

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM



FINANCIAL STATEMENTS

AND

OTHER FINANCIAL INFORMATION

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

This Page Intentionally Left Blank.

TABLE OF CONTENTS
FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION
September 30, 2016 and 2015
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

| | <u>Page</u> |
|---|-------------|
| FINANCIAL SECTION | |
| Independent Auditors' Report | 7 |
| Management's Discussion and Analysis..... | 11 |
| Basic Financial Statements: | |
| Statements of Fiduciary Net Position | 19 |
| Statements of Changes in Fiduciary Net Position | 21 |
| Notes to the Financial Statements | 25 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Changes in the Employer Net Pension Liability and Related Ratios – Last Ten Fiscal Years..... | 40 |
| Schedule of Employer and Other Contributing Entity Contributions – Last Ten Fiscal Years | 44 |
| Schedule of Investment Returns – Last Ten Fiscal Years..... | 45 |
| COMPLIANCE SECTION | |
| 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 <i>Government Auditing Standards</i> | 51 |

This Page Intentionally Left Blank.

INDEPENDENT AUDITORS' REPORTS

This Page Intentionally Left Blank.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
City of Holly Hill, Florida
Firefighters' Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of City of Holly Hill, Florida, Firefighters' Retirement System (the "Fire System"), which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, the statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fire System as of September 30, 2016 and 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the employer net pension liability and related ratios-last ten fiscal years, schedule of employer and other contributing entity contributions-last ten fiscal years, and schedule of investment returns-last ten fiscal years, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, on our consideration of the Fire System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

BMC CPAs

April 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Page Intentionally Left Blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City of Holly Hill, Florida, Firefighters' Retirement System (hereinafter referred to as the "Fire System"), we offer the readers of these financial statements this narrative overview and analysis of the Fire System's financial activities for the fiscal years ended September 30, 2016, 2015, and 2014. 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 the Fire System's financial statements, which follow this information.

The Fire System is responsible for administering a single-employer, defined benefit public employee retirement fund established under the provisions of Chapter 42, Article III of the City's Code of Ordinances and Chapter 175, F.S., for all qualifying firefighters of the City of Holly Hill, Florida. The Fire System provides retirement, disability, and survivor benefits for all City firefighters who participate in the plan.

Financial Highlights

- The Fire System's net position restricted for pension benefits totaled \$4,034,993 at the end of 2016, compared to \$3,738,304 at the end of 2015, and \$3,772,429 at the end of 2014. This represents an increase in net position of \$296,689 in 2016, compared to a decrease of \$34,125, and an increase of \$295,711 at the end of 2015 and 2014, respectively.
- Investment income was up in 2016, compared to amounts in 2015 & 2014. The Fire System's earnings did result in positive performance for all years. For the year ended September 30, 2016, net investment income was \$358,058, compared to a net investment loss of \$20,392 in 2015, and income of \$312,161 in 2014. Market volatility continues to be expected, and each year there will be a combined effect of realized and unrealized investment gains or losses.
- For the fiscal year ended September 30, 2016, combined plan sponsor and member contributions totaled \$306,466, compared to contributions totaling \$286,329 in 2015 and \$275,892 in 2014. Plan member contributions decreased in 2016 (by -6.3%) and totaled \$51,275, compared to \$54,681 in 2015 and \$52,767 in 2014. The Plan sponsor's contributions increased to \$255,191 in 2016, compared to \$231,646 in 2015 (\$223,125 in 2014), as the result of an increase in the actuarially computed minimum employer contribution requirement. Plan sponsor contributions include State premium tax monies and firefighters' supplemental payments received from the State of Florida under the revenue sharing provisions outlined in Chapter 175, which totaled \$51,535, \$55,151 and \$62,761 in 2016, 2015 and 2014, respectively.
- The Fire System's actuarially computed annual contribution percentages are composed of two separate components; the plan member portion, and the plan sponsor portion, the latter of which includes the state premium tax distribution. The plan member (employee) portion of the annual contribution requirements totaled 7.0% of covered wages in 2016 and 8 % in 2015 and 2014. The plan sponsor (employer) portion of the annual contribution requirement totaled approximately 34.84%, 33.43% and 33.81% of covered wages in 2016, 2015 and 2014, respectively, all of which include amounts representing the state premium tax distributions in each year.
- Monthly benefit payments increased in 2016 with one new retiree and totaled \$325,259, compared to \$271,874 in 2015 and \$271,874 in 2014. No refunds or withdrawals were incurred in 2016, 2015, or 2014.

Overview of Basic Financial Statements

The following discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements are:

- ***The Statement of Fiduciary Net Position*** - presents the financial position of the Fire System at each fiscal year end. It indicates the assets available for payment of future benefits and any liabilities that are owed as of the statement date. Investments are shown at fair value. All assets and liabilities are determined on an accrual basis.
- ***The Statement of Changes in Fiduciary Net Position*** - presents the results of activities during the fiscal year. All changes affecting the assets and liabilities of the Fire System are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows". In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- ***The Notes to Financial Statements*** - provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Fire System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements are prepared in accordance with GASB Pronouncements. Other information as required by the Governmental Accounting Standards Board (GASB) is presented after the Notes to the Financial Statements.

Fiduciary Net Position

The following is a condensed summary of the Fiduciary Net Position at September 30:

FIDUCIARY NET POSITION

September 30,

| | 2016 | 2015 | 2014 |
|---|---------------------|------------------|------------------|
| <hr/> | | | |
| Assets: | | | |
| Cash and cash equivalents..... | \$ 285,349 | \$ 237,690 | 243,864 |
| Receivables..... | 18,023 | 72,135 | 65,114 |
| Prepaid expenses..... | 3,384 | 2,890 | 2,789 |
| Investments, at fair value..... | <u>3,735,299</u> | <u>3,430,232</u> | <u>3,466,216</u> |
| Total assets..... | <u>4,042,055</u> | <u>3,742,947</u> | <u>3,777,983</u> |
| Liabilities: | | | |
| Accounts payable..... | <u>7,062</u> | <u>4,643</u> | <u>5,554</u> |
| Net Position: | | | |
| Net position restricted for pension benefits..... | <u>\$ 4,034,993</u> | <u>3,738,304</u> | <u>3,772,429</u> |

Combined total assets of the Fire System were \$4,042,055, \$3,742,947 and \$3,777,983 at the end of fiscal year 2016, 2015 and 2014, respectively. For 2016, the Fire System's net position restricted for benefits increased by \$296,389, or 7.35% of average assets, compared to a decrease of \$34,125, or -0.9% of average assets for 2015, and an increase of \$295,711, or 8.1% of average assets for 2014. The increases in 2016 and 2014 were attributable to the overall net appreciation in the fair value of the investment

portfolio. The decrease in 2015 was primarily due to a decrease in the value of domestic and international mutual fund investments.

