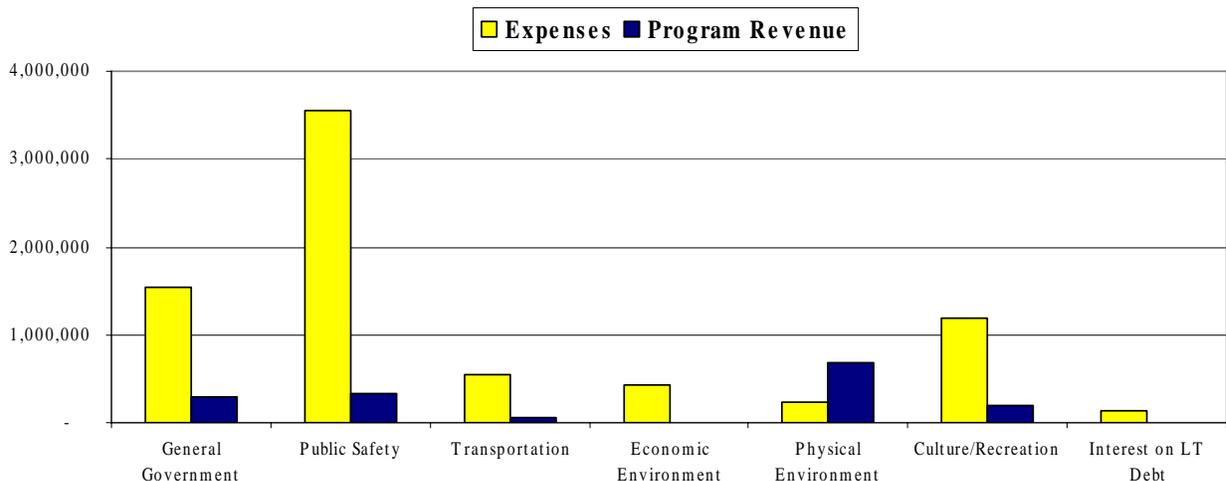
Revenues for the City's governmental activities experienced strong growth during 2005. Overall, the City's governmental revenues totaled \$7,698,039, which represents an increase of \$731,358, or 10.4% over last year's reported governmental revenues totaling \$6,966,681. This increase was primarily attributable to moderately stable increases in virtually all revenue sources, with some exceptions. Recently, 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 2005, the City experienced an overall 16.1% increase in its charges for services, which totaled \$1,179,842, compared to \$1,015,394 the prior year. While revenue growth experienced for the year was approximately 10.4% overall, revenues earned from the assessment of ad valorem taxes increased approximately 12.1% or \$193,695. Ad valorem taxes totaling \$1,786,769 were collected in 2005 compared with \$1,593,074 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



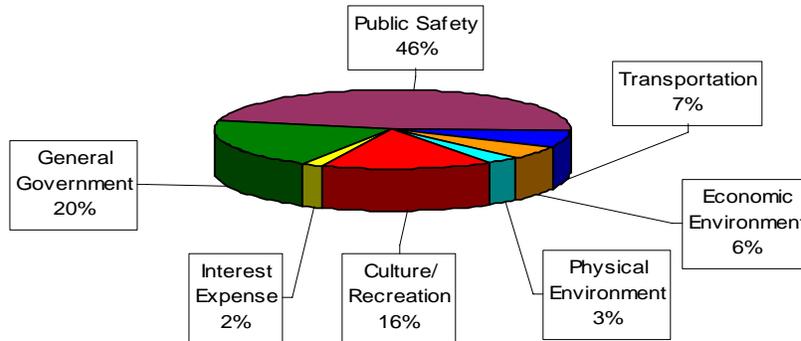
An individual comparison of the City's functional program revenues and costs of providing program services to its citizens is useful in identifying the programs, and the extent of which each are dependent on taxes and other non-exchange revenues to subsidize their program operations. They are listed 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 \$7,617,007, which represents an increase of \$209,807 or 2.8% over last year's expenses of \$7,407,200. Expense increases were recognized in all of the City's departmental areas during 2005 except for transportation and physical environment. 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 \$2.0 million, compared to \$1.8 million in the prior year.

Expenditures by Function - Governmental Activities

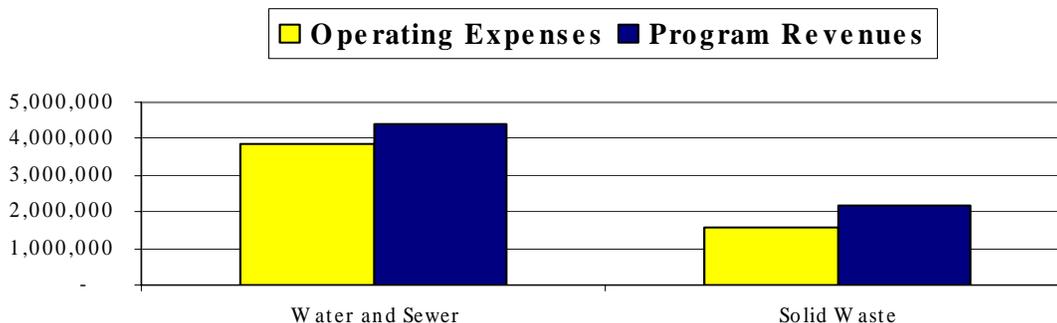


Business-type Activities

Business-type activities produced an increase in the City's net assets of \$462,094 in 2005, compared to \$270,684 during 2004. Overall, net assets from the City's business-type activities (\$9,707,088) account for only 39.0% of the City's combined total net assets at September 30, 2005. 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 2005 and totaled \$5,992,920 compared to \$5,616,915 in the prior year. Water and sewer utility revenues increased \$222,967 over last year's revenue, while charges for solid waste removal increased by \$153,038. Investment earnings increased from \$77,712 in 2004 to \$137,691 in 2005 as a result of increased interest rates experienced on a national level. Capital contributions received in the water and sewer utility fund decreased to \$98,700 in 2005, compared to \$118,956 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 decreased in 2005 to \$4,811,198, compared to \$5,670,043 in 2004. Included within these costs are approximately \$466,000 of debris removal expenses associated with three hurricanes experienced in August and September, 2004. Approximately 95% of these costs 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 \$10,361,284, which was up \$6,557,142, or 72.3%, above the \$3,804,142 reported last year. Approximately 91.6% of this amount (\$9,499,765) 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 (\$410,431), 2) to pay debt service (\$405,081), and 3) to finance specialized law enforcement investigations (\$46,007).

The general fund is the chief operating fund of the City. As of September 30, 2005, the unreserved fund balance in the general fund totaled \$1,592,141, while total fund balance declined from \$2,080,493 in 2004 to \$1,723,553 in 2005. 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 22.8% of total general fund expenditures (\$6,959,866), while total fund balance represents 24.7% 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 falls slightly below that target.

Fund balance in the general fund decreased by \$356,940 during the current fiscal year. The significant portion of this decrease was planned at the onset of the current fiscal year at which time \$1,244,600 in prior year surplus funds were appropriated to finance these expenditures. Fund balance in the Stormwater Drainage Fund increased \$383,311 in 2005 as a result of the receipt of debt proceeds required to finance stormwater utility system capital improvements. Fund balance in the Community Redevelopment Agency Capital Projects fund increased \$6,322,750 from receiving debt proceeds to finance expansion of the City's stormwater management and collection facilities. All other funds remained stable for the year.

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 \$1,853,816, compared to \$2,281,777 one year earlier. This year's decrease of \$427,961 was composed of a transfer to the General Fund of \$426,700.

Unrestricted net assets in the Solid Waste Fund totaled \$1,045,872 at the end of 2005, compared to \$847,960 at the end of the prior fiscal year. Net income for the year totaled \$193,846, which is reported net of transfers in the amount of \$368,300.

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 \$296,100, which represents a 5.3% increase in anticipated funding. Expenditure appropriations decreased by \$9,900 near the end of the fiscal year in an effort to achieve the current year's operating results. These appropriations were funded by a corresponding increase in the appropriation of prior years' surplus funds to an amount not to exceed \$1,244,600 for the year.

Actual earned revenues were \$223,527 more than the amounts anticipated to be received during the year, while actual expenditures incurred were \$650,734 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, 2005 and 2004, the City's investment in capital assets for its governmental and business type activities totaled \$34,926,512 and \$34,333,289, respectively. These amounts are stated net of accumulated depreciation of \$21,445,101 and \$19,926,522 for 2005 and 2004, respectfully. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

Capital Assets September 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land.....	\$ 1,950,539	1,950,539	154,739	154,739	2,105,278	2,105,278
Construction work in progress ..	4,987,366	4,777,357	158,251	238,822	5,145,617	5,016,179
Buildings.....	3,578,101	3,441,420	5,943,292	6,164,875	9,521,393	9,606,295
Improvements other than buildings.....	1,477,584	1,335,552	8,061,297	7,860,538	9,538,881	9,196,090
Machinery and equipment	1,155,668	1,257,808	3,345,840	3,159,783	4,501,508	4,417,591
Infrastructure.....	<u>4,113,835</u>	<u>3,991,856</u>	<u>-</u>	<u>-</u>	<u>4,113,835</u>	<u>3,991,856</u>
Net total	\$ <u>17,263,093</u>	<u>16,754,532</u>	<u>17,663,419</u>	<u>17,578,757</u>	<u>34,926,512</u>	<u>34,333,289</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 \$26,436,345 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 \$12,515,000 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 \$6,728,886 at year end. The proceeds from these obligations were used to finance the expansion of the City's primary stormwater management and collection facilities 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 2026.

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 \$7,192,459, 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 2023.

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 3.4% at the end of September 2005, which is slightly lower than the 4.4% rate experienced one year earlier. These estimates compare favorably to the state's 3.7% and 4.1% unemployment rates at September 2005 and 2004, 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 \$1,746,494 to \$1,592,141. Based on current year budget estimates for 2006, the City has determined that it will be necessary to include approximately \$470,100 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 14.12% increase in the ad valorem tax millage rate for the 2006 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

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STATEMENT OF NET ASSETS
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Statement 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents.....	\$ 10,259,279	2,332,277	12,591,556
Receivables, net of allowance for uncollectible accounts.....	360,356	551,452	911,808
Internal balances.....	(222,078)	222,078	-
Due from other governments.....	642,676	987,147	1,629,823
Due from fiduciary pension trust.....	60,289	-	60,289
Unamortized debt issuance costs.....	19,900	196,064	215,964
Restricted assets:			
Cash and cash equivalents.....	-	2,494,509	2,494,509
Capital assets:			
Land and construction in progress.....	6,937,905	312,990	7,250,895
Other capital assets, net of depreciation.....	<u>10,325,188</u>	<u>17,350,429</u>	<u>27,675,617</u>
Total assets	<u>\$ 28,383,515</u>	<u>24,446,946</u>	<u>52,830,461</u>
Liabilities:			
Accounts payable and accrued liabilities.....	\$ 526,385	581,959	1,108,344
Deferred revenue and deposits.....	130,218	622,386	752,604
Bonds, notes, and other payables:			
Due or payable within one year.....	561,761	628,682	1,190,443
Due or payable in more than one year.....	11,349,266	12,760,940	24,110,206
Compensated absences.....	<u>679,079</u>	<u>145,891</u>	<u>824,970</u>
Total liabilities	<u>13,246,709</u>	<u>14,739,858</u>	<u>27,986,567</u>
Net assets:			
Invested in capital assets net of related debt	5,352,066	4,469,861	9,821,927
Restricted for:			
Capital projects.....	1,328,300	-	1,328,300
Community redevelopment projects.....	6,839,224	-	6,839,224
Special law enforcement.....	38,084	-	38,084
Utility plant expansion.....	-	2,185,420	2,185,420
Debt service.....	405,081	152,119	557,200
Unrestricted	<u>1,174,051</u>	<u>2,899,688</u>	<u>4,073,739</u>
Total net assets	<u>\$ 15,136,806</u>	<u>9,707,088</u>	<u>24,843,894</u>

