

**CITY OF HOLLY HILL, FLORIDA**  
**FIREFIGHTERS' RETIREMENT SYSTEM**



***FINANCIAL STATEMENTS***  
***AND***  
***OTHER FINANCIAL INFORMATION***

***YEARS ENDED SEPTEMBER 30, 2011 AND 2010***

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CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

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***INDEPENDENT AUDITORS' REPORTS***

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of plan net assets of City of Holly Hill, Florida, Firefighters' Retirement System as of September 30, 2011 and 2010 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of City of Holly Hill, Florida Firefighters' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only City of Holly Hill, Florida, Firefighters' Retirement System and do not purport to, and do not, present fairly the financial position of City of Holly Hill, Florida, as of September 30, 2011 and 2010, and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of City of Holly Hill, Florida Firefighters' Retirement System as of September 30, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
City of Holly Hill, Florida  
Firefighters' Retirement System  
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In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2012, on our consideration of City of Holly Hill, Florida Firefighters' Retirement System's internal control over financial reporting and our tests of the compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis and the schedules of funding progress and contributions from the employer and other contributing entities, listed under required supplemental information in the table of contents, are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

*Brent Milliken & Co., P.C.*

April 11, 2012



## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As financial management of the City of Holly Hill, Florida, Firefighters' Retirement System (hereinafter referred to as the "Fire Plan"), we offer the readers of these financial statements this narrative overview and analysis of the Fire Plan's financial activities for the fiscal years ended September 30, 2011 and 2010. 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 Plan's financial statements, which follow this information. The Fire Plan presents prior year comparative financial information when applicable and meaningful.

### Financial Highlights

- For fiscal year ended September 30, 2011, the Fire Plan's net assets held in trust for pension benefits decreased by \$18,343 (0.6 %) to \$2,873,960 compared to the Fire Plan's net assets for fiscal year 2010. The decrease for fiscal year 2011 can be attributed to the net depreciation in the fair value of the Fire Plan's investment portfolio due to the global financial crisis and the negative impact on equity markets.
- For fiscal year ended September 30, 2010, the Fire Plan's net assets held in trust for pension benefits increased by \$239,465 (9.0%) to \$2,892,303 compared to the Fire Plan's net assets for fiscal year 2009 of \$2,652,838. The increase for fiscal year 2010 can be attributed to the net appreciation in the fair value of the Fire Plan's investment portfolio, primarily the increase in value of equity investments.

### 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 Plan Net Assets* - presents the financial position of the Fire Plan 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 Plan Net Assets* - presents the results of activities during the fiscal year. All changes affecting the assets and liabilities of the fire Plan 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 Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Other information as required by the Governmental Accounting Standards Board (GASB) is presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GASB Pronouncements.

## Plan Net Assets

For fiscal year 2011, Fire plan net assets held in trust for benefits decreased by 0.6% to \$2,873,960, compared to plan net assets of \$2,892,303 in fiscal year 2010. The decrease can be attributed to the net depreciation in the fair value of the Plan's investment portfolio due the global financial crisis and the significant downturn in equity markets.

For fiscal year 2010, Fire's plan net assets held in trust for benefits increased by 9.0% to \$2,892,303, compared to plan net assets of \$2,652,838 in fiscal year 2009. The increase is primarily the result of a net appreciation in the fair value of the Plan's investment portfolio, primarily the increase in value of equity investments.

The following is a condensed summary of the Fire Plan's Plan Net Assets at September 30,:

### PLAN NET ASSETS

September 30,

	2011	2010	2009
<hr/>			
Assets:			
Cash and cash equivalents.....	\$ 106,207	168,085	181,339
Receivables.....	29,992	26,355	31,269
Investments, at fair value.....	<u>2,764,071</u>	<u>2,724,096</u>	<u>2,473,355</u>
Total assets.....	<u>2,900,270</u>	<u>2,918,536</u>	<u>2,685,963</u>
Liabilities:			
Accounts payable.....	6,485	6,408	3,431
Deferred revenue-unearned contributions.....	<u>19,825</u>	<u>19,825</u>	<u>29,694</u>
Total liabilities.....	<u>26,310</u>	<u>26,233</u>	<u>33,125</u>
Net Assets:			
Net assets held in trust for pension benefits.....	<u>\$ 2,873,960</u>	<u>2,892,303</u>	<u>2,652,838</u>

Typically, the Plan's receivables and payables are primarily generated through the timing difference between the trade and settlement dates for investment securities purchased or sold. The receivables also include amounts due for accrued investment earnings at year end and amounts due from state shared revenues which are received by the Plan immediately subsequent to year end. 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.

