

CITY OF HOLLY HILL, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006



CITY COMMISSION

HONORABLE ROLAND D. VIA, MAYOR

DISTRICT 1 – JOHN PENNY

DISTRICT 2 - GILLES BLAIS

DISTRICT 3 – MARK REED

DISTRICT 4 – TRACI A. ANDERSON

CITY MANAGER

JOSEPH A. FORTE

CITY ATTORNEY

EDWARD F. SIMPSON, JR., ESQ.

DIRECTOR OF FINANCE

KURT D. SWARTZLANDER

Prepared by:
Holly Hill Finance Department

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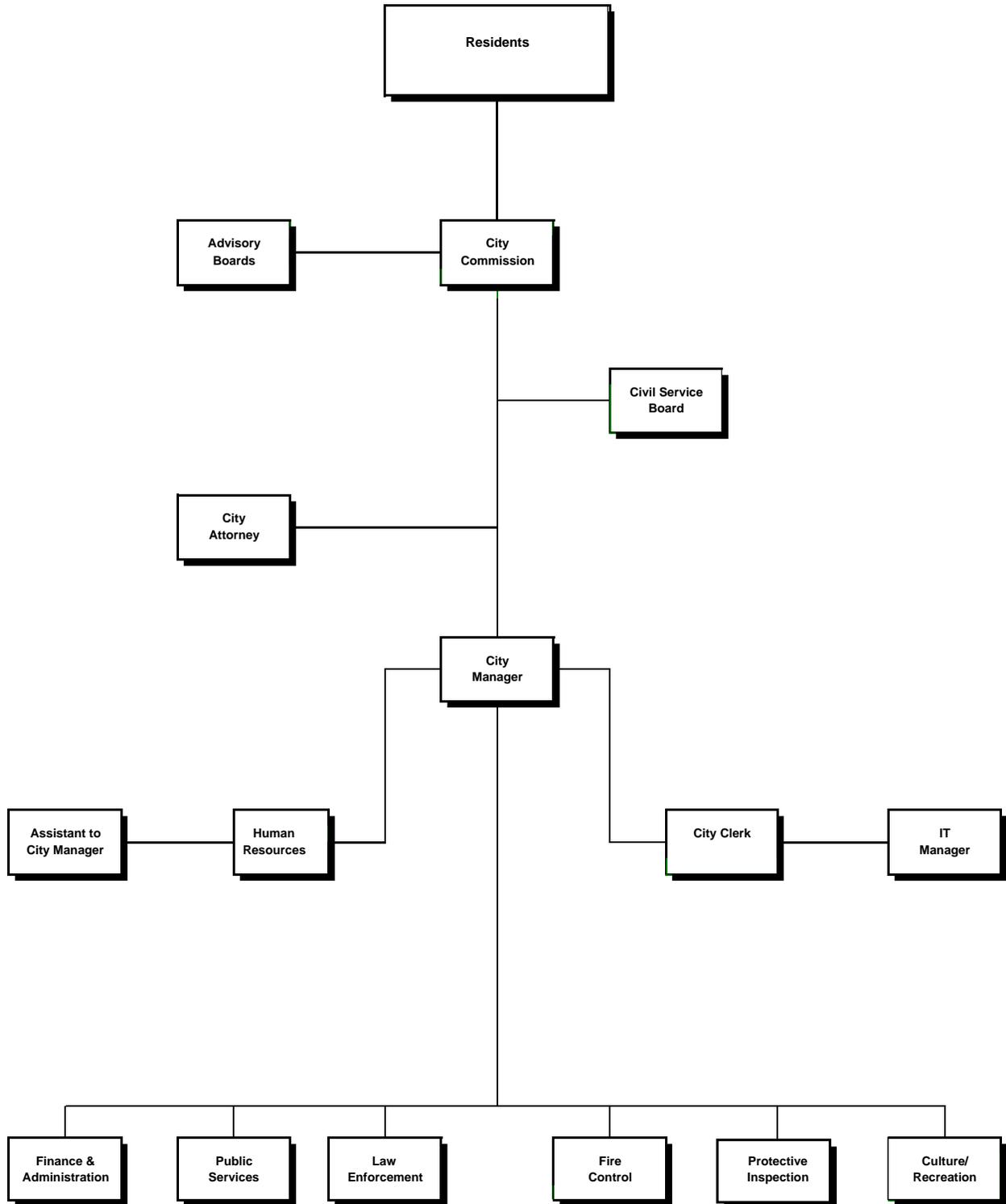
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ORGANIZATION CHART