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2005
 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.....	\$ 1,537,736	296,630	-	-
Public safety.....	3,556,976	72,895	25,000	225,569
Transportation.....	537,269	54,779	-	-
Economic environment.....	420,463	-	-	-
Physical environment.....	226,225	674,491	-	13,145
Culture/recreation.....	1,193,577	81,047	22,815	97,996
Interest on long-term debt	<u>144,761</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>7,617,007</u>	<u>1,179,842</u>	<u>47,815</u>	<u>336,710</u>
Business-type activities:				
Water and Sewer.....	3,842,182	4,307,737	-	98,700
Solid Waste.....	<u>1,591,794</u>	<u>1,685,183</u>	<u>465,949</u>	<u>-</u>
Total business-type activities.....	<u>5,433,976</u>	<u>5,992,920</u>	<u>465,949</u>	<u>98,700</u>
Total primary government.....	<u>\$ 13,050,983</u>	<u>7,172,762</u>	<u>513,764</u>	<u>435,410</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.....
Unrestricted State revenue sharing.....
Other unrestricted 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
(1,241,106)		(1,241,106)
(3,233,512)		(3,233,512)
(482,490)		(482,490)
(420,463)		(420,463)
461,411		461,411
(991,719)		(991,719)
(144,761)		(144,761)
<u>(6,052,640)</u>		<u>(6,052,640)</u>
	564,255	564,255
	559,338	559,338
	<u>1,123,593</u>	<u>1,123,593</u>
<u>(6,052,640)</u>	<u>1,123,593</u>	<u>(4,929,047)</u>
1,584,639	-	1,584,639
202,130	-	202,130
700,190	-	700,190
296,820	-	296,820
737,798	-	737,798
1,366,428	-	1,366,428
438,988	-	438,988
510,067	-	510,067
205,338	137,691	343,029
91,274	-	91,274
-	(4,190)	(4,190)
795,000	(795,000)	-
<u>6,928,672</u>	<u>(661,499)</u>	<u>6,267,173</u>
876,032	462,094	1,338,126
<u>14,260,774</u>	<u>9,244,994</u>	<u>23,505,768</u>
<u>\$ 15,136,806</u>	<u>9,707,088</u>	<u>24,843,894</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
Assets:			
Cash and cash equivalents.....	\$ 1,627,111	521,608	1,125,494
Receivables, net			
Accounts receivable.....	254,985	-	57,803
Delinquent taxes.....	47,568	-	-
Due from other funds.....	50,775	-	-
Due from other governments.....	<u>595,632</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,576,071</u>	<u>521,608</u>	<u>1,183,297</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and other current liabilities	\$ 449,163	5,108	5,504
Deferred revenues	177,786	-	-
Due to other funds.....	<u>225,569</u>	<u>26</u>	<u>-</u>
Total liabilities	<u>852,518</u>	<u>5,134</u>	<u>5,504</u>
Fund Balances:			
Reserved for:			
Encumbrances.....	123,489	-	4,900
Law enforcement.....	7,923	-	-
Debt service.....	-	-	-
Unreserved, reported in			
General fund.....	1,592,141	-	-
Special revenue funds	<u>-</u>	<u>516,474</u>	<u>1,172,893</u>
Total fund balances	<u>1,723,553</u>	<u>516,474</u>	<u>1,177,793</u>
Total liabilities and fund balances	<u>\$ 2,576,071</u>	<u>521,608</u>	<u>1,183,297</u>

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

Statement 3

Community Redevelopment Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
6,324,724	660,342	10,259,279
-	-	312,788
-	-	47,568
26	-	50,801
<u>-</u>	<u>47,044</u>	<u>642,676</u>
<u>6,324,750</u>	<u>707,386</u>	<u>11,313,112</u>
2,000	39,388	501,163
-	-	177,786
<u>-</u>	<u>47,284</u>	<u>272,879</u>
<u>2,000</u>	<u>86,672</u>	<u>951,828</u>
203,262	78,780	410,431
-	38,084	46,007
-	405,081	405,081
-	-	1,592,141
<u>6,119,488</u>	<u>98,769</u>	<u>7,907,624</u>
<u>6,322,750</u>	<u>620,714</u>	<u>10,361,284</u>
<u>6,324,750</u>	<u>707,386</u>	<u>11,313,112</u>

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS **Statement 3A**
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Fund balances - total governmental funds \$ 10,361,284

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..... 17,263,093

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..... 47,568

Negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund..... 60,289

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.....	(11,911,027)	
Accrued interest payable.....	(25,222)	
Unamortized debt costs.....	19,900	
Compensated absences.....	<u>(679,079)</u>	<u>(12,595,428)</u>

Net assets of governmental activities \$ 15,136,806

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, 2005
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
Revenue:			
Taxes	\$ 3,981,480	202,130	-
Licenses and permits	284,989	-	-
Intergovernmental	1,427,690	462,124	-
Charges for services	148,993	-	674,491
Fines and forfeitures	36,012	-	-
Miscellaneous	<u>163,563</u>	<u>19,886</u>	<u>25,053</u>
Total revenue	<u>6,042,727</u>	<u>684,140</u>	<u>699,544</u>
Expenditures:			
Current:			
General government	1,466,599	-	-
Public safety	3,409,079	-	-
Transportation	634,688	-	-
Economic environment	-	332,277	-
Physical environment	-	-	259,554
Culture/recreation	1,045,499	-	-
Capital Outlay:			
General government	19,875	-	-
Public safety	71,823	-	-
Transportation	76,562	-	-
Physical environment	-	-	42,031
Culture/recreation	60,831	-	-
Debt Service:			
Principal retirement	149,959	-	-
Interest and fiscal charges	<u>24,951</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,959,866</u>	<u>332,277</u>	<u>301,585</u>
Excess of revenue over (under) expenditures.....	<u>(917,139)</u>	<u>351,863</u>	<u>397,959</u>
Other Financing Sources (Uses):			
Debt proceeds	-	-	252,694
Bond issuance costs.....	-	-	-
Transfers in	767,167	-	-
Transfers out	<u>(206,968)</u>	<u>(196,013)</u>	<u>(267,342)</u>
Total other financing sources (uses)	<u>560,199</u>	<u>(196,013)</u>	<u>(14,648)</u>
Net changes in fund balances.....	(356,940)	155,850	383,311
Fund balances, beginning of year	<u>2,080,493</u>	<u>360,624</u>	<u>794,482</u>
Fund balances, end of year	<u>\$ 1,723,553</u>	<u>516,474</u>	<u>1,177,793</u>

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

Statement 4

Community Redevelopment Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
-	-	4,183,610
-	-	284,989
-	121,140	2,010,954
-	3,678	827,162
-	31,681	67,693
<u>88,033</u>	<u>22,892</u>	<u>319,427</u>
<u>88,033</u>	<u>179,391</u>	<u>7,693,835</u>
-	-	1,466,599
-	24,007	3,433,086
-	-	634,688
86,783	-	419,060
-	-	259,554
-	53,907	1,099,406
-	-	19,875
-	17,016	88,839
-	-	76,562
-	149,277	191,308
-	208,561	269,392
-	252,797	402,756
<u>-</u>	<u>119,810</u>	<u>144,761</u>
<u>86,783</u>	<u>825,375</u>	<u>8,505,886</u>
<u>1,250</u>	<u>(645,984)</u>	<u>(812,051)</u>
6,331,000	-	6,583,694
(9,500)	-	(9,500)
-	712,322	1,479,489
<u>-</u>	<u>(14,167)</u>	<u>(684,490)</u>
<u>6,321,500</u>	<u>698,155</u>	<u>7,369,193</u>
6,322,750	52,171	6,557,142
<u>-</u>	<u>568,543</u>	<u>3,804,142</u>
<u>6,322,750</u>	<u>620,714</u>	<u>10,361,284</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, 2005
CITY OF HOLLY HILL, FLORIDA

Net change in fund balances - total governmental funds \$ 6,557,142

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 expense for the current period:

Capital outlay expenditures.....	1,161,836	
General fixed assets disposals.....	(3,568)	
Depreciation expense.....	<u>(649,707)</u>	508,561

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 (6,574,194)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of nets assets. Principal repayment in the current period 402,755

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)..... 4,204

Increase in negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund..... 5,404

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:

Change in compensated absences liabilities.....	(27,471)	
Change in accrued interest on bonds and notes payable	<u>(369)</u>	<u>(27,840)</u>

Change in net assets of governmental activities \$ 876,032

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005
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	\$ 2,283,157	49,120	2,332,277
Accounts receivable	397,959	153,493	551,452
Due from other funds.....	-	225,569	225,569
Due from other governments.....	-	987,147	987,147
Restricted-Cash and cash equivalents.....	<u>2,494,509</u>	<u>-</u>	<u>2,494,509</u>
Total current assets	<u>5,175,625</u>	<u>1,415,329</u>	<u>6,590,954</u>
Property and Equipment:			
Land.....	154,739	-	154,739
Buildings and improvements.....	23,582,834	54,651	23,637,485
Machinery and equipment	6,859,576	644,662	7,504,238
Construction in progress.....	<u>158,251</u>	<u>-</u>	<u>158,251</u>
	30,755,400	699,313	31,454,713
Less: accumulated depreciation	<u>(13,118,460)</u>	<u>(672,834)</u>	<u>(13,791,294)</u>
Net property and equipment	<u>17,636,940</u>	<u>26,479</u>	<u>17,663,419</u>
Unamortized debt issuance costs.....	<u>196,064</u>	<u>-</u>	<u>196,064</u>
Total assets	<u>\$ 23,008,629</u>	<u>1,441,808</u>	<u>24,450,437</u>
Liabilities:			
Current Liabilities:			
Current maturities of long-term debt.....	\$ 628,682	-	628,682
Accounts payable and accrued liabilities	361,884	365,966	727,850
Due to other funds.....	-	3,491	3,491
Deferred revenue	<u>622,386</u>	<u>-</u>	<u>622,386</u>
Total current liabilities	<u>1,612,952</u>	<u>369,457</u>	<u>1,982,409</u>
Long-term Debt:			
Revenue bonds payable (net).....	10,849,304	-	10,849,304
Notes payable (net).....	<u>1,911,636</u>	<u>-</u>	<u>1,911,636</u>
Total long-term debt.....	<u>12,760,940</u>	<u>-</u>	<u>12,760,940</u>
Total liabilities.....	<u>14,373,892</u>	<u>369,457</u>	<u>14,743,349</u>
Net Assets:			
Invested in capital assets, net of related debt	4,443,382	26,479	4,469,861
Restricted for debt service.....	152,119	-	152,119
Restricted for utility plant expansion.....	2,185,420	-	2,185,420
Unrestricted.....	<u>1,853,816</u>	<u>1,045,872</u>	<u>2,899,688</u>
Total net assets	<u>\$ 8,634,737</u>	<u>1,072,351</u>	<u>9,707,088</u>

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

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

Statement 6

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Operating Revenue:			
Charges for Services:			
Water sales.....	\$ 1,992,142	-	1,992,142
Sewer treatment charges.....	2,058,726	-	2,058,726
Waste disposal fees.....	-	1,684,928	1,684,928
Connections, service and cut-off charges.....	59,026	-	59,026
Other revenues.....	<u>197,843</u>	<u>255</u>	<u>198,098</u>
Total operating revenue.....	<u>4,307,737</u>	<u>1,685,183</u>	<u>5,992,920</u>
Operating Expenses:			
Personal services	1,092,952	-	1,092,952
Depreciation and amortization	1,071,466	4,066	1,075,532
Utilities	287,892	128	288,020
Materials and supplies	280,925	856	281,781
Contractual services	307,663	1,544,835	1,852,498
Maintenance and repairs	142,366	1,271	143,637
Other charges	17,873	3,299	21,172
Bad debt expense.....	<u>18,267</u>	<u>37,339</u>	<u>55,606</u>
Total operating expenses	<u>3,219,404</u>	<u>1,591,794</u>	<u>4,811,198</u>
Operating income.....	<u>1,088,333</u>	<u>93,389</u>	<u>1,181,722</u>
Nonoperating Revenue (Expenses):			
Interest earnings	134,883	2,808	137,691
Loss on disposal of property and equipment	(4,190)	-	(4,190)
Federal and state grants.....	-	465,949	465,949
Interest and debt expense.....	<u>(622,778)</u>	<u>-</u>	<u>(622,778)</u>
Net nonoperating revenue (expenses).....	<u>(492,085)</u>	<u>468,757</u>	<u>(23,328)</u>
Income before transfers.....	596,248	562,146	1,158,394
Transfer (out) to General Fund.....	(426,700)	(303,000)	(729,700)
Transfer (out) to Water and Sewer Fund.....	<u>-</u>	<u>(65,300)</u>	<u>(65,300)</u>
Net income.....	169,548	193,846	363,394
Capital contributions.....	<u>98,700</u>	<u>-</u>	<u>98,700</u>
Net increase in net assets.....	268,248	193,846	462,094
Net assets, beginning of year	<u>8,366,489</u>	<u>878,505</u>	<u>9,244,994</u>
Net assets, end of year	<u>\$ 8,634,737</u>	<u>1,072,351</u>	<u>9,707,088</u>