For fiscal year ended September 30, 2011, member contributions were \$43,043 or a decrease of \$6,229 (12.6%) compared to member contributions for fiscal year 2010. The change can be attributed to a decrease in the number of active Fire Plan members making voluntary contributions during the year. Two previously active members in 2010 enrolled in the DROP program during 2011.

For fiscal year 2010, member contributions were \$49,272 or an increase of \$14,829 (43.1%) compared to member contributions for fiscal year 2009. The change can be attributed to an increase in the mandatory member contribution rate which increased from 5% (prior to 2010) to 8% in 2010.

Employer contributions are made on a statutory basis determined by the actuarial valuations performed as of October 1, 2011, 2010, and 2009. Employer contributions for fiscal year 2011 totaled \$64,875, a

decrease of \$40,288 (38.3%) over employer contributions for fiscal year 2010. Employer contributions for fiscal year 2010 totaled \$105,163, an increase of \$56,929 (118.0%) over employer contributions for fiscal year 2009. Changes in employer rates in 2011 were made in conjunction with increased mandatory member rate changes that started in 2010.

For fiscal year ended September 30, 2011, the Plan had a net investment loss of \$18,343, a decrease of 91.1% compared to the net investment increase of \$239,465 recorded one year earlier. The loss for fiscal year 2011 can be attributed to the net depreciation in the fair value of the Plan's investment portfolio due to the global financial crisis and the significant downturn in domestic and international equity markets.

For fiscal year ended September 30, 2010, the Plan had a net investment increase of \$239,465 or an increase of 149,242, which is 165.4% greater than the net investment increase of \$90,223 recorded for fiscal year 2009. The increase for fiscal year 2010 can primarily be attributed to the net appreciation in the fair value of the Plan's investment portfolio, primarily the increase in value of equity investments.

Benefit payments recorded were \$131,418 for the period ended September 30, 2011; this was an increase of 4.5% over benefit payments in fiscal year 2010. Benefit payments recorded were \$125,744 for the period ended September 30, 2010. There were no retirement or resignation withdrawal requests recorded in 2011 or 2009, while refunds in 2010 totaled \$16,572. Benefit payments and withdrawals are primarily due to changes in the number of new retirees and the amount of payments made to beneficiaries. No legislatively enacted cost of living increases for certain retirees and beneficiaries have been recognized in 2011, 2010 or 2009 which have the effect of increasing benefit payments each year. Administrative costs have remained stable for each of the past three years at \$22,845, 23,935, and \$20,826 for the years ended September 30, 2011, 2010, and 2009, respectively.

The following is a summary of the Changes in Plan Net Assets for the years ended September 30,:

**CHANGES IN PLAN NET ASSETS**  
September 30,

	2011	2010	2009
<b>Additions:</b>			
Employer contributions .....	\$ 64,875	105,163	48,234
Member contributions .....	43,043	49,272	34,443
State contributions .....	59,948	62,261	149,515
Net investment income (loss).....	(31,946)	189,020	5,453
Total.....	135,920	405,716	237,645
<b>Deductions:</b>			
Benefit payments and withdrawals.....	131,418	142,316	126,596
Administrative expenses .....	22,845	23,935	20,826
Total.....	154,263	166,251	147,422
Net increase (decrease).....	(18,343)	239,465	90,223
<b>Net assets held in trust for pension benefits:</b>			
Beginning of year .....	2,892,303	2,652,838	2,562,615
End of year .....	\$ 2,873,960	2,892,303	2,652,838