The overall mix of investments in the Fire System's portfolio shifted slightly in 2016 as a result of an increase in mutual funds which made up 66.8% of the portfolio's total. Comparatively, 2015 & 2014 had a similar investment mix, and reflected an overall decreased investment in interest-bearing securities. The plan's investments in U.S Treasury obligations and government agencies increased by \$88,957 in 2016 and totaled \$198,977, or 5.0% of the total portfolio, compared to \$110,020 in 2015, and \$128,443 in 2014. However, investment concentrations in corporate municipal bond obligations decreased by \$73,509 in 2016 and totaled \$849,356, or 21.1% of the portfolio, compared to totals of \$922,865 and \$896,655 in 2015 and 2014, respectively. The plan's investment in corporate equities and domestic mutual funds decreased in 2016 and totaled \$2,124,560, or 52.8% of the total portfolio, compared to a total of \$2,250,379 in 2015 and \$1,900,266 in 2014. The plan's investment in international mutual funds increased in 2016 and totaled \$562,406, or 14.0% of the portfolio, compared to a total of \$146,968 and \$540,852 at the end of 2015 and 2014, respectively. Amounts invested in cash, money market fund, and other cash equivalents increased slightly at year end and totaled \$285,349 compared to \$237,690 one year earlier and \$243,864 in 2014. Cash equivalents also include the plan's receivables/payables generated through timing differences between trade and settlement dates for investment securities purchased or sold.

Plan receivables include amounts due for accrued investment earnings at year end and amounts due from the sponsor which were received by the Plan subsequent to year end. Plan receivables reported at the end of 2015 and 2014 also include amounts due from the state of Florida representing state contributions to the Plan. In addition, payables include routine accruals for administrative costs and investment expenses that are incurred during the plan year but are not presented to plan management for payment until after year end. Prepaid items represent the portion of unexpired insurance premiums that are paid in advance.

Changes in Fiduciary Net Position

A summary of the Changes in Fiduciary Net Position for the years ended September 30, follows:

CHANGES IN FIDUCIARY NET POSITION

Year ended September 30,

| | 2016 | 2015 | 2014 |
|--|---------------------|------------------|------------------|
| Additions: | | | |
| Plan sponsor contributions | \$ 203,656 | \$ 176,497 | 160,364 |
| Member contributions | 51,275 | 54,681 | 52,767 |
| State contributions | 51,535 | 55,151 | 62,761 |
| Net investment income..... | <u>358,058</u> | <u>(20,392)</u> | <u>312,161</u> |
| Total..... | <u>664,524</u> | <u>265,937</u> | <u>588,053</u> |
| Deductions: | | | |
| Benefit payments and withdrawals..... | 325,259 | 271,874 | 271,874 |
| Administrative expenses | <u>42,576</u> | <u>28,188</u> | <u>20,468</u> |
| Total..... | <u>367,835</u> | <u>300,062</u> | <u>292,342</u> |
| Net increase (decrease)..... | 296,689 | (34,125) | 295,711 |
| Net position restricted for pension benefits: | | | |
| Beginning of year | <u>3,738,304</u> | <u>3,772,429</u> | <u>3,476,718</u> |
| End of year | <u>\$ 4,034,993</u> | <u>3,738,304</u> | <u>3,772,429</u> |

Effective October 1, 2015, Fire System members are required to contribute 7% of their compensation to the plan. During 2015 and 2014, the members were required to contribute 8% to the plan. In 2016, member contributions total \$51,275, a decrease from 2015 and 2014, which totaled \$54,681 and \$52,767, respectively. Pensionable payroll remained fairly constant for each month during the year and totaled \$732,502, compared to \$692,977 and \$659,584 in 2015 and 2014, respectively, even though there were no new firefighters added to the plan in 2016.

Plan sponsor (employer) contributions are made on a statutory basis as determined by independent actuarial valuations performed as of October 1, 2016, 2015, and 2014, the latter of which was used to determine mandatory contribution amounts for 2016. Employer contribution percentages (determined from the actuarial valuation performed in the second preceding year) include amounts received from the state from insurance premium tax distributions, firefighters' supplemental compensation trust fund distributions and remaining amounts required to be funded by the City to meet actuarially determined minimum funding requirements. Employer and state contributions for fiscal year 2016 totaled \$255,191, an increase of \$23,543 (or 9.2%) above the \$231,648 contributed in 2015, and the \$223,125 contributed in 2014.

For fiscal year 2016, the Plan had investment profit, net of investment expenses, of \$358,058, which was an increase from the loss of \$20,392 recognized one year earlier, and slightly greater than the increase of \$312,161 recognized in 2014. The increases and reduction in earnings for all years can be primarily attributed to the net appreciation/depreciation in the fair value of the Plan's investment portfolio which are also adversely affected by the continued sluggishness in interest rates and dividend payments.

Benefit payments totaled \$325,259 in 2016 from the addition of one new retiree, compared to payments totaling \$271,874 in both 2015 and 2014. There have been no lump-sum distributions paid out to members of the Deferred Retirement Option Program (DROP) in the past three years. Similarly, there were no retirement withdrawals in 2016, 2015, or 2014. Administrative costs increased substantially in 2016 and totaled \$42,576, compared to \$28,188 in 2015 and \$20,468 in 2014. The increase was attributed to the additional costs experienced in adopting the new pension accounting requirements (GASB 67) in 2015, which were paid in fiscal 2016.

Portfolio Investment Summary

The following is a summary of the Fire System's investments at September 30:

PORTFOLIO INVESTMENT SUMMARY

September 30,

| | 2016 | 2015 | 2014 |
|----------------------------------|---------------------|------------------|------------------|
| Money market funds | \$ 285,349 | 237,690 | 243,864 |
| Investments: | | | |
| U. S. Treasury obligations | 128,354 | 56,136 | 44,786 |
| U. S. government agencies..... | 70,623 | 53,884 | 83,657 |
| Corporate/municipal bonds | 849,356 | 922,865 | 896,655 |
| Mutual funds..... | 2,686,966 | 2,397,347 | 2,441,118 |
| | <u>3,735,299</u> | <u>3,430,232</u> | <u>3,466,216</u> |
| Total..... | <u>\$ 4,020,648</u> | <u>3,667,922</u> | <u>3,710,080</u> |

Due to the long-term nature of the Fire System's benefit obligations, the System's assets are invested with a long-term investment horizon. Assets are invested in a diversified portfolio of capital market securities. Investments in these assets are expected to produce higher returns, but are also subject to greater volatility and may produce negative returns. The investment results for fiscal years 2016, 2015 and 2014 were generally consistent with related benchmarks, within asset classes.