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Statement 7

For the Fiscal Year Ended September 30, 2005
CITY OF NEW HOLLY HILL, FLORIDA

	<u>Business-type Activities - Enterprise Funds</u>		
	Water and Sewer	Solid Waste	Total
Cash Flows From Operating Activities:			
Cash received from customers.....	\$ 4,241,229	1,903,156	6,144,385
Cash paid for personal services.....	(1,075,930)	-	(1,075,930)
Cash paid to suppliers.....	<u>(963,042)</u>	<u>(2,119,099)</u>	<u>(3,082,141)</u>
Net cash provided by (used in) operating activities....	<u>2,202,257</u>	<u>(215,943)</u>	<u>1,986,314</u>
Cash Flows From Noncapital and Related Financing Activities:			
Federal and state grants.....	-	465,949	465,949
Operating transfers (out)	<u>(426,700)</u>	<u>(368,300)</u>	<u>(795,000)</u>
Net cash provided by (used in) noncapital and related financing activities	<u>(426,700)</u>	<u>97,649</u>	<u>(329,051)</u>
Cash Flows From Capital and Related Financing Activities:			
Capital contributions.....	98,700	-	98,700
Acquisition and construction of capital assets	(1,014,001)	-	(1,014,001)
Debt reduction outlays.....	(610,683)	-	(610,683)
Interest paid on capital debt obligations.....	<u>(622,778)</u>	<u>-</u>	<u>(622,778)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,148,762)</u>	<u>-</u>	<u>(2,148,762)</u>
Cash Flows From Investing Activities:			
Interest received	<u>134,883</u>	<u>2,808</u>	<u>137,691</u>
Net increase (decrease) in cash and cash equivalents	(238,322)	(115,486)	(353,808)
Cash and cash equivalents, beginning of year	<u>5,015,988</u>	<u>164,606</u>	<u>5,180,594</u>
Cash and cash equivalents, end of year	<u>\$ 4,777,666</u>	<u>49,120</u>	<u>4,826,786</u>
Cash and Cash Equivalents:			
Current assets.....	\$ 2,283,157	49,120	2,332,277
Restricted assets.....	<u>2,494,509</u>	<u>-</u>	<u>2,494,509</u>
Total cash and cash equivalents.....	<u>\$ 4,777,666</u>	<u>49,120</u>	<u>4,826,786</u>

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, 2005
CITY OF NEW HOLLY HILL, FLORIDA

Statement 7

	<u>Business-type Activities - Enterprise Funds</u>		
	Water and Sewer	Solid Waste	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 1,088,333	93,389	1,181,722
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation and amortization.....	1,071,466	4,066	1,075,532
Provision for bad debts.....	18,267	37,339	55,606
Changes in assets and liabilities:			
Accounts receivable	(58,843)	(49,143)	(107,986)
Due from other funds	6,180	(225,569)	(219,389)
Due from other governments	-	492,686	492,686
Accounts payable	69,267	(201,950)	(132,683)
Accrued liabilities.....	17,022	-	17,022
Due to other funds	(1,770)	(366,761)	(368,531)
Customer deposits	<u>(7,665)</u>	<u>-</u>	<u>(7,665)</u>
Net cash provided by operating activities.....	<u>\$ 2,202,257</u>	<u>(215,943)</u>	<u>1,986,314</u>

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Statement 8

Assets:	
Cash and cash equivalents	\$ 1,668
Accounts receivable:	
From brokers.....	6,592
From employer.....	2,624
From state.....	10,280
Accrued interest.....	<u>38,297</u>
Total accounts receivable.....	57,793
Investments, at fair value	
Money market funds	345,202
U.S. Treasuries.....	987,387
U.S. government agencies	468,899
U.S. corporate debt obligations	1,308,939
U.S. corporate equity securities	3,958,881
International equity securities	<u>347,204</u>
Total investments	<u>7,416,512</u>
Total assets	7,475,973
Liabilities:	
Accounts payable.....	<u>11,325</u>
Net assets:	
Held in trust for pension benefits.....	<u>\$ 7,464,648</u>

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

Statement 9

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Additions:	
Contributions from:	
Employer	\$ 218,801
State	123,121
Plan members	<u>184,302</u>
Total contributions.....	526,224
Investment income:	
Net realized and unrealized appreciation (depreciation) in fair value of investments.....	429,824
Interest and dividend earnings	<u>222,013</u>
	651,837
Less: investment management fees	<u>(79,865)</u>
Total investment income	<u>571,972</u>
Total additions	1,098,196
Deductions:	
Benefit payments and refunds	492,812
Administrative expenses	<u>54,250</u>
Total deductions.....	<u>547,062</u>
Net increase.....	551,134
Net assets held in trust for pension benefits:	
Beginning of year	<u>6,913,514</u>
End of year	<u>\$ 7,464,648</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2005

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. 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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CITY OF HOLLY HILL, FLORIDA

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.

C. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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CITY OF HOLLY HILL, FLORIDA

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 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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CITY OF HOLLY HILL, FLORIDA

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, Holly Hill Police Explorers Fund, Recreation Activity Fund, Community Development Block Grant Fund, and the Local Law Enforcement Block Grant Fund.

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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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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 water and sewer service fees and related charges and refuse and recycling collection fees for sanitation services, which are the principal ongoing operations of the City's water/sewer utility and solid waste operations. 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.

D. 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. 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 is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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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 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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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CITY OF HOLLY HILL, FLORIDA

6. *Compensated Absences*

The portion of 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 is 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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- The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers.
- 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, 2005, total fund expenditures exceeded budgetary appropriations in the nonmajor Community Development Block Grant Fund by \$855. The over-expenditures in this fund were funded in their entirety by transfers from the General 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, 2005.

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

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 CITY OF HOLLY HILL, FLORIDA

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2003 through March 2004, with the following applicable discounts: November through March

<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, 2005, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Investment Maturities (Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>From 1-5</u>	<u>From 6-10</u>	<u>Over 10</u>
Repurchase agreements	\$ 720,000	720,000	-	-	-
Local government surplus funds					
trust fund.....	14,522,718	14,522,718	-	-	-
Money market funds	345,202	345,202	-	-	-
U.S. Treasuries	987,387	299,250	368,431	227,686	92,020
U.S. agencies	468,900	-	313,999	97,706	57,195
Domestic corporate bonds	1,308,938	-	771,028	257,712	280,198
Domestic corporate equities	<u>4,306,085</u>	<u>4,306,085</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$22,659,230</u>	<u>20,193,255</u>	<u>1,453,458</u>	<u>583,104</u>	<u>429,413</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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

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CITY OF HOLLY HILL, FLORIDA

current period fair value losses can occur with these investments in any given year, 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 is 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 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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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, 2005, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$14,522,718, 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, 2005, consist of the following:

Governmental Activities:

General Fund:

Delinquent taxes receivable	\$	47,567
Accounts receivable-franchise/utility service payments		215,443
Lien collections receivable		47,556
Employees purchase program		7,846
Other miscellaneous receivables		<u>21,108</u>
		339,520
Less allowance for doubtful accounts		<u>(36,967)</u>

Total General Fund accounts receivable, net..... 302,553

Special Revenue Fund:

Stormwater Drainage Fund:

Accounts receivable		66,743
Less allowance for doubtful accounts		<u>(8,940)</u>

Total special revenue fund accounts receivable, net 57,803

Total governmental activities accounts receivable, net \$ 360,356

Business-Type Activities:

Water and Sewer Fund:

Billed accounts receivable	\$	367,662
Unbilled accounts receivable		103,175

Solid Waste Fund:

Billed accounts receivable		158,571
Unbilled accounts receivable		<u>47,944</u>
		677,352
Less allowance for doubtful accounts		<u>(125,900)</u>

Total business-type activities accounts receivable, net..... \$ 551,452

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made.

Individual fund short-term interfund receivables and payables expected to be repaid within the next fiscal year at September 30, 2005, are as follows:

Fund	Due From	Due To
Governmental Activities:		
General Fund:		
Law Enforcement Trust.....	\$ 240	-
Community Development Block Grant.....	47,044	-
Solid Waste	3,491	225,569
Community Redevelopment Fund:		
CRA Capital Projects	-	26
Law Enforcement Trust:		
General Fund	-	240
Community Development Block Grant:		
General Fund	-	47,044
CRA Capital Projects:		
Community Redevelopment Fund.....	26	-
Business-Type Activities:		
Solid Waste:		
General Fund	<u>225,569</u>	<u>3,491</u>
Totals.....	<u>\$ 276,370</u>	<u>276,370</u>

Transfers occur to move revenues from various funds to debt service funds as debt service principal and interest payments become due and to move funds to finance various programs, provide grant matching funds, or to subsidize operations that the City must account for in other funds in accordance with budgetary authorizations.

Interfund transfers between the City's governmental and business-type funds during the fiscal year ended September 30, 2005, are as follows:

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Fund	Transfer To	Transfer From
Governmental Activities:		
General Fund:		
Local Law Enforcement Block Grant.....	\$ 1,942	-
Law Enforcement Trust.....	3,768	1,023
Holly Hill Police Explorers	1,258	-
Capital Projects.....	200,000	
Community Development Block Grant.....	-	13,145
Water and Sewer	-	450,000
Solid Waste	-	303,000
Community Redevelopment Trust Fund:		
CRA Debt Service	196,013	-
Local Law Enforcement Block Grant:		
General Fund	-	1,942
Law Enforcement Trust:		
General Fund	1,023	3,768
Holly Hill Police Explorers:		
General Fund	-	1,258
CRA Debt Service:		
Community Redevelopment Trust Fund	-	196,013
Community Development Block Grant:		
General Fund	13,145	-
Stormwater Drainage:		
Debt Service	267,342	-
Debt Service:		
Water and Sewer	-	42,000
Stormwater Drainage.....	-	267,342
Capital Projects:		
General	<u>-</u>	<u>200,000</u>
Totals - governmental activities	<u>\$ 684,491</u>	<u>1,479,491</u>
Business-type Activities:		
Water and Sewer:		
General	\$ 450,000	-
Debt Service	42,000	-
Solid Waste	-	65,300
Solid Waste:		
General	303,000	-
Water and Sewer	<u>65,300</u>	<u>-</u>
Totals - business-type activities	<u>860,300</u>	<u>65,300</u>
Totals - all activities	<u>\$ 1,544,791</u>	<u>1,544,791</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

NOTE 8 - CAPITAL ASSETS

A summary of the capital assets activity for the year ended September 30, 2005, is as follows:

	Balance 09/30/04	Addition	Deletions	Balance 09/30/05
Governmental activities:				
Capital assets not being depreciated:				
Land.....	\$ 1,950,539	-	-	1,950,539
Construction work in progress.....	<u>4,777,357</u>	<u>354,715</u>	<u>(144,706)</u>	<u>4,987,366</u>
Total capital assets not being depreciated ..	<u>6,727,896</u>	<u>354,715</u>	<u>(144,706)</u>	<u>6,937,905</u>
Capital assets being depreciated:				
Buildings.....	4,257,030	222,829	-	4,479,859
Improvements other than buildings	2,065,279	220,462	-	2,285,741
Machinery and equipment	3,027,050	149,247	(53,664)	3,122,633
Infrastructure	<u>7,731,473</u>	<u>359,289</u>	<u>-</u>	<u>8,090,762</u>
Total capital assets being depreciated.....	<u>17,080,832</u>	<u>951,827</u>	<u>(53,664)</u>	<u>17,978,995</u>
Less accumulated depreciation for:				
Buildings.....	(815,610)	(86,148)	-	(901,758)
Improvements other than buildings	(729,727)	(78,430)	-	(808,157)
Machinery and equipment	(1,769,242)	(247,819)	50,096	(1,966,965)
Infrastructure	<u>(3,739,617)</u>	<u>(237,310)</u>	<u>-</u>	<u>(3,976,927)</u>
Total accumulated depreciation.....	<u>(7,054,196)</u>	<u>(649,707)</u>	<u>50,096</u>	<u>(7,653,807)</u>
Total capital assets being depreciated, net..	<u>10,026,636</u>	<u>302,120</u>	<u>(3,568)</u>	<u>10,325,188</u>
Governmental activities capital assets, net.	<u>\$16,754,532</u>	<u>656,835</u>	<u>(148,274)</u>	<u>17,263,093</u>
Business-type activities:				
Capital assets not being depreciated:				
Land.....	\$ 154,739	-	-	154,739
Construction work in progress.....	<u>238,822</u>	<u>1,014,002</u>	<u>(1,094,573)</u>	<u>158,251</u>
Total capital assets not being depreciated ..	<u>393,561</u>	<u>1,014,002</u>	<u>(1,094,573)</u>	<u>312,990</u>
Capital assets being depreciated:				
Buildings.....	10,899,747	-	-	10,899,747
Improvements other than buildings	12,125,720	622,389	(10,371)	12,737,738
Machinery and equipment	<u>7,032,055</u>	<u>472,183</u>	<u>-</u>	<u>7,504,238</u>
Total capital assets being depreciated.....	<u>30,057,522</u>	<u>1,094,572</u>	<u>(10,371)</u>	<u>31,141,723</u>
Less accumulated depreciation for:				
Buildings.....	(4,734,872)	(221,583)	-	(4,956,455)
Improvements other than buildings	(4,265,182)	(417,440)	6,181	(4,676,441)
Machinery and equipment	<u>(3,872,272)</u>	<u>(286,126)</u>	<u>-</u>	<u>(4,158,398)</u>
Total accumulated depreciation.....	<u>(12,872,326)</u>	<u>(925,149)</u>	<u>6,181</u>	<u>(13,791,294)</u>
Total capital assets being depreciated, net..	<u>17,185,196</u>	<u>169,423</u>	<u>(4,190)</u>	<u>17,350,429</u>
Business-type capital assets, net.....	<u>\$17,578,757</u>	<u>1,183,425</u>	<u>(1,098,763)</u>	<u>17,663,419</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2005
 CITY OF HOLLY HILL, FLORIDA