## Investment Summary

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

### INVESTMENT SUMMARY

September 30,

	2011	2010	2009
Money market funds .....	\$ 106,207	168,085	181,339
Investments:			
U. S. Treasury obligations .....	150,975	82,802	26,902
U. S. government agencies.....	281,190	314,200	371,565
Corporate/municipal bonds .....	601,390	556,730	486,520
Corporate equities .....	305,951	374,011	610,308
Mutual funds.....	1,424,565	1,396,353	978,060
	<u>2,764,071</u>	<u>2,724,096</u>	<u>2,473,355</u>
Total.....	\$ 2,870,278	2,892,181	2,654,694

Due to the long-term nature of the Fire Plan's benefit obligations, the Plan'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 year 2011 were generally consistent with related benchmarks, within asset classes. Overall, most asset classes posted losses during the fiscal period due to downturns in the stock market and federal/state/local economies. Overall, the Plan's investments reported a weighted average portfolio return (loss) of -2.74% in 2011, compared to a positive 7.61% increase in 2010

## Funding Progress

The Fire Plan contracted with Foster & Foster (actuaries) to conduct an actuarial valuation to determine the actuarial position of the Plan as of October 1, 2011. 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 Changes - There have been no changes in benefits since the prior valuation in October 2011.

Changes in Actuarial Assumptions – Since the prior valuation the payroll growth assumption has been lowered from 4.2% to 0.6% to comply with Florida Statutes. The impact of the changes to improve the funding of the Plan are reflected in the numbers reported below.

- The Actuarial Valuation Report shows that the market value of assets decreased \$18,266 during 2011 to \$2,900,270 as of October 1, 2011. The market value of assets increased \$232,573 during 2010 to \$2,918,536 as of October 1, 2010.
- As of October 1, 2011, the actuarial value of the assets (AVA) decreased \$121,696 during 2011 to a total of \$2,992,822. As of October 1, 2010, the actuarial value of the assets (AVA) increased \$47,131 during 2010 to \$3,114,518.

- As of October 1, 2011, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2011 by \$152,346 to \$4,492,447. As of October 1, 2010, the actuarial accrued liabilities (AAL), or actuarial value of liabilities, increased during 2010 by \$22,422 to \$4,340,101.
- The ratio of a plan's AVA to AAL, expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Fire Plan's AAL ratio decreased to 66.62% during 2011 compared to 71.76% in 2010.
- When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of October 1, 2011, the Fire Plan's UAAL was \$1,499,625, an increase of \$274,042 from a UAAL of \$1,225,583 as of October 1, 2010.
- 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. As of October 1, 2011, the employer contribution rate of 45.1% covers the normal cost and the amortization of the UAAL over the remaining amortization period (27 years as of 10/01/11).

#### **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.

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## ***FINANCIAL STATEMENTS***

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**STATEMENTS OF PLAN NET ASSETS**  
September 30, 2011 and 2010  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

**Statement 1**

	September 30,	
	2011	2010
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Assets:		
Cash and cash equivalents.....	\$ 106,207	168,085
Receivables:		
State contributions receivable.....	19,403	16,650
Interest and dividends receivable.....	10,589	9,705
	<u>29,992</u>	<u>26,355</u>
Investments, at fair value:		
U.S. Treasury.....	150,975	82,802
U.S. Government Agencies.....	281,190	314,200
Corporate/municipal bonds.....	601,390	556,730
Corporate equities.....	305,951	374,011
Mutual Funds.....	<u>1,424,565</u>	<u>1,396,353</u>
	<u>2,764,071</u>	<u>2,724,096</u>
Total assets.....	2,900,270	2,918,536
Liabilities:		
Accounts payable.....	6,485	6,408
Deferred revenue-unearned contributions.....	<u>19,825</u>	<u>19,825</u>
Total liabilities.....	<u>26,310</u>	<u>26,233</u>
Net Assets:		
Net assets held in trust for pension benefits.....	\$ <u>2,873,960</u>	<u>2,892,303</u>

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

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
For the Fiscal Years Ended September 30, 2011 and 2010  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