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ORGANIZATION CHART
 For The Year Ended September 30, 2006
 CITY OF HOLLY HILL, FLORIDA



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CITY OF HOLLY HILL, FLORIDA

CERTIFICATE OF ACHIEVEMENT AWARDED

For the Year Ended September 30, 2005

*The Government Finance Officers Association of the United States and Canada (GFOA) awarded a **Certificate of Achievement for Excellence in Financial Reporting** to the City of Holly Hill, Florida, for its comprehensive annual financial report for the fiscal year ended September 30, 2005.*

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

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

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

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Holly Hill
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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



President

Executive Director

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LETTER OF TRANSMITTAL

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CITY OF HOLLY HILL

The City with a Heart

1065 Ridgewood Avenue ♥ Holly Hill, Florida 32117

www.hollyhillfl.org

May 22, 2007

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

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

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

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

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

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

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

**Public
Works**
386-248-9463
Fax 386-248-9448

Recreation
386-248-9460
Fax 386-248-9499

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

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

State law requires that all general-purpose local governments publish within twelve months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. We hereby issue the comprehensive annual financial report of the City of Holly Hill for the fiscal year ended September 30, 2006.

This report consists of management's representations concerning the finances of the City of Holly Hill. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Holly Hill has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Holly Hill's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Holly Hill's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Brent Millikan & Company, P.A., a firm of licensed certified public accountants, has audited the City of Holly Hill's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Holly Hill for the fiscal year ended September 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Holly Hill's financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Holly Hill was part of a broader, federally and state mandated “Single Audit” designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. Accordingly, there are supplementary reports and a schedule of expenditures of federal awards relative to a single audit presented in the last section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Holly Hill’s MD&A can be found immediately following the report of the independent auditors.

Profile of Government

The City of Holly Hill, incorporated in 1901, is located in east central Florida on the west bank of the Halifax River. The City of Holly Hill currently occupies a land area of 4.5 square miles. The City of Holly Hill is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission. The City of Holly Hill has operated under the commission-manager form of government since 1901. Policy-making and legislative authority are vested in the City Commission consisting of the mayor and four other members. The City Commission is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the City and for appointing the heads of various departments. The commission is elected on a non-partisan basis. Commission members serve four-year staggered terms, with an election every two years. The mayor is elected to serve a four-year term and is limited to two terms. The City of Holly Hill provides a full range of services, including police, fire and rescue, street construction and maintenance, planning and zoning, parks and recreation, cultural events, stormwater management services and general administrative services. In addition, water and sewer service, and solid waste collection are provided under an Enterprise Fund concept with user charges established by the City Commission to ensure adequate coverage of operating expenses and payments on outstanding debt. The City of Holly Hill provides water and sewer service outside the city limits, including to the City of Ormond Beach, City of Daytona Beach and certain unincorporated parts of Volusia County. The City of Holly Hill contracts with private enterprise for solid waste collection.

The annual budget serves as the foundation for the City of Holly Hill’s financial planning and control. All departments of the City of Holly Hill are required to submit requests for appropriation to the City Manager by early April. Requests for personnel and Capital Improvements must be submitted in May. The City Manager uses these requests as the starting point for developing a proposed budget. Budget workshops are held in June and July. In late July, the city commission sets a proposed millage rate by resolution. The City Manager presents the proposed budget to the commission at the first public hearing in September. The commission is required to hold two public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of Holly Hill’s fiscal year. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the City Commission. Budget-to-actual comparisons are provided in this report. The general fund and three major fund comparisons are presented as part of the required supplemental information for the City. City funds, other than the general fund and other major funds, with appropriated annual budget comparisons, are presented in the combining and individual fund statements section.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Holly Hill operates.