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

Governmental activities:	
General government	\$ 62,655
Public safety	131,571
Transportation	182,910
Economic environment.....	1,381
Physical environment	128,313
Culture/recreation	<u>142,877</u>
Total depreciation expense - governmental activities	<u>\$ 649,707</u>
Business-type activities:	
Water and Sewer Fund	\$ 921,083
Solid Waste Fund	<u>4,066</u>
Total depreciation expense - business-type activities.....	<u>\$ 925,149</u>

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 \$6,331,000 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, 2005 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 (\$353,840) dated January 30, 2001; 3.16% loan (\$884,371) dated September 10, 2001; 2.12% loan (\$1,459,241) dated July 24, 2002; 1.99% loan (\$2,601,357) dated June 24, 2003, in the aggregate amount of \$5,298,810 for local stormwater pollution control and drainage improvements, with combined total payments of \$176,808, due semi-annually, on January 15 and July 15, commencing on January 15, 2005 through 2023; secured with stormwater management service charges (\$235,396 currently payable)	\$ 5,182,141
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NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Promissory notes payable to Sun Trust Bank of Volusia County:	
4.35% Community Redevelopment Agency (CRA) Redevelopment Revenue Note, Series 2005 dated May 2, 2005; \$235,234 due semi-annually through 2026; unsecured (\$185,239 currently payable)	\$ 6,331,000
4.84% Utility Service Tax Revenue Note, Series 1998A, dated April 14, 1998; \$58,775 due semi-annually through 2008; secured by utility service tax revenues (\$117,550 currently payable)	<u>397,886</u>
Total revenue notes payable	11,911,027
Less: current maturities	<u>(561,761)</u>
Governmental activities long-term revenue note debt.....	11,349,266
Long-term portion of obligation for compensated absences payable by the City's General Fund (net of \$85,168 in amounts currently payable).....	<u>679,079</u>
Total governmental activities long-term debt.....	<u>\$ 12,028,345</u>

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

	Balances 09/30/04	Additions	Deletions	Balances 09/30/05
Notes payable:				
Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans	\$ 5,182,243	252,694	252,797	5,182,140
Sun Bank of Volusia County:				
5.30% promissory note.....	32,408	-	32,408	-
4.84% Utility Service Tax Revenue Note, Series 1998A	515,437	-	117,550	397,887
4.53% CRA Redevelopment Revenue Note, Series 2005	-	6,331,000	-	6,331,000
Compensated absences.....	<u>651,608</u>	<u>363,775</u>	<u>336,304</u>	<u>679,079</u>
Totals	<u>\$ 6,381,696</u>	<u>6,947,469</u>	<u>739,059</u>	<u>12,590,106</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

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

Fiscal Year	FDEP SRF Loan	SunTrust 4.53%	SunTrust 4.84%	Total
September 30, 2006	\$ 353,616	469,161	157,373	980,150
September 30, 2007	353,616	470,469	157,372	981,457
September 30, 2008	353,616	470,469	110,513	934,598
September 30, 2009	353,616	470,469	-	824,085
September 30, 2010	353,616	470,469	-	824,085
September 20, 2011-2015	1,768,082	2,352,343	-	4,120,425
September 30, 2016-2020	1,768,082	2,352,343	-	4,120,425
September 30, 2021-2025	1,060,849	2,352,343	-	3,413,192
September 30, 2026-2030	<u>-</u>	<u>470,469</u>	<u>-</u>	<u>470,469</u>
Total	6,365,093	9,878,535	425,258	16,668,886
Less: interest	<u>(1,182,952)</u>	<u>(3,547,535)</u>	<u>(27,372)</u>	<u>(4,757,859)</u>
Net amount.....	<u>\$ 5,182,141</u>	<u>6,331,000</u>	<u>397,886</u>	<u>11,911,027</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.

Business-Type Activities

The City's business-type activities (Water and Sewer Utility Fund) long-term debt consists of the following as of September 30, 2005:

Water and Sewer System Refunding Revenue Bond, Series 2002- 2.00% to 5.00%, due serially to 2022	\$ 12,515,000
Less: current maturities	<u>(530,000)</u>
Long-term revenue bonds payable.....	11,985,000
Plus: unamortized debt premium	3,596
Less: deferred amount on advance refunding	<u>(1,139,292)</u>
Net long-term bonded debt	<u>10,849,304</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement-3.11% construction loan for wastewater infiltration and inflow correction project, dated July 28, 1998, in the amount of \$2,647,500, due semi-annually beginning June 2001 through December 2020.....	\$ 2,010,318
Less: current maturities	<u>(98,682)</u>
Net long-term note payable.....	<u>1,911,636</u>
Total long-term bonded debt and note payable-net	12,760,940
Long-term portion of obligation for compensated absences payable by the City's Water and Sewer Fund (net of \$18,945 in amounts currently payable).....	<u>145,891</u>
Total business-type activities long-term debt	<u>\$ 12,906,831</u>

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

	Balances 09/30/04	Additions	Deletions	Balances 09/30/05
Water and Sewer System Refunding				
Revenue Bond, Series 2002	\$ 13,030,000	-	515,000	12,515,000
Note Payable - Florida Department of Environmental Protection-Clean Water				
State Revolving Fund Loan	2,106,001	-	95,683	2,010,318
Obligation for compensated absences	<u>136,367</u>	<u>81,774</u>	<u>72,250</u>	<u>145,891</u>
Totals	<u>\$ 15,272,368</u>	<u>81,774</u>	<u>682,933</u>	<u>14,671,209</u>

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

Fiscal Year	Bond	Note	Total
September 30, 2006	\$ 1,074,606	160,442	1,235,048
September 30, 2007	1,078,706	160,442	1,239,148
September 30, 2008	1,076,656	160,442	1,237,098
September 30, 2009	1,076,882	160,442	1,237,324
September 30, 2010	1,075,821	160,442	1,236,263
September 30, 2011-2015	5,387,421	802,209	6,189,630
September 30, 2016-2020	5,376,382	802,209	6,178,591
September 30, 2021-2025	<u>2,156,500</u>	<u>160,442</u>	<u>2,316,942</u>
Total requirements	18,302,974	2,567,070	20,870,044
Less: interest	<u>(5,787,974)</u>	<u>(556,752)</u>	<u>(6,344,726)</u>
Net amount.....	<u>\$ 12,515,000</u>	<u>2,010,318</u>	<u>14,525,318</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

The City funded all required contributions to the plan for the fiscal years ended September 30, 2005, 2004, and 2003, which were \$86,625, \$90,677, and \$70,284, 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, 2005, 2004, and 2003 by retirement plan periods:

	<u>Regular Employees</u>	<u>DROP Employees</u>
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 June 30, 2005.....	7.39%	9.11%
From July 1, 2005 to September 30, 2005.....	7.83%	9.33%

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.

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, 2005, 2004, and 2003 were \$104,551, \$79,974, and \$45,362, respectively. Employee contributions to the Plan for the fiscal years ended September 30, 2005, 2004, and 2003 were \$91,589, \$81,431, and \$58,514, 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, 2005, accumulated plan forfeitures totaling \$38,697 were used to offset current year funding requirements. At September 30, 2005, cumulative plan forfeitures totaled \$5,473, all of which may be used to reduce the City's portion of its subsequent years' contribution requirements.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2005
 CITY OF HOLLY HILL, FLORIDA

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 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, 2004, the date of the most recent actuarial valuation:		
Retirees and beneficiaries currently receiving benefits.....	11	6
Vested terminated employees	0	1
Active employees:		
Fully vested... ..	8	0
Nonvested	<u>14</u>	<u>14</u>
Total participants	<u>33</u>	<u>21</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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.

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 2004.

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>	Actuarial Determined <u>Contribution</u>	Percentage of ADC <u>Contributed</u>	Net Pension <u>Obligation</u>
09/30/2004.....	\$ 125,473	100.0%	\$ 0
09/30/2003.....	14,537	100.0%	0
09/30/2002.....	25,404	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>	Actuarial Determined <u>Contribution</u>	Percentage of ADC <u>Contributed</u>	Net Pension <u>Obligation</u>
09/30/2004.....	\$ 89,132	109%	\$ (60,289)
09/30/2003.....	74,407	100%	(54,885)
09/30/2002.....	69,527	100%	(55,776)

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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-

The development of the Net Pension Obligation (NPO) in the Fire Plan through October 1, 2004 is as follows:

	<u>09/30/02</u>	<u>09/30/03</u>	<u>09/30/04</u>
Actuarially determined contribution.	\$ 69,527	74,407	89,132
Interest on NPO.....	(4,251)	(4,183)	(4,116)
Adjustment	<u>5,157</u>	<u>5,074</u>	<u>6,508</u>
Annual Pension Cost	70,433	75,298	91,524
Contributions made	<u>69,527</u>	<u>74,407</u>	<u>96,928</u>
Increase in NPO.....	906	891	(5,404)
NPO - beginning of year	<u>(56,682)</u>	<u>(55,776)</u>	<u>(54,885)</u>
NPO - end of year.....	<u>\$ (55,776)</u>	<u>(54,885)</u>	<u>(60,289)</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 09/30/04:		
City (employer)	5.4%	15.6%
City for Members	8.0%	0.0%
Plan Members.....	11.2%	10.0%
Annual pension cost	\$125,473	\$91,524
Contributions made	\$151,516	\$96,928
Actuarial valuation dates	10/01/02	10/01/02
Actuarial cost method.....	Entry Age Normal	Aggregate
Amortization method.....	Level Percent of Pay, Closed	N/A
Remaining amortization period	30 Years (as of 10/1/02)	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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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

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, 2005, the City's covered payroll was \$92,386 and contributions were \$17,067.

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, 2005 totaled \$58,202.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

Schedule 1

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
Revenue:				
Taxes:				
General property taxes:				
Current ad valorem taxes	\$ 1,533,300	1,563,400	1,563,389	(11)
Delinquent ad valorem taxes	20,000	8,000	17,045	9,045
Local option gas tax	155,000	168,000	172,482	4,482
2nd Local option gas tax	120,000	122,000	124,338	2,338
Franchise taxes	671,200	671,200	737,798	66,598
Utility service taxes	<u>1,368,500</u>	<u>1,373,000</u>	<u>1,366,428</u>	<u>(6,572)</u>
Total taxes	<u>3,868,000</u>	<u>3,905,600</u>	<u>3,981,480</u>	<u>75,880</u>
Licenses and permits:				
Business	175,000	175,000	174,461	(539)
Nonbusiness	<u>93,500</u>	<u>187,900</u>	<u>110,528</u>	<u>(77,372)</u>
Total licenses and permits	<u>268,500</u>	<u>362,900</u>	<u>284,989</u>	<u>(77,911)</u>
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice	15,000	15,000	15,000	-
Department of Homeland Security.....	-	14,600	225,569	210,969
Department of Environmental Protection.....	-	75,000	-	(75,000)
State Shared Revenues:				
State revenue sharing proceeds	339,700	390,000	438,989	48,989
Mobile home licenses	17,000	17,000	17,095	95
Alcoholic beverage licenses	7,000	7,000	7,631	631
Local government half-cent sales tax	662,300	662,300	700,190	37,890
Motor fuel tax rebate	300	300	415	115
Firefighters' supplemental revenue	1,000	1,000	813	(187)
Other Shared Revenues:				
Other local grants.....	-	7,000	3,690	(3,310)
County shared revenues	<u>13,000</u>	<u>14,800</u>	<u>18,298</u>	<u>3,498</u>
Total intergovernmental revenue	<u>1,055,300</u>	<u>1,204,000</u>	<u>1,427,690</u>	<u>223,690</u>
Charges for services:				
General government	9,400	10,400	11,642	1,242
Public safety	5,500	5,500	3,535	(1,965)
Transportation	51,400	58,000	54,779	(3,221)
Culture/recreation	<u>82,000</u>	<u>82,000</u>	<u>79,037</u>	<u>(2,963)</u>
Total charges for services	<u>148,300</u>	<u>155,900</u>	<u>148,993</u>	<u>(6,907)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)