**Statement 2**

	September 30,	
	2011	2010
Additions:		
Contributions from:		
Employer .....	\$ 64,875	105,163
State insurance premium tax distribution .....	40,545	45,611
State firefighters' supplemental compensation trust fund distribution .....	19,403	16,650
Plan members .....	<u>43,043</u>	<u>49,272</u>
Total contributions.....	<u>167,866</u>	<u>216,696</u>
Investment income (losses):		
Net realized and unrealized appreciation (depreciation) in fair value of investments .....	(94,595)	132,552
Interest and dividend earnings .....	<u>84,051</u>	<u>76,904</u>
	(10,544)	209,456
Less: investment management fees .....	<u>(21,402)</u>	<u>(20,436)</u>
Total investment (losses) income .....	<u>(31,946)</u>	<u>189,020</u>
Total (deductions) additions .....	<u>135,920</u>	<u>405,716</u>
Deductions:		
Benefit payments .....	131,418	125,744
Refunds/withdrawals .....	-	16,572
Administrative expenses .....	<u>22,845</u>	<u>23,935</u>
Total deductions.....	<u>154,263</u>	<u>166,251</u>
Net (decrease) increase .....	(18,343)	239,465
Net assets held in trust for pension benefits:		
Beginning of year .....	<u>2,892,303</u>	<u>2,652,838</u>
End of year .....	<u>\$ 2,873,960</u>	<u>2,892,303</u>

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

## ***NOTES TO FINANCIAL STATEMENTS***

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## **NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Firefighters' Retirement System (the "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 System and are not intended to present the financial position or results of operations of the City of Holly Hill, Florida. The System is included in the City's Comprehensive Annual Financial Report (CAFR) for the years ended September 30, 2011 and 2010, which are separately issued documents. Anyone wishing further information about the City is referred to the City's CAFR.

The 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, Florida Statutes. The System provides retirement, disability, and survivor benefits for all City firefighters who participate in the plan. The accounts of the 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 System are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets held in trust for employee's pension benefits and additions to and deductions from net assets held in trust 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 System's plan net assets and changes in net plan assets. Revenue is 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 System. Contribution refunds are recognized when due and payable in accordance with the terms of the System and the City's procedures for employee terminations.

#### **Cash and Short-Term Investments**

The System's cash and cash equivalents are considered to be cash on deposit, money market funds, and short-term investments with original maturities of three months or less from the date of acquisition. At September 30, 2011 and 2010, the carrying amount of the System's cash and money market funds totaled \$106,207 and \$168,085, all of which is maintained in brokerage security trust accounts that are not subject to federally insured FDIC protection.

## **NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **Investments**

Investments are reported at fair value and are managed by the System's Board of Trustees and a third party money manager. The System's independent Custodian and money manager price each instrument that does not have an established market at estimated fair value. Performance reporting, administrative expenses, and the City's asset valuation are based on quoted market prices provided by the Custodian.

### **Net Assets**

Net assets of the System are the difference between total plan assets and total plan liabilities and are held in trust 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 8% (5% prior to 2010) of their covered payroll to the plan.

The City has historically contributed amounts equaling or exceeding the annual required contribution (ARC) and thus has never recognized, or needed to report, a net pension benefit obligation (NPO). Amounts contributed by the City in excess of the annual required contribution are recognized as deferred (unearned) revenue and are held in trust to offset future required employer contributions, at which time they are recognized as earned. When accumulated contributions to the Plan exceed the actuarially computed Annual Pension Cost (APC), the accumulated excess is reported as a net pension asset (NPA) in the entity-wide financial statements.

### **Investment Income**

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 System is contributory and employee 8% (5% in prior years) contributions 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 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. Actual results could differ from those estimates.

### **Reclassifications**

Certain reclassifications have been made to the prior year's financial statements to conform with the current period's presentation.



## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

### NOTE 2 – DESCRIPTION OF PLAN

The City maintains a single-employer defined benefit pension plan for all full-time firefighters, which assets are included in the Firefighters' Retirement 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 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. The investments of the System are administered, managed, and operated by a five-member Board of Trustees using the services of the City staff, local financial institutions, and contracted third-party fund custodians.

The Florida Constitution requires local governments to make the actuarially determined contribution to their defined benefit plans. The Florida Division of Retirement reviews each local government's actuarial report prior to its being appropriated for use for funding purposes. Additionally, the state collects a locally authorized insurance premium surcharge for the 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.