Local Economy - The City of Holly Hill currently enjoys a favorable economic environment and local indicators point to continued stability. The opportunity for additional growth still exists in an already dynamic business and industrial community. The City is actively encouraging new and expanded business development in core commercial areas and promoting the upgrading of older residential areas by providing assistance whenever possible. Property valuations increased significantly during the past year by 22.86%.

Cash Management - The City maintains pooled cash and investment accounts for all cash and investments under its control. Cash temporarily idle during the year was invested in demand deposit and time deposit accounts and U.S. Treasury securities ranging from 12 to 24 months to maturity. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized in accordance with state statutes. All collateral on deposits was held either by the City, its agent or a financial institution's trust department in the City's name. At September 30, 2006, unrestricted cash was invested primarily in interest bearing demand deposits, with the State Board of Administration, and in U.S. Treasury obligations.

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

Pension Trust Fund Operations - The Municipal Firefighters', Police Officers' and General Employees' Pension Trust Funds net assets increased during the fiscal year ended September 30th, 2006. Deductions and expenses were as expected and did not show great fluctuations. Each year an independent actuary is engaged by the pension plan trustees who calculates the amount of the annual contribution that the city must deposit to the pension plans to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the Actuary. Please see the notes to the financial statements for more information.

The City of Holly Hill also provides the opportunity for retirees to continue their health care and life insurance coverage. As of the end of the current fiscal year there were 7 retired employees purchasing the health insurance benefits and 26 have elected to continue their life insurance, both types of coverage are financed by the retiree on a pay-as-you-go basis. GAAP, at this time, do not require the City to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Holly Hill's pension arrangements and post employment benefits can be found in the notes to the financial statements.

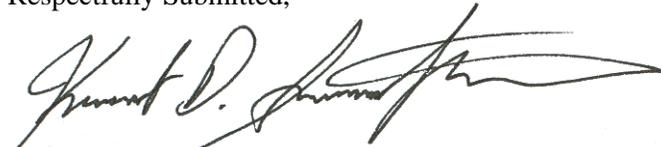
Awards - The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the City of Holly Hill, for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2005. This was the twenty ninth consecutive year that the City of Holly Hill has achieved this prestigious Award. In order to be awarded a certificate of achievement a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual report continues to meet the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine it's eligibility for another certificate.

Acknowledgements - The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contribution they made in preparation of this report.

In closing, without the leadership and support of the members of the City Commission of the City of Holly Hill, preparation of this report would not have been possible.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Kurt D. Swartzlander", with a long, sweeping horizontal flourish extending to the right.

Kurt D. Swartzlander
Finance Director

FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING FIVE PARTS:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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

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INDEPENDENT AUDITORS' REPORT

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holly Hill, Florida, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Holly Hill, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Police Officers' Retirement Trust Fund, which reflect \$5,451,379 of the total assets and \$5,443,124 of the net assets held in trust for pension benefits at September 30, 2006, and \$650,538 of contributions and investment earnings for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Police Officers' Retirement Trust Fund, is based on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holly Hill, Florida, as of September 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of City of Holly Hill, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

The management's discussion and analysis and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Hill, Florida's basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

Brent Milliken & Co., P.A.

April 24, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City of Holly Hill, Florida, (hereinafter referred to as the "City"), we offer the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with our letter of transmittal found in the preceding introductory section, and the City's financial statements, which follow this information. The City presents prior year comparative financial information when applicable and meaningful.