Schedule 1

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
Fines and forfeitures:				
Court cases	\$ 63,500	39,000	34,912	(4,088)
Local ordinance violations	2,500	1,300	1,100	(200)
Total fines and forfeitures	66,000	40,300	36,012	(4,288)
Miscellaneous Revenues:				
Interest earnings	50,000	53,000	62,277	9,277
Sale of fixed assets	20,500	49,000	35,593	(13,407)
Contributions and donations	4,500	12,000	13,714	1,714
Miscellaneous revenues	42,000	36,500	51,979	15,479
Total miscellaneous revenue	117,000	150,500	163,563	13,063
Total revenue	5,523,100	5,819,200	6,042,727	223,527
Expenditures:				
General Government:				
Legislative:				
Personal services	38,700	40,000	38,582	1,418
Operating expenditures	57,100	57,200	55,038	2,162
	95,800	97,200	93,620	3,580
Executive:				
Personal services	390,800	396,900	381,701	15,199
Operating expenditures	52,000	45,900	38,236	7,664
	442,800	442,800	419,937	22,863
Financial and Administrative:				
Personal services	500,500	498,100	470,871	27,229
Operating expenditures	335,700	350,800	274,123	76,677
	836,200	848,900	744,994	103,906
Other General Government:				
Personal services	28,500	27,500	26,047	1,453
Operating expenditures	67,500	61,100	157,093	(95,993)
Capital outlay	34,300	20,300	19,875	425
Grants and aids	149,100	140,100	24,909	115,191
	279,400	249,000	227,924	21,076
Total general government	1,654,200	1,637,900	1,486,475	151,425
Public Safety:				
Law Enforcement:				
Personal services	1,656,400	1,653,200	1,586,687	66,513
Operating expenditures	291,100	318,700	310,875	7,825
Capital outlay	50,900	54,300	54,276	24
	1,998,400	2,026,200	1,951,838	74,362

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)

Schedule 1

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
Fire Protection:				
Personal services	\$ 1,063,900	1,085,500	1,066,395	19,105
Operating expenditures	155,000	139,600	126,844	12,756
Capital outlay	<u>18,300</u>	<u>14,800</u>	<u>14,773</u>	<u>27</u>
	<u>1,237,200</u>	<u>1,239,900</u>	<u>1,208,012</u>	<u>31,888</u>
Building Inspection:				
Personal services	242,100	229,800	223,818	5,982
Operating expenditures	117,400	103,200	94,459	8,741
Capital outlay	<u>3,200</u>	<u>2,800</u>	<u>2,774</u>	<u>26</u>
	<u>362,700</u>	<u>335,800</u>	<u>321,051</u>	<u>14,749</u>
Total public safety	<u>3,598,300</u>	<u>3,601,900</u>	<u>3,480,901</u>	<u>120,999</u>
Transportation:				
Road and Street Facilities:				
Personal services	387,100	341,100	353,034	(11,934)
Operating expenditures	342,000	382,500	281,654	100,846
Capital outlay	<u>201,900</u>	<u>201,900</u>	<u>76,562</u>	<u>125,338</u>
Total transportation	<u>931,000</u>	<u>925,500</u>	<u>711,250</u>	<u>214,250</u>
Culture/Recreation:				
Parks:				
Personal services	409,600	405,800	388,485	17,315
Operating expenditures	201,300	319,400	293,789	25,611
Capital outlay	<u>160,400</u>	<u>107,400</u>	<u>53,143</u>	<u>54,257</u>
	<u>771,300</u>	<u>832,600</u>	<u>735,417</u>	<u>97,183</u>
Recreation:				
Personal services	277,600	255,300	245,529	9,771
Operating expenditures	172,900	142,200	117,696	24,504
Capital outlay	<u>10,400</u>	<u>10,400</u>	<u>7,688</u>	<u>2,712</u>
	<u>460,900</u>	<u>407,900</u>	<u>370,913</u>	<u>36,987</u>
Total culture/recreation	<u>1,232,200</u>	<u>1,240,500</u>	<u>1,106,330</u>	<u>134,170</u>
Debt Service:				
Principal retirement:				
General government	134,500	133,500	117,550	15,950
Public safety.....	<u>44,400</u>	<u>44,400</u>	<u>32,409</u>	<u>11,991</u>
	<u>178,900</u>	<u>177,900</u>	<u>149,959</u>	<u>27,941</u>
Interest and fiscal charges:				
General government	22,900	23,900	23,832	68
Public safety.....	<u>3,000</u>	<u>3,000</u>	<u>1,119</u>	<u>1,881</u>
	<u>25,900</u>	<u>26,900</u>	<u>24,951</u>	<u>1,949</u>
Total debt service	<u>204,800</u>	<u>204,800</u>	<u>174,910</u>	<u>29,890</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)

Schedule 1

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
Total expenditures	<u>\$ 7,620,500</u>	<u>7,610,600</u>	<u>6,959,866</u>	<u>650,734</u>
Excess of revenue over (under) expenditures	<u>(2,097,400)</u>	<u>(1,791,400)</u>	<u>(917,139)</u>	<u>874,261</u>
Other Financing Sources (Uses):				
Operating transfers in.....	1,045,000	753,800	767,167	13,367
Operating transfers (out).....	-	(207,000)	(206,968)	32
Appropriated fund balance.....	<u>1,052,400</u>	<u>1,244,600</u>	<u>-</u>	<u>(1,244,600)</u>
Total financing sources (uses)	<u>2,097,400</u>	<u>1,791,400</u>	<u>560,199</u>	<u>(1,231,201)</u>
Net change in fund balance.....	-	-	(356,940)	(356,940)
Fund balance, beginning of year	<u>2,080,493</u>	<u>2,080,493</u>	<u>2,080,493</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,080,493</u>	<u>2,080,493</u>	<u>1,723,553</u>	<u>(356,940)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Schedule 2

	Original	Final	Actual Amounts	Variance
Revenue:				
Taxes:				
General property taxes:				
Current ad valorem taxes	\$ 198,700	202,000	202,130	130
Intergovernmental Revenue:				
Shared revenues from other				
local units.....	430,300	462,100	462,124	24
Miscellaneous Revenue:				
Miscellaneous.....	-	10,000	400	(9,600)
Interest earnings	3,000	6,000	19,486	13,486
Total revenue.....	632,000	680,100	684,140	4,040
Expenditures:				
Economic Environment:				
Personal services	184,000	185,000	176,050	8,950
Operating expenditures	455,700	299,000	57,534	241,466
Capital outlay	-	-	98,693	(98,693)
Total economic environment	639,700	484,000	332,277	151,723
Excess of revenue over (under) expenditures	(7,700)	196,100	351,863	155,763
Other Financing Sources (Uses):				
Operating transfer (out).....	-	(196,100)	(196,013)	87
Appropriated fund balance.....	7,700	-	-	-
Total other financing sources (uses).....	7,700	(196,100)	(196,013)	87
Net change in fund balance.....	-	-	155,850	155,850
Fund balance, beginning of year	360,624	360,624	360,624	-
Fund balance, end of year	\$ 360,624	360,624	516,474	155,850

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
STORMWATER DRAINAGE FUND

Schedule 3

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
Charges for Services:				
Physical Environment:				
Stormwater management fees	\$ 671,300	676,000	674,491	(1,509)
Miscellaneous Revenue:				
Interest earnings	<u>12,000</u>	<u>7,000</u>	<u>25,053</u>	<u>18,053</u>
Total revenue.....	<u>683,300</u>	<u>683,000</u>	<u>699,544</u>	<u>16,544</u>
Expenditures:				
Physical Environment:				
Personal services	167,900	199,800	158,841	40,959
Operating expenditures	142,600	114,900	100,713	14,187
Capital outlay	<u>122,000</u>	<u>332,400</u>	<u>42,031</u>	<u>290,369</u>
Total transportation	<u>432,500</u>	<u>647,100</u>	<u>301,585</u>	<u>345,515</u>
Excess of revenue over (under) expenditures.....	<u>250,800</u>	<u>35,900</u>	<u>397,959</u>	<u>362,059</u>
Other Financing Sources (Uses):				
Proceeds of long-term debt.....	-	252,700	252,694	(6)
Operating transfers in.....	140,800	-	-	-
Operating transfers (out).....	<u>(391,600)</u>	<u>(330,600)</u>	<u>(267,342)</u>	<u>63,258</u>
Total other financing sources.....	<u>(250,800)</u>	<u>(77,900)</u>	<u>(14,648)</u>	<u>63,252</u>
Net change in fund balance.....	-	(42,000)	383,311	425,311
Fund balance, beginning of year	<u>794,482</u>	<u>794,482</u>	<u>794,482</u>	-
Fund balance, end of year	<u>\$ 794,482</u>	<u>752,482</u>	<u>1,177,793</u>	<u>425,311</u>

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT**

Schedule 4

AGENCY CAPITAL PROJECTS FUND

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Interest earnings.....	\$ -	-	88,033	88,033
Total revenue.....	-	-	88,033	88,033
Expenditures:				
Current:				
Economic Environment:				
Capital outlay.....	-	192,000	86,783	105,217
Total expenditures.....	-	192,000	86,783	105,217
Excess of revenue over (under) expenditures	-	(192,000)	1,250	193,250
Other Financing Sources (Uses):				
Proceeds from long-term debt.....	-	6,331,000	6,331,000	-
Bond issue costs.....	-	(8,000)	(9,500)	(1,500)
Reserve for contingency.....	-	(6,131,000)	-	6,131,000
Total other financing sources.....	-	192,000	6,321,500	6,129,500
Net change in fund balance.....	-	-	6,322,750	6,322,750
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	-	6,322,750	6,322,750

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Schedule 5

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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						
10/01/2004	\$ 2,154,101	\$ 2,954,838	\$ 800,737	72.90%	\$ 590,000	135.72%
10/02/2003	\$ 2,120,170	\$ 2,120,170	\$ -	100.00%	\$ 466,503	0.00%
10/02/2002	\$ 2,100,744	\$ 2,100,744	\$ -	100.00%	\$ 467,323	0.00%
10/02/2001	\$ 2,089,520	\$ 2,089,520	\$ -	100.00%	\$ 402,803	0.00%
10/01/2000	\$ 2,044,098	\$ 2,044,098	\$ -	100.00%	\$ 339,489	0.00%
10/01/1999	\$ 1,964,236	\$ 1,964,236	\$ -	100.00%	\$ 381,325	0.00%
Municipal Police Officers' Retirement Trust Fund						
10/01/2004	\$ 5,164,093	\$ 6,175,838	\$ 1,011,745	83.62%	\$ 938,089	107.85%
10/02/2003	\$ 5,267,378	\$ 5,805,326	\$ 537,948	90.73%	\$ 894,861	60.12%
10/02/2002	\$ 4,997,881	\$ 5,922,253	\$ 924,372	84.39%	\$ 918,337	100.66%
10/02/2001	\$ 4,610,473	\$ 4,610,473	\$ -	100.00%	\$ 871,152	0.00%
10/01/2000	\$ 5,500,526	\$ 6,064,771	\$ 564,245	90.70%	\$ 744,912	75.75%
10/01/1999	\$ 4,911,757	\$ 5,060,316	\$ 148,559	97.06%	\$ 870,214	17.07%

Source: Foster & Foster, Inc., Actuaries
Valuations dated 10/01/2004

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS OF EMPLOYER AND OTHER
CONTRIBUTING ENTITIES
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Schedule 6

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contributions</u>	<u>State Contributions</u>	<u>Total Contributions</u>	<u>Percentage Contributed</u>
Municipal Firefighters' Pension Trust Fund					
09/30/2004	\$ 125,005	\$ 96,928	\$ 35,873 *	\$ 132,801	106.24%
09/30/2003	\$ 102,484	\$ 74,407	\$ 28,077 *	\$ 102,484	100.00%
09/30/2002	\$ 97,604	\$ 69,527	\$ 28,077 *	\$ 97,604	100.00%
09/30/2001	\$ 70,960	\$ 60,875	\$ 28,077 *	\$ 88,952	125.36%
09/30/2000	\$ 70,054	\$ 41,977	\$ 28,077 *	\$ 70,054	100.00%
09/30/1999	\$ 83,017	\$ 55,985	\$ 28,077 *	\$ 84,062	101.26%

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

Municipal Police Officers' Retirement Trust Fund					
09/30/2004	\$ 197,098	\$ 151,516	\$ 71,625	\$ 223,141	113.21%
09/30/2003	\$ 75,278	\$ 14,537	\$ 60,741	\$ 75,278	100.00%
09/30/2002	\$ 71,017	\$ 25,404	\$ 51,038	\$ 76,442	100.00%
09/30/2001	\$ 5,651	\$ -	\$ 45,613	\$ 45,613	100.00%
09/30/2000	\$ 26,549	\$ -	\$ 45,177	\$ 45,177	100.00%
09/30/1999	\$ 12,003	\$ -	\$ 48,760	\$ 48,760	100.00%

Source: Foster & Foster, Inc., Actuaries
Valuations dated 10/01/2004

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***COMBINING AND INDIVIDUAL FUND INFORMATION
AND
OTHER SUPPLEMENTARY INFORMATION***

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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.