All full-time, uniformed firefighters are eligible (and required as a condition of employment) to participate in the 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 early retirement after attaining age 48 with 6 years of 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, 2011:

	<u>2011</u>	<u>2010</u>
Service retirees currently receiving benefits.....	5	5
Beneficiaries currently receiving death benefits.....	0	0
Beneficiaries currently receiving disability benefits.....	0	0
Vested terminated employees .....	2	2
Employees receiving DROP benefits.....	3	1
Active employees.....	<u>9</u>	<u>10</u>
Total participants.....	<u>19</u>	<u>18</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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On September 13, 2010 (latest amendment date), the System amended its plan provisions with the adoption of Ordinance No. 2880. The following is a summary of the significant provisions:

Eligibility	All full-time firefighters.
Contributions	Employee - 8.0% of salary. Employer-Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any.
Normal Retirement Date	Earlier of age 50 and 6 years of credited service or completion of 25 years of credited service, regardless of age.
Normal Retirement Benefit	3.0% of average monthly earnings times credited service.
Form of Benefit	Ten-Year Certain and Life Annuity (options available).
Supplement	Retirees receive \$19.00 per month per year of credited service payable to the date on which unreduced Social Security benefits become payable.
Early Retirement Eligibility	Age 48 and 6 years of credited service.
Early Retirement Benefit	Accrued benefit, actuarially reduced for each year that early retirement precedes normal retirement.
Vesting Schedule	100% after 6 years of credited service
Vesting Benefit Amount	Member will receive the vested portion of accrued benefit payable at the otherwise normal retirement date.
Disability Eligibility	Service incurred-Covered from date of employment. Non-service incurred-10 years of credited service.
Disability Benefit	Benefit accrued to date of disability, but not less than 42% of average monthly earnings (service incurred).
Duration of Disability Benefits	Payable for life with ten years certain or until recovery.
Pre-retirement Death Benefits	Not Vested-Beneficiary shall receive 100% of member contributions. Vested-Monthly accrued benefit payable at the member's normal retirement date to designated beneficiary for 10 years, options available. Minimum Benefit for Spouse if Member dies in active service and is vested-50% of salary at time of death payable for life of the spouse.
Deferred Retirement Option Plan	Eligibility-Eligibility for normal retirement. Participation-Not to exceed 60 months. Rate of Return-6.50% per annum, credited quarterly. Form of Distribution-Lump sum at termination of employment.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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The City provides contributions to the System under the authority of Chapter 175, Florida Statutes and pursuant to City ordinances. Employees covered under the plan are required to make contributions of 8% of their compensation (5% prior to October 1, 2009). City contributions to the System are made as needed to fund any actuarial deficiency. If an employee leaves covered employment or dies before 6 years of credited service, accumulated employee contributions, are refunded to the employee or a designated beneficiary. The ordinances also require the City to make an annual contribution to the System at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The City is obligated by law to make all required contributions to the System.

The City's actuarial valuation dated October 1, 2011 is utilized to determine the contributions to the Plan for the year ending September 30, 2013. Pursuant to the System's actuarial valuation dated October 1, 2009, the city's total minimum required contribution was reported to be a fixed percentage equal to 31.2% of the covered payroll, rather than being reported as a fixed minimum contribution amount. After adjusting the required contribution rate for member contributions at 8% of covered payroll, the remaining percentage rate of 23.2% is required to be funded by the employer with a combination of state excise tax premium distributions and mandatory employer contributions. A one-time adjustment is allowed to provide the City the opportunity to true-up, or true-down the employer's pro-rata share of the required contribution, after consideration of the actual state excise tax premium distribution collected during the year.

For the year ended September 30, 2011, the actuarially determined required contribution of 31.2% of covered payroll (\$538,033) totaled \$167,867. Actual contributions from members representing 8% of covered payroll totaled \$43,043, which produced a required minimum employer contribution representing 27.1% of payroll or \$124,824. Amounts actually contributed by the City during the year ended September 30, 2011, totaled \$124,824. Amounts contributed in excess of the annual required contribution in prior years totaled \$19,285 at October 1, 2010. The cumulative amount of the overpayment (deferred revenue) totaled \$19,825 at September 30, 2011, which can be used to offset future employer contributions.