Financial Highlights

- The City's financial position is strengthening as a result of the current year's operations. Overall combined assets of the City totaled \$55.7 million at the close of the 2006 fiscal year compared to \$52.8 million last year. Total assets exceeded liabilities by approximately \$26.7 million (*combined net assets*) compared with \$24.8 million one year earlier. The unrestricted component of the City's combined net assets totaled \$3.5 million at year end. This represents the unrestricted amount available to be used to meet the City's ongoing obligations to its citizens and creditors.
- Net assets of the City's governmental activities totaled \$15.9 million, an increase of approximately \$730,000 over last year's \$15.1 million, or 4.8%. At the same time, net assets of its business-type activities totaled \$10.9 million, an increase of approximately \$1.2 million over last year's \$9.7 million, or 12.1%.
- During 2006, the City combined governmental operating expenses were \$728,751 less than the \$10.4 million generated in governmental program charges, grants, contributions, taxes and other revenues for providing its various governmental program activities and programs. This compares favorably with excess revenues of \$876,032 recognized in the prior year.
- The City's business-type activities produced net operating revenues of \$1.9 million for 2006 based on consumptive water/sewer/solid waste utility sales of \$6.4 million. The operating margins in these funds continue to be capable of providing direct financial support to the City's governmental funds. Operating transfers in 2006 totaled \$1,128,150, compared to \$795,000 last year.
- Total operating costs incurred by the City in providing its various programs increased from \$13.1 million in 2005 to \$15.6 million in 2006. Operating expenses in 2006 totaled \$9.7 million and \$5.9 million for the City's governmental activities and business-type activities, respectively.
- Unreserved fund equity in the General Fund remained relatively stable in 2006 with a slight increase of \$76,145.
- Resources earned and available for appropriation in the current year were higher (5.4%) than the amounts anticipated in the General Fund's operating budget. However, General Fund expenditures were within the City's spending limits and fell 0.9% below its revised appropriations for the year.

Overview of the Financial Statements

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

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

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

Government-Wide Financial Statements

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

- A statement of net assets presents information on all of the City's assets and liabilities at the end of its fiscal year, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial condition.
- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the City's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes and earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government services, public safety (police, fire and building inspection), highways and streets, stormwater management, economic development, and recreation and leisure services. The business-type activities of the City include its water and sewer utility and solid waste utility operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 18 and 21.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Community Redevelopment Trust (special revenue) Fund, the Stormwater Drainage (special revenue) Fund, and the Community Redevelopment Capital Projects Fund, all of which are considered to be major funds. Data from the eight other governmental funds are combined into a single, aggregated presentation and include the remainder of the City's special revenue, capital projects and debt service funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 16 to 21 of this report.

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

Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The proprietary fund financial statements provide separate financial information for the water and sewer utility and solid waste utility operations, both of which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 22 to 26 of this report.

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

The basic fiduciary fund financial statements can be found on pages 27 to 28 of this report. Combining statements for these funds are found in Exhibits 12 and 13.

Notes to the Financial Statements. The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 29 to 54 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide certain pension benefits to its employees and information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the City's governmental fund activities. Required supplementary information can be found on pages 55 to 62 of this report.

Government-Wide Financial Analysis of the City as a Whole

Net Assets. As noted previously, net assets may serve over time as a useful indicator of a government's financial position. This year, the City's combined net assets increased to \$26,749,411 at the end of 2006 from \$24,843,894 at the end of 2005. Looking at the net assets of the City's governmental and business-type activities separately, we can see that the City experienced moderate growth in the net assets of its governmental activities (4.8%) and in its business-type activities (12.1%).

Net assets of the City's governmental activities increased by \$728,751 for the year and totaled \$15,865,557 at the end of the fiscal year. Of this amount, approximately 93% is either restricted as to the purposes they can be used for or is invested in capital assets (land, buildings and equipment). Consequently, unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$987,391 at the end of 2006.

Net assets of the City's business-type activities increased by \$1,176,766 for the year and totaled \$10,883,854 at the end of the fiscal year. Approximately 37% of its total net assets (\$4,065,661) reflects its net investment in capital assets, less that portion of related debt used to acquire those assets that is still outstanding. These capital assets are used to provide water and sewer utility services and solid waste utility services to our customers; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that under normal circumstances the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Long-term debt obligations associated with this capitalization totaled \$14,636,891 at the end of 2006. The following is a comparative summary of net assets at year end:

Net Assets
September 30, 2006 and 2005

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Assets: | | | | | | |
| Current and other assets..... | \$ 11,180,358 | 11,120,422 | 8,530,408 | 6,783,527 | 19,710,766 | 17,903,949 |
| Capital assets, net..... | <u>17,435,975</u> | <u>17,263,093</u> | <u>18,511,708</u> | <u>17,663,419</u> | <u>35,947,683</u> | <u>34,926,512</u> |
| Total assets | <u>28,616,333</u> | <u>28,383,515</u> | <u>27,042,116</u> | <u>24,446,946</u> | <u>55,658,449</u> | <u>52,830,461</u> |
| Liabilities: | | | | | | |
| Long-term debt outstanding..... | 11,983,820 | 12,590,106 | 14,772,609 | 13,525,989 | 26,756,429 | 26,116,095 |
| Other liabilities..... | <u>766,956</u> | <u>656,603</u> | <u>1,385,653</u> | <u>1,213,869</u> | <u>2,152,609</u> | <u>1,870,472</u> |
| Total liabilities | <u>12,750,776</u> | <u>13,246,709</u> | <u>16,158,262</u> | <u>14,739,858</u> | <u>28,909,038</u> | <u>27,986,567</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt..... | 12,446,679 | 5,352,066 | 4,065,661 | 4,469,861 | 16,512,340 | 9,821,927 |
| Restricted..... | 2,431,487 | 8,610,689 | 4,335,610 | 2,337,539 | 6,767,097 | 10,948,228 |
| Unrestricted | <u>987,391</u> | <u>1,174,051</u> | <u>2,482,583</u> | <u>2,899,688</u> | <u>3,469,974</u> | <u>4,073,739</u> |
| Total net assets | <u>\$ 15,865,557</u> | <u>15,136,806</u> | <u>10,883,854</u> | <u>9,707,088</u> | <u>26,749,411</u> | <u>24,843,894</u> |

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

Changes in Net Assets. While the statement of net assets shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and source of those changes. During 2005, the City's combined net assets increased \$1.3 million while the City's revenues increased approximately \$2.3 million. Overall, approximately 12% of the City's total revenues come from property taxes, while almost 34% of every dollar raised comes from some type of tax collected by the City. Another 49% comes from fees charged for services, while the remaining 17% is a combination of state and federal financial assistance, operating and capital grants and donations, interest and other earnings. The following is a comparative summary of changes in net assets for the year ended September 30, 2006:

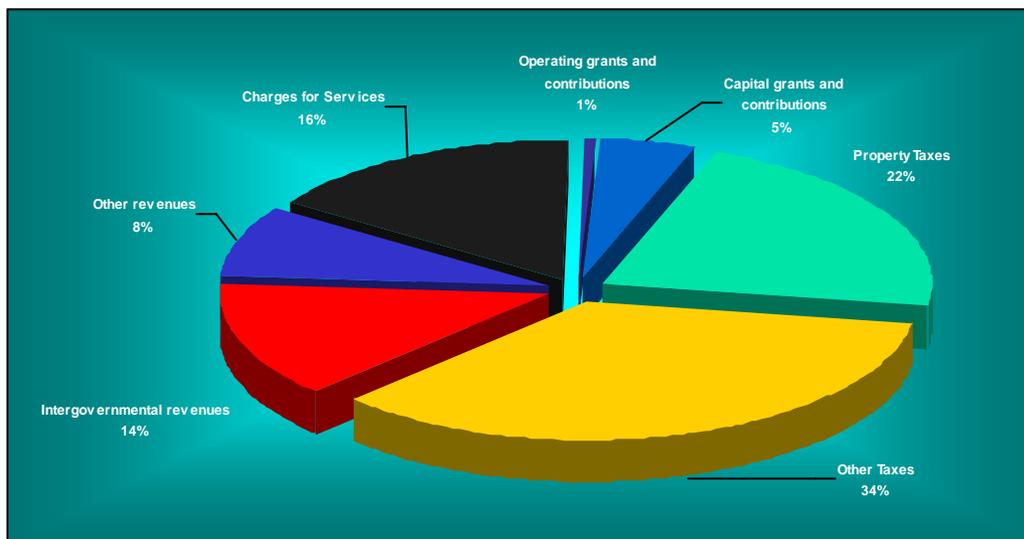
Changes in Net Assets
For the Fiscal Years Ended September 30, 2006 and 2005