Funding Progress

The Fire System contracted with an independent actuary to conduct an actuarial valuation to determine the actuarial position of the plan as of October 1, 2016. The Actuarial Valuation Report indicated that the overall funding of the plan remains sound and the current contribution rates are sufficient to keep the plan actuarially sound. In preparing the valuation, the actuary uses a smoothing process over a rolling four-year period of investment data to remove year-to-year volatility in asset returns.

Plan Amendments and Changes in Assumptions

Ordinance No. 2969, dated February 23, 2016, was adopted to amend the definitions of allowable investments to better invest the plan funds in an effort to keep up with market trends.

Ordinance No. 2974, dated June 14, 2016, was adopted to comply with recent State and Federal legislation, including the adoption of a Share Plan that will not be funded at this time, the implementation of a cap of 300 hours per year of pensionable overtime, and limiting the pensionable lump sum sick and annual leave that is pensionable to the amounts on the books at October 1, 2012.

Ordinance No. 2982, dated September 12, 2016, was adopted to provide for the reduction of required Member Contributions, effective October 1, 2015, from 8% to 7% of salary.

The assumed individual salary increase was changed from a flat 6.0%, to a service based table, with the rate of 10.0% during the first year of employment and 5.5% for all future years of service.

The assumed rates of retirement were changed to more appropriately reflect historical experience.

The assumed rate of mortality has been changed to match that used by the FRS for special risk employees in their July 1, 2015 valuation report.

The investment return assumption was reduced from 7.5% to 7.4%, net of investment related expenses.

The assumed rates of withdrawal have been changed from an age based table to a service based table.

Significant Actuarial Matters

The following is a summary of the significant findings included in the most recent actuarial report as of October 1, 2016:

- The Actuarial Valuation Report shows that the market value of assets increased \$295,719 during 2016, and totaled \$4,038,666 as of October 1, 2016. The market value of assets decreased \$34,851 during 2015, and totaled \$3,742,947 as of October 1, 2015. The market value of assets increased \$292,808 during 2014, and totaled \$3,777,798 as of October 1, 2014.
- During 2016, the actuarial value of the assets (AVA) increased \$218,412 to a total of \$4,088,144 at October 1, 2016. One year earlier, the AVA increased \$291,081 to a total of \$3,869,732 at October 1, 2015. As of October 1, 2014, the AVA increased \$261,234 to a total of \$3,578,651.
- As of October 1, 2016, the actuarial present value of accrued benefits totaled \$4,936,231, an increase of \$253,876 over the \$4,682,355 reported one year earlier (compared to \$4,436,537 at the end of 2014). This increase in 2016 was the combined result of recognizing assumption changes of \$83,254, adding new accrued benefits of \$156,902, provision for estimated interest on the obligation of \$338,979, less benefit payments (reductions) totaling \$325,259.
- As of October 1, 2016, the total pension liability totaled \$5,434,644, an increase of \$251,237 over the \$5,183,407 reported one year earlier (compared to \$4,951,091 at the end of 2014). However, the overall net pension liability (total pension liability less ending fiduciary net position) decreased by \$47,364 and totaled \$1,393,096 at the end of 2016. At October 1, 2015, the net pension liability increased dramatically by \$267,167 and totaled \$1,440,460 at end of year, compared to a decrease of \$38,330 to a total of \$1,173,293 at October 1, 2014.
- Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. Based on the actuarial valuation, the employer fixed rate contribution covers the normal cost and the amortization of the UAAL over the remaining amortization period (22 years as of 10/01/16).
- The Fire System's annualized rate of investment return is determined by increasing the actuarial assets used in the most recent actuarial valuation by the average of the annual market value rate of return (net of investment related expenses) for the past four years and totaled 7.32%. Details of the derivation include annual rates of return of 9.75%, -0.54%, 9.06%, and 11.44% for the plan years ended September 30, 2016, 2015, 2014, and 2013, respectively.

Contact Information

This financial report is designed to provide a general overview of the Holly Hill Firefighters' Retirement System's finances. 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.

FINANCIAL STATEMENTS

This Page Intentionally Left Blank.

STATEMENTS OF FIDUCIARY NET POSITION

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

| | September 30, | |
|---|---------------------|------------------|
| | 2016 | 2015 |
| <hr/> | | |
| Assets: | | |
| Cash and cash equivalents..... | \$ 285,349 | 237,690 |
| Receivables: | | |
| Plan sponsor contributions receivable..... | 8,404 | 7,610 |
| State contributions receivable..... | - | 55,151 |
| Interest and dividends receivable..... | 9,619 | 9,374 |
| | <u>18,023</u> | <u>72,135</u> |
| Prepaid expenses..... | <u>3,384</u> | <u>2,890</u> |
| Investments, at fair value: | | |
| U.S. Treasury..... | 128,354 | 56,136 |
| U.S. Government Agencies..... | 70,623 | 53,884 |
| Corporate/municipal bonds..... | 849,356 | 922,865 |
| Mutual Funds..... | <u>2,686,966</u> | <u>2,397,347</u> |
| | <u>3,735,299</u> | <u>3,430,232</u> |
| Total assets..... | 4,042,055 | 3,742,947 |
| Liabilities: | | |
| Accounts payable..... | <u>7,062</u> | <u>4,643</u> |
| Net Position | | |
| Net position restricted for pension benefits..... | \$ <u>4,034,993</u> | <u>3,738,304</u> |

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

This Page Intentionally Left Blank.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

| | September 30, 2016 | 2015 |
|---|-----------------------|------------------|
| Additions: | | |
| Contributions from: | | |
| Plan sponsor | \$ 203,656 | 176,497 |
| State insurance premium tax distribution | 44,898 | 42,128 |
| State firefighters' supplemental compensation trust fund distribution | 6,637 | 13,023 |
| Plan members | <u>51,275</u> | <u>54,681</u> |
| Total contributions..... | <u>306,466</u> | <u>286,329</u> |
| Investment income (losses): | | |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 265,216 | (98,270) |
| Interest and dividend earnings | <u>114,314</u> | <u>99,050</u> |
| | 379,530 | 780 |
| Less: investment management fees | <u>(21,472)</u> | <u>(21,172)</u> |
| Total investment (losses) income | <u>358,058</u> | <u>(20,392)</u> |
| Total (deductions) additions | <u>664,524</u> | <u>265,937</u> |
| Deductions: | | |
| Benefit payments | 325,259 | 271,874 |
| Administrative expenses | <u>42,576</u> | <u>28,188</u> |
| Total deductions..... | <u>367,835</u> | <u>300,062</u> |
| Net (decrease) increase | 296,689 | (34,125) |
| Net position restricted for pension benefits: | | |
| Beginning of year | <u>3,738,304</u> | <u>3,772,429</u> |
| End of year | <u>\$ 4,034,993</u> | <u>3,738,304</u> |

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

This Page Intentionally Left Blank.