The funded status of the System as of the most recent actuarial valuation was as follows:

Valuation Date.....	October 1, 2011
Actuarial Value of Plan Assets.....	\$2,992,822
Actuarial Accrued Liability (AAL) —Entry Age .....	\$4,492,447
Unfunded AAL (UAAL) .....	\$1,499,625
Funded Ratio .....	66.62%
Annual Covered Payroll .....	\$429,175
UAAL as % of Covered Payroll.....	349.42%

The annual required contribution (ARC) is calculated using the Individual Entry Age Normal Actuarial Cost Method (Level Percent of Compensation). The use of this method involves the systematic funding of the Normal Cost and the Unfunded Accrued (Past Service) Liability.

The actuarial value of System assets was determined using a four-year smoothed market method. The amortization method is level percent of pay, closed, with a remaining amortization period of 27 years at October 1, 2011. Actuarial assumptions include (a) 7.5% investment rate of return, (b) projected salary increases of 6.0% per year (includes inflation at 3.0% per year), and (c) post-retirement (COLA) cost-of-living increases of 0.0%.

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

The required schedule of funding progress immediately following the notes to the financial statements presents additional, multi-year, trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Although there is no intent to do so, if the Fire Plan is terminated for any reason, the Board of Trustees shall apportion and distribute the System's assets in accordance with the requirements set forth in Chapter 175 of the Florida Statutes.

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS**

At September 30, 2011, 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.....	\$ 150,975	-	-	46,209	104,766
U.S. Government Agencies.....	281,190	-	28,904	16,961	235,325
Corporate/municipal bonds.....	601,390	-	324,692	244,688	32,010
Corporate equities.....	305,951	305,951	-	-	-
Mutual Funds.....	<u>1,424,565</u>	<u>1,424,565</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,764,071</u>	<u>1,730,516</u>	<u>353,596</u>	<u>307,858</u>	<u>372,101</u>

At September 30, 2010, 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.....	\$ 82,802	-	56,130	14,987	11,685
U.S. Government Agencies.....	314,200	-	35,022	33,613	245,565
Corporate/municipal bonds.....	556,730	-	263,322	239,845	53,563
Corporate equities.....	374,011	374,011	-	-	-
Mutual Funds.....	<u>1,396,353</u>	<u>1,396,353</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,724,096</u>	<u>1,770,364</u>	<u>354,474</u>	<u>288,445</u>	<u>310,813</u>

*Credit Risk.* The System's investment policies are governed by state statutes (Chapter 175, F.S.) and by an investment policy adopted by its 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.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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*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 63% of its net assets in domestic corporate equities and mutual funds, which fair value varies in conjunction with changes in the NYSE and NASDAQ stock index prices. Investments in U.S Treasury obligations, which represent approximately 5% of the System's investments, typically include discounted, fixed-price notes and bonds that mature within fifteen to thirty 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 10% 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 bonds, which represent approximately 22% 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.

*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, 2011 and 2010, The 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, 2011 and 2010, the System has custodial credit risk exposure of \$2,764,071 and \$2,724,096, respectively, for investments, and \$106,207 and \$168,085, respectively, for 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 –* Pursuant to the provisions of the System's investment policy (Chapter 42, Article III, Section 42-87(f)(2)(e)(3) of the City's Code of Ordinances), the System is prohibited from investing more than five percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company. At September 30, 2011 and 2010, the System had no investments in any one organization that represented 5 percent or more of the System's plan net assets.