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---------------------------------|--------------------------------|------------------|---------------------------------|------------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services..... | \$ 1,449,416 | 1,179,842 | 6,397,532 | 5,992,920 | 7,846,948 | 7,172,762 |
| Operating grants/other..... | 75,394 | 47,815 | - | 465,949 | 75,394 | 513,764 |
| Capital grants/other..... | 426,699 | 336,710 | 1,434,318 | 98,700 | 1,861,017 | 435,410 |
| General revenues: | | | | | | |
| Property taxes..... | 2,039,394 | 1,786,769 | - | - | 2,039,394 | 1,786,769 |
| Other taxes..... | 3,255,248 | 3,101,236 | - | - | 3,255,248 | 3,101,236 |
| Intergovernmental..... | 1,265,659 | 949,055 | - | - | 1,265,659 | 949,055 |
| Other revenues..... | <u>786,309</u> | <u>296,612</u> | <u>373,771</u> | <u>133,501</u> | <u>1,160,080</u> | <u>430,113</u> |
| Total revenues..... | <u>9,298,119</u> | <u>7,698,039</u> | <u>8,205,621</u> | <u>6,691,070</u> | <u>17,503,740</u> | <u>14,389,109</u> |
| Expenses: | | | | | | |
| General government..... | 1,635,694 | 1,537,736 | - | - | 1,635,694 | 1,537,736 |
| Public safety..... | 3,880,653 | 3,556,976 | - | - | 3,880,653 | 3,556,976 |
| Transportation..... | 505,509 | 537,269 | - | - | 505,509 | 537,269 |
| Economic environment..... | 810,374 | 420,463 | - | - | 810,374 | 420,463 |
| Physical environment..... | 329,480 | 226,225 | - | - | 329,480 | 226,225 |
| Culture/recreation..... | 2,086,894 | 1,193,577 | - | - | 2,086,894 | 1,193,577 |
| Interest on long-term debt..... | 448,914 | 144,761 | - | - | 448,914 | 144,761 |
| Water and sewer utilities..... | - | - | 4,238,066 | 3,842,182 | 4,238,066 | 3,842,182 |
| Solid waste utilities..... | - | - | <u>1,662,639</u> | <u>1,591,794</u> | <u>1,662,639</u> | <u>1,591,794</u> |
| Total expenses..... | <u>9,697,518</u> | <u>7,617,007</u> | <u>5,900,705</u> | <u>5,433,976</u> | <u>15,598,223</u> | <u>13,050,983</u> |
| Transfers in (out)..... | <u>1,128,150</u> | <u>795,000</u> | <u>(1,128,150)</u> | <u>(795,000)</u> | - | - |
| Increase in net assets..... | <u>\$ 728,751</u> | <u>876,032</u> | <u>1,176,766</u> | <u>462,094</u> | <u>1,905,517</u> | <u>1,338,126</u> |