NOTES TO FINANCIAL STATEMENTS

This Page Intentionally Left Blank.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Firefighters' Retirement System (the "Fire System") of the City of Holly Hill, Florida (the "City"), have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the standard setting body for governmental accounting and financial reporting.

Reporting Entity

The accompanying financial statements present only the Fire System and are not intended to present the financial position or results of operations of the City of Holly Hill, Florida. The Fire System is included in the City's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2016, which is a separately issued document. Anyone wishing further information about the City is referred to its CAFR.

The Fire System is a single-employer defined benefit pension trust fund (fiduciary fund type) of the City established under the provisions of Chapter 42, Article III of the City's Code of Ordinances and Chapter 175, F.S. The Fire System provides retirement, disability, and survivor benefits for all City firefighters who participate in the plan. The accounts of the Fire System are organized as a pension trust fund, which is considered a separate accounting entity. A pension trust fund is used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The fiscal operations of the Fire System are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position restricted for employee's pension benefits and additions to and deductions from net position restricted for employees' pension benefits. Resources are allocated to, and accounted for, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The accrual basis of accounting is utilized in presenting the Fire System's plan net position and changes in net position. Contributions and revenues are recognized when earned and expenses are recognized when they are incurred. Employer contributions, and any State of Florida contributions eligible to offset employer contributions, are recognized when due in accordance with statutory requirements (Chapter 175, Florida Statutes). Employee contributions are recognized when due as deductions from pay. Benefit payments are recognized when due and payable in accordance with the terms of the Fire System. Contribution refunds are recognized when due and payable in accordance with the terms of the Fire System and the City's procedures for employee terminations.

Method Used To Value Investments

Investments are reported at fair value and are managed by the Fire System's Board of Trustees and a third party money manager. Securities traded on national or international exchanges are valued at the last reported sales price or current exchange rates. Short-term investments are reported at fair market value. Those investments that do not have an established market value are reported at estimated fair value. Investment transactions are recognized on the trade date.

Cash and Cash Equivalents

The Fire System's cash and cash equivalents are considered to be cash on deposit, money market funds, unsettled trades and short-term investments with original maturities of three months or less from the date

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

of acquisition. At September 30, 2016 and 2015, the carrying amounts of the Fire System's cash and money market funds totaled \$285,349 and \$237,690, respectively, all of which is maintained in brokerage security trust accounts that are not subject to federally insured FDIC protection.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. Amounts recorded at year end represent prepaid insurance premiums on contracts that expire in future periods.

Fiduciary Net Position

Fiduciary net position of the Fire System is the difference between total plan assets and total plan liabilities and is restricted for pension benefits.

Contributions

Contributions of funds are received from 1) the City, at actuarially determined rates in accordance with Chapter 112, Florida Statutes, 2) the State of Florida, pursuant to the provisions of Chapter 175, Florida Statutes, which allocates premium taxes collected on certain insurance policies underwritten on property located within the municipal boundaries of the City, and 3) active plan participants, who are required to contribute 7% (effective October 1, 2015) of their covered payroll to the plan.

Investment Income

Investment income includes interest and dividend earnings and net realized and unrealized appreciation (depreciation) in the fair value of the investment portfolio. Realized and unrealized gains/losses are aggregated and recognized under the caption Net Realized and Unrealized Appreciation (Depreciation) in Fair Value of Investments.

Expenses

Monthly pension and benefit payments to members are mailed/direct deposited on, or prior, to the last business day of the month for that month.

The Fire System is contributory and employee 7% contributions (effective October 1, 2015 and 8% prior to October 1, 2015) are 100% refundable (without interest) if, at the date of employment termination, the employee elects to terminate his vesting rights or is not vested in the Fire System. Refunds and withdrawals are paid upon request following termination.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, benefit obligations and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Accordingly, actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

New Accounting Standards

The Fire System is currently evaluating the effects that the following Governmental Accounting Standards Board (GASB) Statements, which will be implemented in future financial statements, will have on its financial statements for subsequent fiscal years.

- Statement No. 82, "*Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*". The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is currently under review to determine if it will materially change the financial statement presentation. The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

NOTE 2 – PLAN DESCRIPTION

Plan Administration

The City maintains a single-employer defined benefit pension plan for all full-time firefighters, which assets are included in the Fire System (a pension trust fund). The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which authorized the creation of the fund, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Fire System can be found in Chapter 175, Florida Statutes. 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 statutes also provide 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.

Management, administration and operation of the Fire System, and its investments portfolio, is vested in a five-member Board of Trustees using the services of the City staff, local financial institutions, and contracted third-party fund custodians. The Board of Trustees consists of five trustees, two of whom must be legal residents of the city and appointed by the Holly Hill City Commission, and two of whom must be members of the system and elected by a majority of the firefighters who are members of the system. The fifth trustee shall be chosen by a majority of the previous four trustees and approved by the Holly Hill City Commission.

Plan Membership

All full-time, uniformed firefighters are eligible (and required as a condition of employment) to participate in the Fire System upon employment with the City. Employees vest with 100% full benefits after 6 years of service. Members are eligible for normal retirement after attaining age 50 with 6 years of credited service or completion of 25 years of credited service, regardless of age. Members are eligible for

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

early retirement after attaining age 48 with 6 years of credited service. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees.

Membership in the System consisted of the following, as included in the most recent actuarial valuation dated October 1, 2015:

| | |
|--|-----------|
| Inactive plan members or beneficiaries currently receiving benefits..... | 9 |
| Inactive plan members entitled to but not yet receiving benefits..... | 0 |
| Active plan members | <u>13</u> |
| Total | <u>22</u> |

Benefits Provided

The Fire System provides retirement, disability and death benefits to full-time employees who are classified as fulltime Firefighters that must participate in the Fire System as a condition of employment. Retirement benefits for vested plan members are calculated as 3 percent of the member's average monthly earnings for the best 5 years during the 10 years immediately preceding termination times the member's years of credited service. Credited service includes the total years and fractional parts of years of service with the City as a Firefighter. Average monthly earnings are based on total compensation reportable on the annual Form W-2 plus tax deferred, tax sheltered or tax exempt items of income, including sick leave incentive, cleaning, 10-10 allowances, or any other payments.

Fire System members are eligible for normal retirement benefits at the earlier of age 50 with 6 years (vesting period) of credited service or completion of 25 years of credited service, regardless of age. Early retirement benefits are available to plan members who have reached age 48 with 6 years of credited service. Accrued retirement benefits are actuarially reduced for each year that early retirement precedes normal retirement (which is determined as if employment continued). All plan members are eligible for non-duty disability benefits after 10 years of credited service and for duty-related disability benefits upon hire (date of employment as a firefighter). Disability retirement benefits are determined in the same manner as retirement benefits and are payable immediately without an actuarial reduction, except that benefits (accrued to date of disability) are not less than 42% of average monthly earnings for service incurred. Pre-retirement death benefits for vested members are equal to the monthly accrued benefit payable at the member's normal retirement date to a designated beneficiary for 10 years, with payment options available. At a minimum, if a member dies in active service and is vested, 50% of the member's salary at the time of death is payable over the remaining life of the spouse, commencing on the first day of the month following the member's death. Non-vested members' designated beneficiaries are entitled to a refund of the member's contributions.