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**

September 30, 2011 and 2010

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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**NOTE 4 – 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 assets 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 5 – SUBSEQUENT EVENTS**

In preparing these financial statements, the System has evaluated events and transactions for potential recognition or disclosure through April 11, 2012, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

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**REQUIRED SUPPLEMENTARY INFORMATION****Schedule 1**

September 30, 2011

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Assets in Excess of) AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b - a)/c)
10/01/2011	\$ 2,992,822	\$ 4,492,447	\$ 1,499,625	66.62%	\$ 429,175	349.42%
10/01/2010	\$ 3,114,518	\$ 4,340,101	\$ 1,225,583	71.76%	\$ 513,599	238.63%
10/01/2009	\$ 3,067,387	\$ 4,317,679	\$ 1,250,292	71.04%	\$ 630,037	198.45%
10/01/2008	\$ 2,954,229	\$ 4,396,537	\$ 1,442,308	67.19%	\$ 628,094	229.63%
10/01/2007	\$ 2,811,291	\$ 4,449,389	\$ 1,638,098	63.18%	\$ 748,437	218.87%
10/01/2006	\$ 2,540,064	\$ 4,206,459	\$ 1,666,395	60.38%	\$ 765,112	217.80%

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES**

Year Ended September 30	Annual Required Contribution	Employer Contributions	State Contributions	Percentage Contributed
2011	\$ 124,824	\$ 64,875	\$ 59,948	100.00%
2010	\$ 167,424	\$ 105,163	\$ 62,261	100.00%
2009	\$ 197,016	\$ 47,502	\$ 149,514	100.00%
2008	\$ 223,749	\$ 223,749	\$ -	100.00%
2007	\$ 225,601	\$ 155,785	\$ 123,907	123.98%
2006	\$ 135,419	\$ 99,546	\$ 35,873 *	100.00%

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

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**REQUIRED SUPPLEMENTARY INFORMATION – (Continued)**

September 30, 2011

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the most recent available actuarial valuation is as follows:

## Contribution rates as of 09/30/2011:

City.....	12.1%
Plan Members .....	8.0%
Actuarially determined contribution .....	\$64,875
Contributions made.....	\$64,875
Valuation date .....	October 1, 2009
Actuarial cost method .....	Entry Age Normal
Amortization method .....	Level Percent of Pay, Closed
Remaining amortization period.....	27 Years (as of 10/01/11)
Asset Valuation Method .....	4 Year Smoothed Market
Actuarial assumptions:	
Investment rate of return.....	7.5%, net of investment expenses
Projected salary increases <sup>(1)</sup> .....	6.0%
<sup>(1)</sup> includes inflation at .....	3.0%
Post-retirement cost of living increases (COLA).....	0.0%

**THREE YEAR TREND INFORMATION**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2011 .....	\$67,286	96%	\$ (64,731)
09/30/2010 .....	\$115,055	91%	\$ (67,142)
09/30/2009 .....	\$45,333	105%	\$ (77,034)

This municipal Defined Benefit 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 sponsor 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 was \$-0-.

**REQUIRED SUPPLEMENTARY INFORMATION – (Continued)**

September 30, 2011

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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The development of the Net Pension Obligation (NPO) in the Fire Plan is as follows:

	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>9/30/2011</u>
Actuarially determined contribution .....	\$ 47,502	105,163	64,875
Interest on NPO .....	(5,615)	(5,778)	(5,036)
Adjustment .....	<u>3,446</u>	<u>15,670</u>	<u>7,447</u>
Annual Pension Cost .....	45,333	115,055	67,286
Contributions made .....	<u>47,502</u>	<u>105,163</u>	<u>64,875</u>
Increase in NPO .....	(2,169)	9,892	2,411
NPO - beginning of year .....	<u>(74,865)</u>	<u>(77,034)</u>	<u>(67,142)</u>
NPO - end of year .....	\$ <u><u>(77,034)</u></u>	<u><u>(67,142)</u></u>	<u><u>(64,731)</u></u>

## ***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**

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

We have audited the financial statements of City of Holly Hill, Florida, Firefighters' Retirement System as of and for the year ended September 30, 2011, and have issued our report thereon dated April 11, 2012. 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, Firefighters' Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Holly Hill, Florida, Firefighters' Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Holly Hill, Florida, Firefighters' Retirement System's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees  
City of Holly Hill, Florida  
Firefighters' Retirement System  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Holly Hill, Florida, Firefighters' Retirement System's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Trustees, Plan Members, and other governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Brent Milliken & Co., P.A.*

April 11, 2012