Holly Hill Police Explorers Fund - to account for the revenues and expenditures of the police explorers youth activities.

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

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

Local Law Enforcement Block Grant Fund - 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.

Community Redevelopment Agency Debt Service Fund - to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs on the Community Redevelopment Agency's Revenue Development Bond, Series 2005.

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.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Nonmajor Special Revenue Funds

	Law Enforcement Trust	Holly Hill Police Explorers	Recreation Activity	Community Development Block Grant	Local Law Enforcement Block Grant
Assets:					
Cash and cash equivalents	\$ 38,324	2,077	24,965	-	-
Due from other funds.....	-	-	-	-	-
Due from other governments	-	-	-	47,044	-
Total assets	<u>38,324</u>	<u>2,077</u>	<u>24,965</u>	<u>47,044</u>	<u>-</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	-	-	-	-	-
Due to other funds.....	240	-	-	47,044	-
Total liabilities	<u>240</u>	<u>-</u>	<u>-</u>	<u>47,044</u>	<u>-</u>
Fund Balances:					
Reserved for:					
Encumbrances	-	-	-	-	2,634
Law enforcement	38,084	-	-	-	-
Debt service	-	-	-	-	-
Unreserved	-	2,077	24,965	-	(2,634)
Total fund balances	<u>38,084</u>	<u>2,077</u>	<u>24,965</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 38,324</u>	<u>2,077</u>	<u>24,965</u>	<u>47,044</u>	<u>-</u>

Exhibit 1

Total Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds			Nonmajor Capital Projects Fund	Total
	Debt Service Fund	CRA Debt Service Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	All Nonmajor Governmental Funds
65,366	208,211	196,870	405,081	189,895	660,342
-	-	-	-	-	-
<u>47,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,044</u>
<u>112,410</u>	<u>208,211</u>	<u>196,870</u>	<u>405,081</u>	<u>189,895</u>	<u>707,386</u>
-	-	-	-	39,388	39,388
<u>47,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,284</u>
<u>47,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,388</u>	<u>86,672</u>
2,634	-	-	-	76,146	78,780
38,084	-	-	-	-	38,084
-	208,211	196,870	405,081	-	405,081
<u>24,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,361</u>	<u>98,769</u>
<u>65,126</u>	<u>208,211</u>	<u>196,870</u>	<u>405,081</u>	<u>150,507</u>	<u>620,714</u>
<u>112,410</u>	<u>208,211</u>	<u>196,870</u>	<u>405,081</u>	<u>189,895</u>	<u>707,386</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Nonmajor Special Revenue Funds				
	Law Enforcement Trust	Holly Hill Police Explorers	Recreation Activity	Community Development Block Grant	Local Law Enforcement Block Grant
Revenue:					
Charges for services.....	\$ -	1,668	2,010	-	-
Intergovernmental	-	-	-	104,800	10,000
Fines and forfeitures	31,681	-	-	-	-
Miscellaneous	<u>175</u>	<u>5,213</u>	<u>7,190</u>	<u>-</u>	<u>54</u>
Total revenue	<u>31,856</u>	<u>6,881</u>	<u>9,200</u>	<u>104,800</u>	<u>10,054</u>
Expenditures:					
Current:					
Public safety	5,949	6,062	-	-	11,996
Culture/recreation.....	-	-	7,407	-	-
Capital Outlay:					
Public safety	17,016	-	-	-	-
Culture/recreation.....	-	-	-	91,655	-
Economic environment.....	-	-	-	-	-
Physical environment.....	-	-	-	-	-
Debt Service:					
Principal retirements.....	-	-	-	-	-
Interest payments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>22,965</u>	<u>6,062</u>	<u>7,407</u>	<u>91,655</u>	<u>11,996</u>
Excess of revenue over (under) expenditures	8,891	819	1,793	13,145	(1,942)
Other Financing Sources (Uses):					
Debt proceeds.....	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-
Operating transfers in	3,767	1,258	-	-	1,942
Operating transfers (out).....	<u>(1,022)</u>	<u>-</u>	<u>-</u>	<u>(13,145)</u>	<u>-</u>
Total other financing sources (uses).....	<u>2,745</u>	<u>1,258</u>	<u>-</u>	<u>(13,145)</u>	<u>1,942</u>
Net changes in fund balances.....	11,636	2,077	1,793	-	-
Fund balances:					
Beginning of year	<u>26,448</u>	<u>-</u>	<u>23,172</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 38,084</u>	<u>2,077</u>	<u>24,965</u>	<u>-</u>	<u>-</u>

Exhibit 2

Total Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds			Nonmajor Capital Projects Fund	Total
	Debt Service Fund	CRA Debt Service Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	All Nonmajor Governmental Funds
3,678	-	-	-	-	3,678
114,800	-	-	-	6,340	121,140
31,681	-	-	-	-	31,681
<u>12,632</u>	<u>6,247</u>	<u>857</u>	<u>7,104</u>	<u>3,156</u>	<u>22,892</u>
<u>162,791</u>	<u>6,247</u>	<u>857</u>	<u>7,104</u>	<u>9,496</u>	<u>179,391</u>
24,007	-	-	-	-	24,007
7,407	-	-	-	46,500	53,907
17,016	-	-	-	-	17,016
91,655	-	-	-	116,906	208,561
-	-	-	-	-	-
-	-	-	-	149,277	149,277
-	252,797	-	252,797	-	252,797
<u>-</u>	<u>119,810</u>	<u>-</u>	<u>119,810</u>	<u>-</u>	<u>119,810</u>
<u>140,085</u>	<u>372,607</u>	<u>-</u>	<u>372,607</u>	<u>312,683</u>	<u>825,375</u>
22,706	(366,360)	857	(365,503)	(303,187)	(645,984)
-	-	-	-	-	-
-	-	-	-	-	-
6,967	309,342	196,013	505,355	200,000	712,322
<u>(14,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,167)</u>
<u>(7,200)</u>	<u>309,342</u>	<u>196,013</u>	<u>505,355</u>	<u>200,000</u>	<u>698,155</u>
15,506	(57,018)	196,870	139,852	(103,187)	52,171
<u>49,620</u>	<u>265,229</u>	<u>-</u>	<u>265,229</u>	<u>253,694</u>	<u>568,543</u>
<u>65,126</u>	<u>208,211</u>	<u>196,870</u>	<u>405,081</u>	<u>150,507</u>	<u>620,714</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LAW ENFORCEMENT TRUST FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 3

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Fines and Forfeitures:				
Confiscated property	\$ -	30,000	31,681	1,681
Miscellaneous:				
Interest earnings.....	-	100	175	75
Total revenue	-	30,100	31,856	1,756
Expenditures:				
Current:				
Public Safety:				
Operating expenditures.....	-	13,000	5,949	7,051
Capital outlay.....	-	17,100	17,016	84
Total expenditures.....	-	30,100	22,965	7,135
Excess of revenue over (under) expenditures	-	-	8,891	8,891
Other Financing Sources (Uses):				
Operating transfers in.....	-	-	3,767	3,767
Operating transfers (out).....	-	-	(1,022)	(1,022)
Total other financing sources (uses)...	-	-	2,745	2,745
Net change in fund balance.....	-	-	11,636	11,636
Fund balances, beginning of year	26,448	26,448	26,448	-
Fund balances, end of year	<u>\$ 26,448</u>	<u>26,448</u>	<u>38,084</u>	<u>11,636</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR HOLLY HILL POLICE EXPLORERS FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 4

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Charges for services:				
Program activity fees	\$ -	1,700	1,668	(32)
Miscellaneous:				
Contributions.....	-	1,400	1,910	510
Miscellaneous revenues.....	-	<u>3,500</u>	<u>3,303</u>	<u>(197)</u>
Total revenue	-	6,600	6,881	281
Expenditures:				
Current:				
Culture/recreation:				
Operating expenditures.....	-	<u>7,900</u>	<u>6,062</u>	<u>1,838</u>
Excess of revenue over (under) expenditures	-	(1,300)	819	2,119
Other Financing Sources (Uses):				
Operating transfers in.....	-	<u>1,300</u>	<u>1,258</u>	<u>(42)</u>
Net change in fund balance.....	-	-	2,077	2,077
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>2,077</u>	<u>2,077</u>

**BUDGETARY COMPARISON SCHEDULE
NONMAJOR RECREATION ACTIVITY FUND**

Exhibit 5

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Charges for services:				
Special events.....	\$ -	-	2,010	2,010
Miscellaneous:				
Miscellaneous revenues.....	4,800	6,900	7,190	290
Contributions.....	-	<u>1,200</u>	-	<u>(1,200)</u>
Total revenue	4,800	8,100	9,200	1,100
Expenditures:				
Current:				
Culture/recreation:				
Operating expenditures.....	<u>4,800</u>	<u>8,100</u>	<u>7,407</u>	<u>693</u>
Net change in fund balance.....	-	-	1,793	1,793
Fund balances, beginning of year	<u>23,172</u>	<u>23,172</u>	<u>23,172</u>	-
Fund balances, end of year	<u>\$ 23,172</u>	<u>23,172</u>	<u>24,965</u>	<u>1,793</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 6

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Housing and Urban Development.....	\$ 101,800	105,900	104,800	(1,100)
Expenditures:				
Current:				
Culture/recreation:				
Capital outlay.....	<u>101,800</u>	<u>91,900</u>	<u>91,655</u>	<u>245</u>
Excess of revenue over (under) expenditures	-	14,000	13,145	(855)
Other Financing Sources (Uses):				
Operating transfers in.....	<u>-</u>	<u>(14,000)</u>	<u>(13,145)</u>	<u>855</u>
Net change in fund balance.....	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LOCAL LAW ENFORCEMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 7

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice.....	\$ -	10,000	10,000	-
Miscellaneous:				
Interest earnings.....	-	-	54	54
Total revenue	-	10,000	10,054	54
Expenditures:				
Current:				
Public Safety:				
Capital outlay.....	-	12,000	11,996	4
Total expenditures.....	-	12,000	11,996	4
Excess of revenue over (under) expenditures	-	(2,000)	(1,942)	58
Other Financing Sources (Uses):				
Operating transfers in.....	-	2,000	1,942	(58)
Net change in fund balance.....	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	-	-	-

BUDGETARY COMPARISON SCHEDULE
NONMAJOR DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 8

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Interest earnings.....	\$ -	-	6,247	6,247
Expenditures:				
Debt Service:				
Principal retirement.....	42,000	252,800	252,797	3
Interest payments.....	349,600	119,800	119,810	(10)
Total expenditures.....	391,600	372,600	372,607	(7)
Excess of revenue over (under) expenditures	(391,600)	(372,600)	(366,360)	6,240
Other Financing Sources (Uses):				
Operating transfers in.....	391,600	372,600	309,342	(63,258)
Net change in fund balance.....	-	-	(57,018)	(57,018)
Fund balances, beginning of year	265,229	265,229	265,229	-
Fund balances, end of year	\$ 265,229	265,229	208,211	(57,018)

**BUDGETARY COMPARISON SCHEDULE
NONMAJOR COMMUNITY REDEVELOPMENT
AGENCY DEBT SERVICE FUND**

Exhibit 9

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Interest earnings.....	\$ -	-	857	857
Expenditures	-	-	-	-
Excess of revenue over (under) expenditures	-	-	857	857
Other Financing Sources (Uses):				
Operating transfers in.....	-	196,100	196,013	(87)
Net change in fund balance.....	-	196,100	196,870	770
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	196,100	196,870	770

BUDGETARY COMPARISON SCHEDULE
NONMAJOR CAPITAL PROJECTS FUND
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 10

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Intergovernmental:				
State grant:				
Florida Department of Environmental Protection.....	\$ 693,300	600,000	6,340	(593,660)
Local grant:				
County of Volusia.....	145,000	118,700	-	(118,700)
Miscellaneous:				
Interest earnings.....	-	3,000	3,156	156
Total revenue.....	<u>838,300</u>	<u>721,700</u>	<u>9,496</u>	<u>(712,204)</u>
Expenditures:				
Current:				
Transportation:				
Capital outlay.....	630,000	764,200	149,277	614,923
Culture/recreation:				
Operating expenditures.....	-	-	46,500	(46,500)
Capital outlay.....	<u>556,800</u>	<u>384,400</u>	<u>116,906</u>	<u>267,494</u>
Total expenditures.....	<u>1,186,800</u>	<u>1,148,600</u>	<u>312,683</u>	<u>835,917</u>
Excess of revenue over (under) expenditures	<u>(348,500)</u>	<u>(426,900)</u>	<u>(303,187)</u>	<u>123,713</u>
Other Financing Sources (Uses):				
Operating transfers in	-	200,000	200,000	-
Appropriated fund balance.....	<u>348,500</u>	<u>226,900</u>	<u>-</u>	<u>(226,900)</u>
Total other financing sources.....	<u>348,500</u>	<u>426,900</u>	<u>200,000</u>	<u>(226,900)</u>
Net change in fund balance.....	-	-	(103,187)	(103,187)
Fund balances, beginning of year	<u>253,694</u>	<u>253,694</u>	<u>253,694</u>	<u>-</u>
Fund balances, end of year	<u>\$ 253,694</u>	<u>253,694</u>	<u>150,507</u>	<u>(103,187)</u>

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OTHER SUPPLEMENTARY INFORMATION

Financial schedules are presented to provide greater detailed information than reported in the preceding financial statements. This information, in many cases, has been spread throughout the report and is brought together here for greater clarity. Financial schedules are not necessary for fair presentation in conformity with generally accepted accounting principles.