The benefit terms do not provide for any cost-of-living adjustments for the retired members of the Fire System. However, Fire System retirees receive a supplement of \$19.00 per month per year of credited service payable to the date on which unreduced Social Security benefits become payable.

Contributions

The Florida Constitution grants the authority to establish and amend the contribution requirements of the City and active plan members to the plan sponsor (City). In accordance with Article III, Section 42-65, Holly Hill, Florida, Code of Ordinances, the City is required to make quarterly contributions to the Fire System in an amount equal to the required actuarially determined contribution based on the applicable actuarial valuation of the Fire System performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members in order to pay current costs and amortize unfunded past service cost, if any, as provided in Part VII of Chapter 112, Florida Statutes.

Effective October 1, 2015, plan members are required to contribute 7% of their annual covered salary. Prior to that date, plan member contributions were 8%. Additionally, pursuant to Chapter 175, Florida Statutes, the state collects a locally authorized insurance premium surcharge for the Fire System on certain real and personal property insurance policies underwritten in the corporate limits of the City which can only be distributed after the State has ascertained that the local government has met its actuarial funding requirement for the most recently completed fiscal year. In accordance with Florida Statutes, a portion of the premium tax revenues received by the Fire System are reserved to provide future minimum or extra benefits and may not be used to reduce or offset the contribution requirements of the employers.

For the year ended September 30, 2016, the active member contribution rate was 7.0 percent of annual pay (or \$51,275), the City's average contribution rate was 27.80 percent of annual payroll (or \$203,656), and the state funding was 7.04 percent of annual payroll (or \$51,535). Covered payroll for the year ended September 30, 2016, totaled \$732,502.

For the year ended September 30, 2015, the active member contribution rate was 8.0 percent of annual pay (or \$54,681), the City's average contribution rate was 25.82 percent of annual payroll (or \$176,497), and the state funding was 8.07 percent of annual payroll (or \$55,151). Covered payroll for the year ended September 30, 2015, totaled \$683,517.

Deferred Retirement Option Plan (DROP)

Any member who is eligible to receive a normal retirement pension in the Fire System may elect to participate in a deferred retirement option program (DROP) while continuing his or her active employment as a firefighter. The DROP participation period may not exceed 60 months beginning at the time an election to participate in the DROP first becomes effective. An election to participate in the DROP constitutes an irrevocable election to resign from the service of the city at the end of the DROP term. A member may participate only once. Upon participation in the DROP, the member becomes a retiree for all plan purposes so that he or she ceases to accrue any further benefits under the Fire System plan. Normal retirement payments that would have been payable to the member are accumulated and invested in the DROP program with a guaranteed annual rate of return of 6.5 percent, credited quarterly, to be distributed to the member upon his or her termination of employment. At September 30, 2016 and 2015, there was only one (inactive and retired) DROP participant at the end of each year.

As of September 30, 2016 and 2015, the balances in the DROP account were \$6,244 and \$6,244, respectively, which represent a single accumulation that has not been withdrawn by an inactive member. These amounts are included in the total investment balance presented on the statement of fiduciary net position.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

The Fire System's investment practices are governed by Chapters 175 (Firefighter Pensions), 280 (Florida Security for Public Deposits Act) and 112 (Local Retirement Plan Investment Policies), Florida Statutes, City Code of Ordinances and the Fire System's adopted investment policy. The Trustees of the Fire System have adopted a comprehensive written investment policy, which may be amended by a majority vote of its members. It is the policy of the Fire System Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The selection of asset classes is limited by statute and each asset class is further diversified by style, and the use of both active and passive management. The Fire System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

All monies paid into or held in the Fire System shall be invested and reinvested by the board and the investment of all or any part of such funds shall be limited to:

- a) Annuity and life insurance contracts with life insurance companies in amounts sufficient to provide, in whole or in part, the benefits to which all of the members in the fund shall be entitled under the provisions of this system and pay the initial and subsequent premium thereon.
- b) Time or savings accounts of a national bank, a state bank insured by the bank insurance fund or a savings/building and loan association insured by the savings association insurance fund which is administered by the Federal Deposit Insurance Corporation or a state or federal chartered credit union whose share accounts are insured by the National Credit Union Share Insurance Fund.
- c) Obligations of the United States or obligations guaranteed as to principal and interest by the government of the United States or by an agency of the government of the United States.
- d) Bonds issued by the State of Israel.
- e) Stocks, commingled funds, mutual funds or other investment vehicles approved by the board, and bonds or other evidences of indebtedness, provided that:
 - 1. Except as provided in subsection 2 below, all individually held securities and all securities in a commingled or mutual fund or other investment vehicles approved by the board, must be issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia.
 - 2. Up to twenty-five (25) percent of the assets of the fund at market value may be invested in foreign securities.
 - 3. The board shall not invest more than five percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent of the outstanding capital stock of that company; nor shall the aggregate of its investments in common stock, capital stock and convertible securities at market exceed seventy (70) percent of the assets of the fund.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

- f) Real estate directly or through an investment vehicle approved by the board or real estate investment trusts (REITS) that trade on a major exchange, provided the board shall not invest more than fifteen (15) percent at cost at market of the assets of the fund in REITS.
- g) Master Limited Partnerships (MLP) that trade on a major exchange, in an amount not to exceed ten (10) percent of the assets of the fund at market value. No more than ten (10) percent at market value of an investment manager's MLP portfolio may be invested in a single issuer unless the issuer makes up more than ten (10) percent of the Alerian MLP Index, in which case, up to the Index weighting may be held.