Governmental Activities

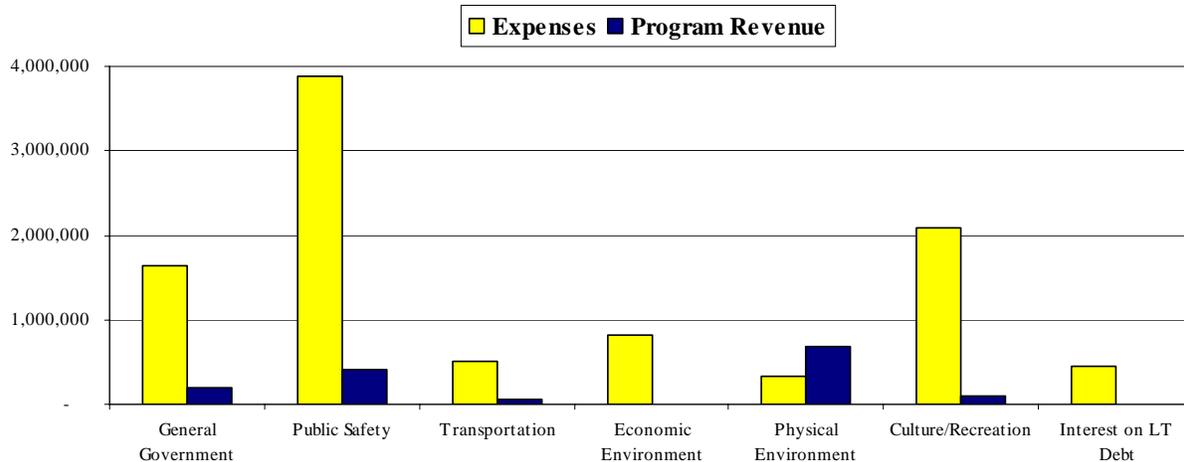
Revenues for the City's governmental activities experienced strong growth during 2006. Overall, the City's governmental revenues totaled \$9,298,119, which represents an increase of \$1,600,080, or 20.7% over last year's reported governmental revenues totaling \$7,698,039. This increase was primarily attributable to moderately stable increases in virtually all revenue sources, and interest earnings (\$540,219). Recently, the City placed more emphasis on identifying the variable costs of providing various municipal services in an effort to explore its ability to assess charges for services in these user areas. In 2006, the City experienced an overall 22.8% increase in its charges for services, which totaled \$1,449,416, compared to \$1,179,842 the prior year. While revenue growth experienced for the year was approximately 20% overall, revenues earned from the assessment of ad valorem taxes increased approximately 14.1%, or \$252,625. Ad valorem taxes totaling \$2,039,394 were collected in 2006 compared with \$1,786,769 in the prior year. The ad valorem millage rate for operating purposes remained stable at 4.08002 mills with the 2005 tax levy (collected during fiscal 2006). The following is a summary of the City's governmental revenues by source:

Revenues by Source – Governmental Activities



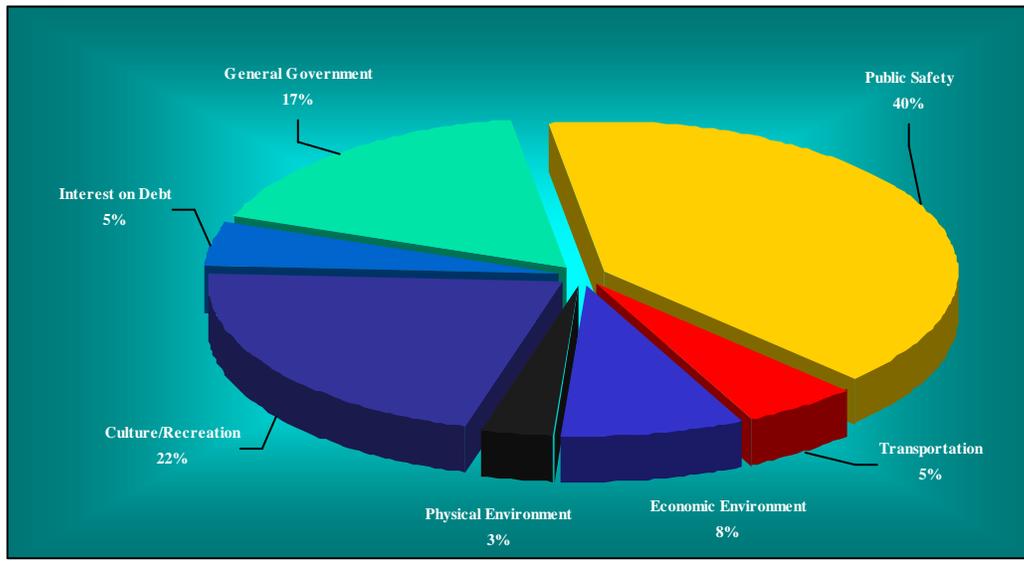
An individual comparison of the City's functional program revenues and costs of providing program services to its citizens is useful in identifying the programs, and the extent of which each are dependent on taxes and other non-exchange revenues to subsidize their program operations. They are listed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

Expenses –versus- Program Revenue



Expenses for the City's governmental activities grew at the same increased pace in matching revenue growth for the period. Combined governmental activities expenses totaled \$7,617,007, which represents an increase of \$209,807 or 2.8% over last year's expenses of \$7,407,200. Expense increases were recognized in all of the City's departmental areas during 2005 except for transportation and physical environment. Over the last several years, a trend has emerged with respect to a widening gap between property taxes, which are often thought of as paying for core governmental services such as police and fire, and the actual costs of those public safety expenses. At year end, this gap was over \$2.0 million, compared to \$1.8 million in the prior year.