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

Exhibit 11

September 30, 2005 and 2004
CITY OF HOLLY HILL, FLORIDA

	2005	2004
Governmental Funds Capital Assets:		
Land	\$ 1,950,539	1,950,539
Buildings	4,479,859	4,257,028
Improvements other than buildings	2,285,741	2,065,279
Machinery and equipment	3,122,633	3,027,050
Infrastructure	8,090,762	7,731,473
Construction work in progress	<u>4,987,366</u>	<u>4,777,357</u>
 Total governmental funds capital assets	 <u>\$ 24,916,900</u>	 <u>23,808,726</u>
 Investments in Governmental Funds Capital Assets by Source:		
General Fund	\$ 12,628,110	11,729,945
Special Revenue Funds	7,866,774	7,809,644
Capital Projects Fund	<u>4,422,016</u>	<u>4,269,137</u>
 Total investments in governmental funds capital assets	 <u>\$ 24,916,900</u>	 <u>23,808,726</u>

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION
September 30, 2005
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	217,963	368,210
Physical Environment	555,167	50,136	41,789
Economic Environment	-	-	13,820
Culture/Recreation	<u>1,114,813</u>	<u>2,847,494</u>	<u>1,687,887</u>
Total governmental funds capital assets.....	<u>\$ 1,950,539</u>	<u>4,479,859</u>	<u>2,285,741</u>

Exhibit 12

Machinery and Equipment	Infrastructure	Construction Work in Progress	Total
588,388	-	-	1,863,643
1,383,604	-	-	1,913,673
451,938	4,438,605	135,679	5,625,931
329,734	3,486,569	4,789,332	9,252,727
-	-	-	13,820
<u>368,969</u>	<u>165,588</u>	<u>62,355</u>	<u>6,247,106</u>
<u>3,122,633</u>	<u>8,090,762</u>	<u>4,987,366</u>	<u>24,916,900</u>

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

Exhibit 13

Function	Governmental Funds Capital Assets 10/1/2004	Additions	Deletions	Governmental Funds Capital Assets 9/30/2005
General Government	\$ 1,843,768	19,875	-	1,863,643
Public Safety	1,838,599	100,836	25,762	1,913,673
Public Works	5,293,815	360,018	27,902	5,625,931
Physical Environment	8,896,139	356,588	-	9,252,727
Economic Environment	13,820	-	-	13,820
Culture/Recreation	<u>5,922,587</u>	<u>469,225</u>	<u>144,706</u>	<u>6,247,106</u>
Total.....	<u>\$ 23,808,728</u>	<u>1,306,542</u>	<u>198,370</u>	<u>24,916,900</u>

**COMBINING STATEMENTS OF PLAN NET ASSETS
FIDUCIARY FUNDS**

Exhibit 14

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Pension Trust Fund	Total- Fiduciary Funds
Assets:			
Cash and cash equivalents	\$ -	1,668	1,668
Investments:			
Money market funds	235,389	109,813	345,202
U.S. Treasuries.....	596,117	391,270	987,387
U.S. agencies	313,998	154,901	468,899
U.S. corporate debt obligations	891,734	417,205	1,308,939
U.S. corporate equities	2,725,689	1,233,192	3,958,881
International equities.....	347,204	-	347,204
Accrued interest receivable	29,351	8,946	38,297
Due from brokers	6,592	-	6,592
Due from City of Holly Hill, Florida	-	2,624	2,624
Due from State of Florida	-	<u>10,280</u>	<u>10,280</u>
 Total assets	 5,146,074	 2,329,899	 7,475,973
Liabilities:			
Accounts payable	<u>8,118</u>	<u>3,207</u>	<u>11,325</u>
Net Assets:			
Net assets reserved for employees' pension benefits	<u>\$ 5,137,956</u>	<u>2,326,692</u>	<u>7,464,648</u>

**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS**

Exhibit 15

For the Fiscal Year Ended September 30, 2005
CITY OF HOLLY HILL, FLORIDA

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Pension Trust Fund	Total- Fiduciary Funds
Additions:			
Contributions from:			
Employer	\$ 96,050	122,751	218,801
State	74,699	48,422	123,121
Plan members	<u>115,716</u>	<u>68,586</u>	<u>184,302</u>
Total contributions.....	<u>286,465</u>	<u>239,759</u>	<u>526,224</u>
Investment income:			
Net realized and unrealized appreciation (depreciation) in fair value of investments	317,496	112,328	429,824
Interest and dividend earnings	<u>137,377</u>	<u>84,636</u>	<u>222,013</u>
	454,873	196,964	651,837
Less: investment management fees	<u>(57,428)</u>	<u>(22,437)</u>	<u>(79,865)</u>
Total investment income	<u>397,445</u>	<u>174,527</u>	<u>571,972</u>
Total additions	<u>683,910</u>	<u>414,286</u>	<u>1,098,196</u>
Deductions:			
Benefit payments and refunds	339,403	153,409	492,812
Administrative expenses	<u>20,516</u>	<u>33,734</u>	<u>54,250</u>
Total deductions.....	<u>359,919</u>	<u>187,143</u>	<u>547,062</u>
Net increase	323,991	227,143	551,134
Net assets held in trust for pension benefits:			
Beginning of year	<u>4,813,965</u>	<u>2,099,549</u>	<u>6,913,514</u>
End of year	<u>\$ 5,137,956</u>	<u>2,326,692</u>	<u>7,464,648</u>

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.

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**GENERAL FUND REVENUES - BY SOURCE
LAST TEN FISCAL YEARS**

Table 1

September 30, 2005
CITY OF HOLLY HILL, FLORIDA
(Amounts in \$)

Fiscal Year	Total	Taxes	Licenses and Permits	Intergovernmental	Charges for Services (1)	Fines and Forfeits	Miscellaneous
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
2005	6,042,727	3,981,480	284,989	1,427,690	148,993	36,012	163,563

(1) Includes sanitation revenues through 1997.

**GENERAL FUND EXPENDITURES - BY FUNCTION
LAST TEN FISCAL YEARS**

Table 2

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

(Amounts in \$)

Fiscal Year	Total	General Government	Public Safety	Transportation	Culture/ Recreation	Capital Outlay	Debt Service
1996	4,890,722	1,134,574	2,352,963	517,567	885,618	-	-
1997	4,758,054	1,187,115	2,350,099	642,129	578,711	-	-
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
2005	6,959,866	1,466,599	3,409,079	634,688	1,045,499	229,091	174,910

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY:
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST TEN FISCAL YEARS**

Table 3

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

(\$ in thousands)

Fiscal Year	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
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	565,120	576,653	98%	1,655	1,592	96.2%	43	2.6%
2005	642,563	649,054	99%	1,841	1,766	95.9%	48	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.

**PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Table 4

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

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
<u>TAX RATES (2)</u>									
<i>(per \$1,000 of assessed value)</i>									
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	6.60400	0.23800	0.09000	3.00000	0.46200	0.03850	0.00000
2005	4.08002	8.25900	6.29400	0.23800	0.09000	3.00000	0.46200	0.03850	0.00000
<u>TAX LEVIES (1)</u>									
<i>(\$ in thousands)</i>									
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
2005	\$ 1,836	3,716	2,832	107	40	1,350	208	17	0

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

(2) Obtained from Volusia County Property Appraiser's Office.

**DEBT SERVICE REQUIREMENTS TO MATURITY
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2002**

Table 5

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

Payment Date	Principal	Coupon Rate	Interest	Total
10/01/2004	\$ 505,000	2.000%	\$ 283,791	\$ 788,791
4/1/2005			278,741	278,741
10/1/2005	515,000	2.500%	278,741	793,741
4/1/2006			272,303	272,303
10/1/2006	530,000	3.000%	272,303	802,303
4/1/2007			264,353	264,353
10/1/2007	550,000	3.100%	264,353	814,353
4/1/2008			255,828	255,828
10/1/2008	565,000	3.500%	255,828	820,828
4/1/2009			245,941	245,941
10/1/2009	585,000	3.600%	245,941	830,941
4/1/2010			235,411	235,411
10/1/2010	605,000	3.800%	235,411	840,411
4/1/2011			223,916	223,916
10/1/2011	625,000	3.875%	223,916	848,916
4/1/2012			211,806	211,806
10/1/2012	655,000	4.000%	211,806	866,806
4/1/2013			198,706	198,706
10/1/2013	680,000	4.100%	198,706	878,706
4/1/2014			184,766	184,766
10/1/2014	710,000	5.000%	184,766	894,766
4/1/2015			167,016	167,016
10/1/2015	745,000	5.000%	167,016	912,016
4/1/2016			148,391	148,391
10/1/2016	780,000	4.400%	148,391	928,391
4/1/2017			131,231	131,231
10/1/2017	810,000	4.375%	131,231	941,231
4/1/2018			113,006	113,006
10/1/2018	850,000	4.625%	113,006	963,006
4/1/2019			93,350	93,350
10/1/2019	890,000	4.750%	93,350	983,350
4/1/2020			72,213	72,213
10/1/2020	930,000	4.750%	72,213	1,002,213
4/1/2021			50,125	50,125
10/1/2021	980,000	5.000%	50,125	1,030,125
4/1/2022			25,625	25,625
10/1/2022	<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

Table 6

END OF FISCAL YEAR

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

(\$ in thousands)

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.....	\$19,423	1.81%	\$352

Source: Confirmed by individual taxing district

SCHEDULE OF INSURANCE IN FORCE

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

Table 7

Type of Coverage	Policy Period	Details of Coverage	Liability Limits	Annual Premium (Gross)
Name of Company and Policy Number	From - To			
Preferred Governmental Insurance Trust (PGIT)				
Policy #PK FL1 0642004 04-03				
General Liability EMT / Paramedic Law Enforcement	10/01/04 - 10/01/05	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	\$100,027
Public Officials Liability		Wrongful Acts/Professional Liab. Deductible \$25,000	\$1,000,000 each loss and in aggregate	
Auto Coverage	10/01/04 - 10/01/05	Automobile Liability \$1,000 deductible	\$1,000,000 Liability \$10,000 Personal Injury Protection \$5,000 Medical Payments Uninsured Motorists Rejected	\$60,690
Property, Boiler & Machinery	10/01/04 - 10/01/05	\$5,000 deductible \$5,000 deductible per occurrence for breakdowns \$20,000 deductible per occurrence for flood	\$24,463,867 blanket for building and contents - Includes mechanical breakdowns	\$97,051
Inland Marine Contractor's equipment	10/01/04 - 10/01/05	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	\$896,523 listed property \$200,000 listed property \$550,000 listed property	\$4,358
Crime/Employee Dishonesty	10/01/04 - 10/01/05	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	\$1,000
Hunt Insurance Group Policy # SRG9045349 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 #001000000005104 Workers' Compensation	10/01/04 - 10/01/05	Statutory	Statutory, employers' liability \$1,000,000	\$191,681
Commerce & Industry Petroleum Liability Insurance Policy #FPL7510482 Environmental Protection	06/25/05 - 06/25/06	Fuel Storage Tank \$10,000 deductible	\$1,000,000 Each Incident \$1,000,000 Each Aggregate	\$2,591
McKinley Financial Services PAL Program Accident & Liability Insurance	01/01/05 - 01/01/06	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	\$2,392

**REVENUE BOND COVERAGE
WATER AND SEWER SYSTEM FUND
LAST TEN FISCAL YEARS**

Table 8

September 30, 2005
CITY OF HOLLY HILL, FLORIDA
(\$ in thousands)

Fiscal Year	Gross Revenue (1)	Operating Expenses (4)	Net Revenues	Debt Service Requirements			Debt Service Coverage (Times)	
				Principal	Interest	Total		
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	-	578	578	(3)	4.27
2004	4,263	1,874	2,389	505	568	1,073	(3)	2.23
2005	4,537	2,148	2,389	515	557	1,072	(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, 2005
CITY OF HOLLY HILL, FLORIDA