The investment strategy of the Plan utilizes eight separate investment approaches, each having a target allocation and an asset allocation range (based on market values), as follows:

| Investment Approach | Target | Range | |
|--|-----------------------|--------------------|--------------------|
| | Allocation Percent | Minimum Percent | Maximum Percent |
| Domestic Large Core Value Equity..... | 12.50% | 10.00% | 20.00% |
| Domestic Large Cap Growth Equity..... | 12.50% | 10.00% | 20.00% |
| Domestic Mid Cap Core Equity..... | 10.00% | 10.00% | 20.00% |
| Real Estate Investment Trusts (REIT)..... | 5.00% | 0.00% | 5.00% |
| International Equity..... | 15.00% | 5.00% | 20.00% |
| Convertible Securities..... | 10.00% | 5.00% | 15.00% |
| Treasury Inflation Protected Securities (TIPS)..... | 5.00% | 4.00% | 10.00% |
| Fixed Income Securities..... | <u>30.00%</u> | 30.00% | 45.00% |
| Total..... | <u>100.00%</u> | | |

For the years ended September 30, 2016 and 2015, the annual money-weighted rates of return on pension plan investments, net of investment expenses were 9.75% and -0.54%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The deposits and investments of the Fire System which have been transferred to the pension custodians are held separately from those of other City funds and are administered by nationally recognized investment counseling firms. At September 30, 2016 and 2015, the carrying amount of the Fire System's deposits and investments was \$4,020,648, and \$3,667,922, respectively. Included in these amounts are money market accounts of \$285,349 and \$237,690 at September 30, 2016 and 2015, respectively. At the end of each period, the Fire System did not have any amounts on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit, which are defined as public deposits.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

At September 30, 2016, the Fire System had the following investments and maturities:

| Investment | Fair Value | Investment Maturities | | | |
|---------------------------------|---------------------|-----------------------|---------------|----------------|----------------|
| | | Less than 1 | 1 to 5 | 6 to 10 | Over 10 |
| U.S. Treasury..... | \$ 128,354 | - | 24,957 | 72,350 | 31,047 |
| U.S. Government Agencies..... | 70,623 | - | 1,627 | 16,735 | 52,261 |
| Corporate/municipal bonds..... | 849,356 | 9,993 | 47,510 | 640,868 | 150,985 |
| Mutual Funds-international..... | 562,406 | 562,406 | - | - | - |
| Mutual Funds-domestic..... | <u>2,124,560</u> | <u>2,124,560</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 3,735,299</u> | <u>2,696,959</u> | <u>74,094</u> | <u>729,953</u> | <u>234,293</u> |

At September 30, 2015, the System had the following investments and maturities:

| Investment | Fair Value | Investment Maturities | | | |
|---------------------------------|---------------------|-----------------------|----------------|----------------|----------------|
| | | Less than 1 | 1 to 5 | 6 to 10 | Over 10 |
| U.S. Treasury..... | \$ 56,136 | - | 10,025 | 10,003 | 36,108 |
| U.S. Government Agencies..... | 53,884 | 166 | 2,804 | 77 | 50,837 |
| Corporate/municipal bonds..... | 922,865 | - | 357,538 | 453,607 | 111,720 |
| Mutual Funds-international..... | 146,968 | 146,968 | - | - | - |
| Mutual Funds-domestic..... | <u>2,250,379</u> | <u>2,250,379</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 3,430,232</u> | <u>2,397,513</u> | <u>370,367</u> | <u>463,687</u> | <u>198,665</u> |

Interest Rate Risk

The System monitors the effective duration of its fixed income portfolio as part of its program to manage interest rate risk. In recent years, the System has invested approximately 52.8% and 14.0% of its net position in domestic and foreign corporate equities and mutual funds, respectively, which fair value varies in conjunction with changes in the NYSE, NASDAQ and international stock index prices. Investments in U.S Treasury obligations, which represent approximately 3.2% of the System's investments, typically include discounted, fixed-price notes and bonds that mature within five years. The fair values of these investments are less sensitive to interest rate increases since they are held to maturity. Investments in mortgage backed securities, which represents approximately 1.8% of the System's investments, typically include long-term, fixed-rate collateralized mortgage obligations with maturities ranging from one to twenty 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 and municipal bonds, which represent approximately 21.1% of the System's investments, 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System'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 in this chapter to be designated by the State 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 Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer. At September 30, 2016 and 2015, the Fire System had no deposits with Qualified Public Depositories.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2016 and 2015, the System has custodial credit risk exposure of \$3,735,299 and \$3,430,232, respectively, for investments, and \$285,349 and \$237,690, respectively, for money market funds (cash and cash equivalents) held by the System's trustees, all of which are uninsured, unregistered and held by the System's brokerage firms, who are also the counterparties for these particular securities.

Concentrations of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Fire System's investment in a single issuer. The investment policy of the Fund limits investment in any one issuer to 5% of the total portfolio. The Fund had no investments in a single issuer that either exceeded 5% of the total portfolio or 5% of the Fire System's net position.

Rate of Return

For the years ended September 30, 2016 and 2015, the annual money-weighted rate of return on the Fire System's investments, net of pension plan investment expense, was 9.75% and -0.54%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Foreign Currency Risk

The Fire System's exposure to foreign currency risk as of September 30, 2016, is as follows:

| <u>Country</u> | <u>Portfolio Percentage</u> | <u>Foreign Currency</u> | <u>Maturity</u> | <u>Fair Value (USD)</u> |
|----------------|-----------------------------|-------------------------|-----------------|-------------------------|
| Euro Zone | 2.96% | Euro | N/A | \$ 119,062 |
| Other | 2.70% | Other | N/A | 108,510 |
| Japan | 2.16% | Japanese yen | N/A | 86,746 |
| United Kingdom | 1.93% | Pound sterling | N/A | 77,747 |
| Switzerland | 0.80% | Swiss franc | N/A | 32,148 |
| India | 0.72% | Indian rupee | N/A | 29,058 |
| Hong Kong | 0.70% | Hong Kong dollar | N/A | 28,169 |
| China | 0.69% | Renminbi | N/A | 27,672 |
| Denmark | 0.55% | Danish krone | N/A | 22,239 |
| Canada | 0.32% | Canadian dollar | N/A | 12,797 |
| Australia | 0.29% | Australian dollar | N/A | 11,800 |
| Sweden | 0.11% | Swedish krona | N/A | 4,414 |
| Singapore | <u>0.05%</u> | Singapore dollar | N/A | <u>2,044</u> |
| | <u>13.99%</u> | | | <u>\$ 562,406</u> |

The Fire System's exposure to foreign currency risk as of September 30, 2015, is as follows:

| <u>Country</u> | <u>Portfolio Percentage</u> | <u>Foreign Currency</u> | <u>Maturity</u> | <u>Fair Value (USD)</u> |
|----------------|-----------------------------|-------------------------|-----------------|-------------------------|
| Euro Zone | 1.14% | Euro | N/A | \$ 41,886 |
| Japan | 0.94% | Japanese yen | N/A | 34,493 |
| United Kingdom | 0.77% | Pound sterling | N/A | 28,247 |
| Switzerland | 0.38% | Swiss franc | N/A | 13,888 |
| Australia | 0.26% | Australian dollar | N/A | 9,626 |
| Hong Kong | 0.12% | Hong Kong dollar | N/A | 4,483 |
| Other | 0.15% | Other | N/A | 5,586 |
| Sweden | 0.11% | Swedish krona | N/A | 4,159 |
| Denmark | 0.08% | Danish krone | N/A | 2,807 |
| Singapore | <u>0.05%</u> | Singapore dollar | N/A | <u>1,793</u> |
| | <u>4.00%</u> | | | <u>\$ 146,968</u> |

The Fire System's investment policy permits it to invest up to 25 percent of total investments in foreign currency-denominated investments. The system's current position was 13.99% and 4.00% at September 30, 2016 and 2015, respectively.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

NOTE 4 –RECEIVABLES

At September 30, 2016 and 2015, plan sponsor receivables totaled \$8,404 and \$7,610, respectively. Amounts due from state contributions totaled \$-0- and \$55,151 at September 30, 2016 and 2015, respectively. All amounts were received subsequent to year end.