Table 9

Fiscal Year		Population (1)	School Enrollment (2)		Unemployment Rate (3)
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)	2.9%
2001	(5)	12,180	1,992	(6)	4.0%
2002	(5)	12,503	1,689	(6)	5.0%
2003	(5)	12,504	1,681	(6)	5.1%
2004	(5)	12,612	1,574	(6)	5.0%
2005	(5)	12,620	1,330	(6)	3.6%

(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) Dept of Economic Development - Volusia County

**PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Table 10

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

(All amounts in thousands)

Fiscal Year	(1)				(2) Bank Deposits	(3)	
	Commercial Construction		Residential Construction			Real Property Taxable Values	
	Units	Value	Units	Value		Commercial	Residential
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	56	\$ 9,789	95	\$ 3,122	\$ 133,100	\$ 4,272,892	\$ 16,783,641
2005	52	\$ 2,178	131	\$ 6,379	\$ 146,144	\$ 4,972,235	\$ 20,509,334

(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**Table 11**

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

Title of City Official	Annual Salary	Years of Service	Amount of Surety Bond
Mayor	\$ 12,000	11 years, 9 months	\$100,000 blanket amount on all
City Commissioners (4)	\$ 8,000	3 years, 2 months to 16 years, 8 months	--
City Attorney (retainer)	\$ 7,500	29 years	--
City Manager	\$ 76,482	6 years, 2 months	--
City Clerk	\$ 44,881	11 months	--
Finance Director	\$ 67,225	14 years, 7 months	--
Human Resources Director	\$ 51,461	8 years, 5 months	--
Director of Emergency Services	\$ 73,459	4 years, 5 months	--
Public Services Director	\$ 73,459	10 years, 9 months	--
Building Official	\$ 57,489	25 years	--

SCHEDULE OF MAJOR TAXPAYERS

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

Table 12

(\$ in thousands)

Rank	Taxpayer Name	Type of Business	Assessed Values	Percent of Assessed Value
1	Holly Hill Associates, Ltd.	Condominium Development	\$ 13,337	2.07%
2	Holly Hill RHF Housing, Inc.	Bishops Glen Retirement Center	12,498	1.94%
3	Sun Communities, operating Holly Forest Mobile Home Park	Mobile Home Park	7,285	1.13%
4	Charleston Place Ltd., Partnership	Apartment Complex	7,230	1.12%
5	Florida Power & Light	Electric power utility	6,914	1.08%
6	HK New Plan Exec Prop	% Property Tax Dept 124	6,142	0.96%
7	Highlander Corporation	R.W. Contractors, Inc.	5,960	0.93%
8	Holly Hill (E&A) LLC	Publix Shopping Center	5,043	0.87%
9	Bellsouth Telecommunications	Communications Utility	4,099	0.64%
10	Metra Electronics Corporation	Mfg. Electronic Components	<u>3,803</u>	0.60%
	Totals		<u>\$ 72,311</u>	10.90%

Source: Volusia County Property Appraiser

MISCELLANEOUS STATISTICAL DATA

Table 13

September 30, 2005

CITY OF HOLLY HILL, FLORIDA

Date of Incorporation:	July 1, 1901		
Date First Charter Adopted:	1901		
Date Present Charter Adopted:	1941		
Form of Government:	Commission/Manager		
Population:	12,620		
Area - Square Miles:	5.0		
Miles of Streets and Sidewalks:		Employees as of September 30, 2005	
Paved Streets	61.0 miles	Civil service	129
Unpaved Streets	0.5 miles	Exempt	1
Sidewalks	33.0 miles	Education: Volusia County School District	
Miles of Storm Sewers:		Elementary schools	1
Storm sewers	42.0 miles	Secondary schools	1
Sanitary sewers	75.5 miles	Students:	
Fire Protection:		Kindergarten to grade 5	655
Number of stations:	1	Grades 6 to 8	675
Number of Firefighters	12	Total	<u>1,330</u>
Number of fire hydrants	298	Education personnel:	
Police Protection:		Instructional	118
Number of stations:	1	Noninstructional	72
Number of Police officers	26	Administrative	6
Number of Reserve officers	6	Street Lights:	
Animal Control officers	1	High pressure Sodium Vapor:	
Recreation:		6,300 lumen	673
Parks (total 81.5 acres):	10	9,500 lumen	86
Dog Park Facility (2.7 acres)	1	16,000 lumen	35
Playgrounds	4	22,000 lumen	139
Recreation buildings	5	50,000 lumen	24
Tennis courts	2	White Way underground 1,000 lumen	6
Racquetball courts	2	Water Treatment Plant:	
Shuffleboard courts	9	Design capacity	2.3 MGD
Baseball/softball fields	5	Current production rate	1.262 MGD
Community centers	2	Users	5,955
Public fishing piers	3	Water Pollution Control Plant:	
Boat ramp	1	Design capacity	2.4 MGD
Wooden pier overlook	3	Current production rate	1.542 MGD
Municipal gymnasium	1	Users	4,967
Concrete bike paths (miles)	1.5		
Swimming pools	1		
Multi-purpose field	1		

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COMPLIANCE SECTION

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Hill, Florida, as of and for the year ended September 30, 2005, which collectively comprise the City of Holly Hill, Florida's basic financial statements and have issued our report thereon dated June 13, 2006. 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.

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 opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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 and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

June 13, 2006

BM&C

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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, 2005. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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, 2005.

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

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. 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 reportable 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 caused by error or fraud 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.

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 and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

June 13, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2005

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-Sica Hall renovations.....	14.218	N/A	\$ <u>104,800</u>
Total U.S. Department of Housing and Urban Development.....			<u>104,800</u>
U.S. Department of Justice			
Direct Programs:			
Confiscated property.....	16.000	N/A	31,692
Local Law Enforcement Block Grant	16.592	2005-LEBG-VOLU-4-L4	<u>10,000</u>
Total U.S. Department of Justice.....			<u>41,692</u>
U.S. Department of Environmental Protection			
Indirect Programs:			
Passed through Florida Department of Environmental Protection			
State Revolving Loan Fund	66.458 *	SW12070906P	<u>252,694</u>
Total U.S. Department of Environmental Protection			<u>252,694</u>
U.S. Department of Homeland Security:			
Federal Emergency Management Administration:			
Indirect Programs:			
Passed through Florida Department of Community Affairs			
Public Assistance Grants.....	97.036 *	127-31350-00	<u>656,683</u>
Total U.S. Department of Homeland Security.....			<u>656,683</u>
Total Expenditures of Federal Awards			<u>\$ 1,055,869</u>

* Denotes a major program

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

For the Year Ended September 30, 2005
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, 2005. The expenditures incurred during the year ended September 30, 2005 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	\$ 252,694	\$ 5,207,363

3. Subrecipients

No subrecipient payments were made by the City of Holly Hill, Florida during the year ended September 30, 2005.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2005

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 Internal Controls over Financial Reporting and on Compliance and Other Matters 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 reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal programs and 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 tested as major programs 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

8. The threshold for distinguishing Type A and Type B programs 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. Other Issues None

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BM&C

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, 2005, and have issued our report thereon dated June 13, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our independent auditors' report on internal control over financial reporting and on compliance and other matters, independent auditors' report on compliance with requirements applicable to each major federal program, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated June 13, 2006, 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 auditors' 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 auditors' 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, 2005, 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, 2005.

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 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 and should not be used by anyone other than these specified parties.



June 13, 2006

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** - 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 follow-up 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.

Current Year Status: - Although the employee computer purchases associated with this program are not conducted through the City's purchasing program, they are now tightly monitored so as to ensure that only legitimate expenditures are reimbursed.

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.

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

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.

Current Year Status – This comment is still applicable

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.

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

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.

Current Year Status – This comment is still applicable.

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**

Reconcile Bank Accounts on a Timely Basis

Monthly bank account reconciliations are the primary internal control procedure relating to the City's cash accounts. During the fiscal year, bank account reconciliations were prepared, however, the General Fund's primary pooled cash account was not completely reconciled. As of August 2005, there was an unreconciled amount of approximately \$1,200 in the checking account.

Although this amount may appear not to be material to the overall financial position of the City, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Unreconciled amounts should be investigated and not be allowed to carry over from month to month. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month and that accounting management review and initial the reconciliations to ensure propriety and completeness.

Reconcile Detail Property Records Monthly

During our testing of property and equipment, we found differences between the recorded balances of fixed assets and the amounts listed in the detail schedules maintained by the accounting department. Although the amounts of the differences were not significant, and correcting entries were made at year end, the time spent by accounting personnel in reconciling such items for the entire year was significant due to the large volume of property (asset) additions and dispositions and the number of differences.

We recommend that such reconciliations be performed each month when any discrepancies can be more easily and quickly researched and resolved. This includes verifying correct beginning balances within the reconciling spreadsheets, recalculating prior year and current year amounts to ensure formulas are working properly, footing and cross-footing data columns, and ensuring that all supporting subsidiary ledgers and detail schedules properly tie to each other. In addition, the reconciliations should be reviewed by a responsible person.

Accounts Receivable Reconciliation for FEMA

During the audit, we noted the following reconciliations were not being prepared on a timely basis for transactions pertaining to FEMA:

- Sales to cash receipts and accounts receivable.
- Accounts receivable cash receipts detail to the general ledger.
- Accounts receivable detail to the general ledger.

Although correcting entries were made at year end, the time spent by City personnel in reconciling such items for the entire year was significant due to the volume of transactions and number of discrepancies.

In order to ensure proper valuation of the above accounts, we recommend that these reconciliations be performed periodically and that reconciling items be resolved promptly. In addition, we recommend that accounting management review and initial the reconciliations to ensure propriety and completeness.

D. Other Matters

Conditions Causing Financial Condition Deterioration

As part of our audit we are required under the Rules of the Auditor General to assess the financial condition of the City using procedures developed by the Auditor General for the purpose of identifying deteriorating financial conditions that could result in a financial emergency. Based on our assessment, the overall rating of the financial indicators used to determine whether the City's financial condition is deteriorating is inconclusive. Overall, the majority of the financial indicators were unfavorable; however, the City shows a favorable trend in improving its ability to meet its current needs.

Using the methodology recommended by the Florida Auditor General there are not enough unfavorable trends and benchmark ratings to warrant a comment that the City's financial condition is deteriorating. However, we noted that the City's amount of unreserved fund balance compared to other cities in Florida, in its relative size based on population and property values, was lower than the average for the others in the group. It is our understanding that the City continues to address these concerns and is striving to increase current revenues, find new revenue sources, and continues to control expenditures.

The applied procedures do not indicate a deteriorating financial condition, and we do not believe the City is in a state of financial emergency as defined by Sec. 218.503, F.S. Nevertheless, the majority of the financial indicators suggest a continued downward trend in the City's ability to provide services at the same level and quality that citizens have been accustomed to in prior years.

We recommend that you develop short-term and long-term financial plans that include steps to strengthen the City's financial condition. The financial plans should include: (1) a review of spending needs; (2) a system for monitoring revenues and expenditures; (3) budget reserves to provide for future capital needs and unexpected costs; (4) target fund equity levels; and (5) projected revenues sufficient to cover projected costs.



CITY OF HOLLY HILL

The City with a Heart

1065 Ridgewood Avenue ♥ Holly Hill, Florida 32117

www.hollyhillfl.org

July 28, 2006

To the Honorable Mayor, City Commission
And City Manager

RESPONSE TO MANAGEMENT COMMENTS FYE 9/30/05

Prior Year Findings and Recommendations

Destruction/Disposal of Confidential Information

Some information on companies who may provide this service has been received. A request for contract pricing information will be explored.

Monitoring for Fraud

The Finance Director and City Manager will work with the City Commission and Department Heads to address the recommendations made by the Auditors.

Current Year Findings and Recommendations

Reconcile Bank Accounts on a Timely Basis

The Finance Director and staff are aware of the need to reconcile bank statements monthly and are incorporating into its procedures the accounting management review as recommended.

Reconcile Detail Property Records Monthly

The Finance Department is working on reconciling property records monthly and the reconciliations will be reviewed as recommended.

Accounts Receivable Reconciliation for FEMA

The Finance Director is aware of the need for reconciling on a timely basis and will institute the procedures necessary to accomplish the recommendations to perform a periodic review.

**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
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**Information
Technology**
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**Public
Works**
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Recreation
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Fax 386-248-9499

**Utility
Billing**
386-248-9432
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RESPONSE TO MANAGEMENT COMMENTS FYE 9/30/05

July 28, 2006

Other Matters

Conditions Causing Financial Condition Deterioration

The City will review the recommendations to develop short-term and long-term financial plans that include the necessary steps to strengthen the City's financial condition.

A handwritten signature in blue ink that reads "Brenda Gubernator". The signature is written in a cursive style.

Brenda Gubernator
Finance Director