NOTE 5 –RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 6 – NET PENSION LIABILITY

The components of the net pension liability of the Fire System on September 30, 2016 and 2015, were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|--------------------|
| Total pension liability..... | \$ 5,434,644 | 5,183,407 |
| Plan fiduciary net position..... | <u>(4,034,993)</u> | <u>(3,738,304)</u> |
| Net pension liability..... | <u>\$ 1,399,651</u> | <u>1,445,103</u> |
| Plan fiduciary net position as a percentage of total pension liability..... | 74.25% | 72.12% |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2015 updated to September 30, 2016, using the following actuarial assumptions applied to all measurement periods:

| | |
|---|---------------|
| Inflation..... | 2.70% |
| Salary increases..... | Service based |
| Discount rate..... | 7.40% |
| Investment rate of return, net of investment expense..... | 7.40% |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Mortality Rates

Healthy Lives - Mortality rates were based on the RP-2000 Mortality Table as follows:

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

Male: RP2000 Generational, 10% Annuitant White Collar /90% Annuitant Blue Collar, Scale BB.

Disabled Lives - Mortality rates were based on the RP-2000 Mortality Table as follows:

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale.

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For 2016, the inflation rate assumption of the investment advisor was 2.70%.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--|------------------------------|---|
| Domestic Equity..... | 35% | 8.00% |
| International Equity..... | 15% | 3.00% |
| Bonds..... | 30% | 4.40% |
| Convertible Securities..... | 10% | 6.40% |
| Real Estate Investment Trusts (REIT)..... | 5% | 7.00% |
| Treasury Inflation Protected Securities (TIPS) .. | <u>5%</u> | 3.10% |
| Total..... | <u>100%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.40 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40 percent) or 1-percentage-point higher (8.40 percent) than the current rate:

| | 1% Decrease <u>6.40%</u> | Current Discount Rate <u>7.40%</u> | 1% Increase <u>8.40%</u> |
|-----------------------------------|--------------------------------|---|--------------------------------|
| City's net pension liability..... | \$ 2,041,267 | \$ 1,399,651 | \$ 853,604 |

NOTE 7 – CHANGES SINCE PRIOR ACTUARIAL VALUATION

Plan Amendments

During the year ended September 30, 2016, the City Code of Ordinances providing for the creation and operation of the Fire System was amended as follows:

Ordinance No. 2969 – dated February 23, 2016 - This ordinance was adopted to modify and amend Section 42-64, Finances and Fund Management, by amending the definitions of allowable investments to better invest the plan funds in an effort to keep up with market trends. These changes are intended to allow the fund managers more options to earn the 7.5% rate of return used in the actuarial calculations.

Ordinance No. 2974, dated June 14, 2016 - This ordinance was adopted to comply with recent State and Federal legislation, including the adoption of a Share Plan that will not be funded at this time, the implementation of a cap of 300 hours per year of pensionable overtime, and limiting the pensionable lump sum sick and annual leave that is pensionable to the amounts on the books at October 1, 2012.

Ordinance No. 2982, dated September 12, 2016 - This ordinance was adopted to provide for the reduction of required Member Contributions, effective October 1, 2015, from 8% to 7% of salary, the provisions of which were retroactively applied.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2016 and 2015

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Actuarial Assumption/Method Changes

As a result of the August 10, 2016 Actuarial Experience Study, the Fire System's trustees approved the following assumptions changes:

- The assumed individual salary increase was changed from a flat 6.0%, to a service based table, with the rate of 10.0% during the first year of employment and 5.5% for all future service years.
- The assumed rates of retirement were changed as outlined below:

| <u>Service</u> | <u>Age</u> | <u>Current</u> | <u>Proposed</u> |
|----------------|------------|----------------|-----------------|
| Under 25 yrs | 48-49 | 5.0% | 5.0% |
| | 50 | 100.0% | 50.0% |
| | 51-54 | 100.0% | 20.0% |
| | 55-59 | 100.0% | 20.0% |
| | Over 60 | 100.0% | 100.0% |
| Over 25 yrs. | All | 100.0% | 100.0% |

- The assumed rate of mortality has been changed to match that used by the FRS for special risk employees in their July 1, 2015 valuation report.
- The investment return assumption was reduced from 7.5% to 7.4%, net of investment related expenses.
- The assumed rates of withdrawal have been changed from an age based table to the following service based table:

| <u>Service</u> | <u>Rate</u> |
|----------------|-------------|
| Over 1 yr. | 15.0% |
| 1-4 yrs. | 10.0% |
| 5-9 yrs. | 6.0% |
| Over 10 yrs. | 2.0% |

NOTE 8 – FEDERAL INCOME TAX STATUS

The plan has not received a determination letter from the Internal Revenue Service stating that the plan is in compliance with the applicable requirements of the Internal Revenue Code. However, the plan administrator and the plan's tax counsel believe that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, they believe that the plan was qualified and the related trust was tax-exempt as of the financial statement date. Therefore, no provision for income taxes has been included in the accompanying financial statements.

NOTE 9 – SUBSEQUENT EVENTS

In preparing these financial statements, the System has evaluated events and transactions for potential recognition or disclosure through April 25, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS-
LAST TEN FISCAL YEARS**

Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

| | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|
| Total Pension Liability: | | | |
| Service cost..... | \$ 169,795 | \$ 176,408 | \$ 172,709 |
| Interest..... | 378,039 | 373,007 | 353,643 |
| Change in Excess State Money..... | (18,139) | - | - |
| Changes of benefit terms..... | (131,917) | - | - |
| Differences between expected and actual experience..... | 15,721 | (45,225) | - |
| Changes of assumptions..... | 162,997 | - | - |
| Benefit payments, including refunds of employee contributions..... | (325,259) | (271,874) | (271,874) |
| Net change in total pension liability..... | 251,237 | 232,316 | 254,478 |
| Total Pension Liability - Beginning..... | <u>5,183,407</u> | <u>4,951,091</u> | <u>4,696,613</u> |
| Total Pension Liability - Ending (a)..... | <u>\$ 5,434,644</u> | <u>\$ 5,183,407</u> | <u>\$ 4,951,091</u> |
| Plan Fiduciary Net Position: | | | |
| Contributions - employer..... | \$ 203,656 | \$ 176,497 | \$ 160,364 |
| Contributions - state..... | 51,535 | 55,151 | 62,761 |
| Contributions - employee..... | 51,275 | 54,681 | 52,767 |
| Net investment income..... | 358,058 | (20,392) | 312,161 |
| Benefit payments, including refunds of employee contributions..... | (325,259) | (271,874) | (271,874) |
| Administrative expense..... | (42,576) | (28,188) | (20,468) |
| Net change in plan fiduciary net position..... | 296,689 | (34,125) | 295,711 |
| Plan Fiduciary Net Position - Beginning..... | 3,738,304 | 3,772,429 | 3,476,718 |
| Plan Fiduciary Net Position - Ending (b)..... | <u>4,034,993</u> | <u>3,738,304</u> | <u>3,772,429</u> |
| Net Pension Liability - Ending (a) - (b)..... | <u>\$ 1,399,651</u> | <u>\$ 1,445,103</u> | <u>\$ 1,178,662</u> |
| Plan fiduciary net position as a percentage of the total pension liability..... | 74.25% | 72.12% | 76.19% |
| Covered employee payroll..... | \$ 732,502 | \$ 692,977 | \$ 659,584 |
| Net pension liability as a percentage of covered employee payroll..... | 191.08% | 208.54% | 178.70% |

See notes on following page.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS-
LAST TEN FISCAL YEARS - (Continued)**

Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

Notes to Schedule:

The Covered Employee Payroll numbers are in compliance with GASB 82, except for the 09/30/2015 measurement period which includes DROP payroll.

Changes of Benefit Terms:

For measurement date 09/30/2016, amounts reported as changes of benefit terms resulted from the following changes:

Ordinance 2982, adopted 09/12/2016, provided that the Member Contributions be reduced, effective 10/01/2015, from 8% to 7% of Salary.

Ordinance 2974, adopted 06/14/2016, complied with recent State and Federal legislation, including the adoption of a Share Plan that will not be funded at this time, the implementation of a cap of 300 hours per year of pensionable overtime, and limiting the pensionable lump sum sick and annual leave that is pensionable to the amounts recognized at 10/01/2012.

Changes of Assumptions:

For measurement date 09/30/2016, amounts reported as changes of assumptions resulted from the 08/10/2016 Actuarial Experience Study. The Board has made the following assumption changes, as outlined below:

The assumed individual salary increase was changed from a flat 6.0% to a service table with the rate of 10.0% during the first year of employment and 5.5% for all future years of service.

The assumed rates of retirement were changed as follows:

| <u>Service</u> | <u>Age</u> | <u>Current</u> | <u>Proposed</u> |
|----------------|------------|----------------|-----------------|
| Under 25 yrs | 48-49 | 5.0% | 5.0% |
| | 50 | 100.0% | 50.0% |
| | 51-54 | 100.0% | 20.0% |
| | 55-59 | 100.0% | 20.0% |
| | Over 60 | 100.0% | 100.0% |
| Over 25 yrs. | All | 100.0% | 100.0% |

The assumed rate of mortality has been changed to match that used by the FRS for special risk employees.

The investment return assumption was reduced from 7.5% to 7.4%, net of investment related expenses.

The assumed rates of withdrawal have been changed from an age based table to the following:

| <u>Service</u> | <u>Rate</u> |
|----------------|-------------|
| Over 1 yr. | 15.0% |
| 1-4 yrs. | 10.0% |
| 5-9 yrs. | 6.0% |
| Over 10 yrs. | 2.0% |

The inflation assumption rate was lowered from 3.00% to 2.70%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

This Page Intentionally Left Blank.

**SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITY CONTRIBUTIONS
LAST TEN FISCAL YEARS**

Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

| | 2016 | 2015 | 2014 |
|--|-------------------|------------------|------------------|
| Actuarially determined contribution..... | \$ 252,310 | \$ 231,648 | \$ 222,974 |
| Contributions in relation to the actuarially determined contribution..... | <u>(255,192)</u> | <u>(231,648)</u> | <u>(222,974)</u> |
| Contribution deficiency (excess)..... | <u>\$ (2,882)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll..... | 732,502 | 692,977 | 659,584 |
| Contributions as a percentage of covered payroll..... | 34.84% | 33.43% | 33.81% |

Notes to Schedule:

The Covered Employee Payroll numbers are in compliance with GASB 82, except for the 09/30/2015 measurement period which includes DROP payroll.

Valuation Date: 10/1/2014

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding Method: Enry Age Normal Actuarial Cost Method

Amortization Method: Level percentage of pay, closed

Remaining Amortization Period: 24 Years (as of 10/01/2014).

Mortality: RP-2000 Table with no projection.

Retirement Age: Earlier of age 50 and 6 years of service or 25 years of service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.

Early Retirement: Commencing with the earliest Early Retirement Age (48), members are assumed to retire with an immediate, subsidized benefit at the rate of 5% per year.

Interest Rate: 7.5% per year, compounded annually, net of investment related expenses.

Salary Increases: 6.0% per year up to the assumed retirement age. Salary in year of retirement is increased by 56.8% to account for lump sums.

Payroll Growth: Up to 5.0% per year, (1.71% used as of 10/1/14).

Asset Valuation Method: Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below market value.

Inflation: 3.00% per year.

Termination and Disability Rate Table.

| | % Becoming Disabled | % Terminating |
|-----|------------------------|---------------|
| Age | During Year | During Year |
| 20 | 0.07% | 12.40% |
| 30 | 0.11% | 10.50% |
| 40 | 0.19% | 5.70% |
| 50 | 0.51% | 1.50% |

| Fiscal Year | | | | | | |
|-------------|------|------|------|------|------|------|
| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |

-- On 10/01/2013, GASB 67 was adopted. Comparative data for all prior years is not available. --

SCHEDULE OF INVESTMENT RETURNS
LAST TEN FISCAL YEARS
Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

| | 2016 | 2015 | 2014 |
|---|-------|--------|-------|
| Annual money-weighted rate of return, net of investment expense..... | 9.75% | -0.54% | 9.06% |

| Fiscal Year | | | | | | |
|-------------|------|------|------|------|------|------|
| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| n/a | n/a | n/a | n/a | n/a | n/a | n/a |

-- On 10/01/2013, GASB 67 was adopted. Comparative data for all prior years is not available. --

This Page Intentionally Left Blank.

COMPLIANCE SECTION

This Page Intentionally Left Blank.

**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**

To the Board of Trustees
City of Holly Hill, Florida
Firefighters' Retirement System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Holly Hill, Florida, Firefighters' Retirement System (the "Fire System"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fire System's basic financial statements, and have issued our report thereon dated April 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fire System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire System's internal control.

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

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

To the Board of Trustees
City of Holly Hill, Florida
Firefighters' Retirement System

Compliance and Other Matters

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

Purpose of this Report

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

BMC CPAs

April 25, 2017