Expenses by Function - Governmental Activities



Business-type Activities

Business-type activities produced an increase in the City's net assets of \$1,176,766 in 2006, compared to \$462,094 during 2005. Overall, net assets from the City's business-type activities (\$10,883,854) account for only 40.7% of the City's combined total net assets at September 30, 2006. The major sources of operating revenues for the City's business-type activities include charges for services for water and sewer utilities and solid waste utilities. Combined operating revenues from these two activities remained relatively stable in 2006 and totaled \$6,397,532, compared to \$5,992,920 in the prior year. Water and sewer utility revenues increased \$338,648 over last year's revenue, while charges for solid waste removal increased by \$65,964. Investment earnings increased from \$137,691 in 2005 to \$373,771 in 2006 as a result of increased interest rates experienced on a national level. Capital contributions received in the water and sewer utility fund totaled \$1,434,318 in 2006, compared to \$98,700 in 2005. As a cost control measure, the City has continued to contract its solid waste operations with an outside contractor since 1999.

Operating expenses of the business-type activities totaled \$5,900,705 in 2006 compared to \$4,811,198 in 2005. Included within these costs are approximately \$320,000 of debris removal expenses, associated with three hurricanes experienced in August and September, 2004, which were not recovered with FEMA Disaster Recovery assistance.

Financial Analysis of the City's Funds

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

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

As the City completed the current fiscal year, its governmental funds reported a combined fund balance of \$10,401,141, which was up slightly \$39,856 above the \$10,361,284 reported last year. Approximately 93.8% of this amount (\$9,752,754) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$189,753), 2) to pay debt service (\$402,620), and 3) to finance specialized law enforcement investigations (\$54,689).

The general fund is the chief operating fund of the City. As of September 30, 2006, the unreserved fund balance in the general fund totaled \$1,668,286, while total fund balance declined from \$1,723,553 in 2005 to \$1,712,341 in 2006. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 20.3% of total general fund expenditures (\$8,201,425), while total fund balance represents 20.9% of that same amount. City officials have established a target threshold of 25% in unreserved funds compared to General Fund expenditures. The current unreserved balance falls significantly below that target.

Fund balance in the general fund decreased by \$11,213 during the current fiscal year. The significant portion of this decrease was planned at the onset of the current fiscal year at which time \$204,500 in prior year surplus funds were appropriated to finance these expenditures. Fund balance in the Stormwater Drainage Fund increased \$130,316 in 2006 as a result of continued operations. Fund balance in the Community Redevelopment Agency and Community Redevelopment Agency Capital Projects funds remained relatively stable in 2006 with a net decrease of \$36,754. All other funds remained stable for the year.

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

Unrestricted net assets in the Water and Sewer Fund at the end of the current fiscal year amounted to \$1,989,349, compared to \$1,853,816 one year earlier. This year's increase of \$129,533 resulted from strong operational activities and growth in the fund's operating income margin.

Unrestricted net assets in the Solid Waste Fund totaled \$493,234 at the end of 2006, compared to \$1,045,872 at the end of the prior fiscal year. The reduction resulted from the recognition of non-reimbursed storm losses of \$320,334 and increased transfers to other funds in the amount of \$648,400. Earnings are expected to be stable in the subsequent year.

General Fund Budgetary Highlights

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

The City's overall revenue projections were increased by \$683,700, which represents a 10% increase in anticipated funding. Expenditure appropriations were similarly increased by \$731,600 near the end of the fiscal year in an effort to achieve the current year's operating results. These appropriations were funded by a corresponding increase in the appropriation of prior years' surplus funds to an amount not to exceed \$520,100 for the year.

Actual earned revenues were \$358,312 greater than the amounts anticipated to be received during the year, while actual expenditures incurred were \$75,975 less than anticipated for the year. Virtually all of the City's departments contributed to a cutback in spending to achieve the current year's operating results.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2006 and 2005, the City's investment in capital assets for its governmental and business type activities totaled \$35,947,683 and \$34,926,512, respectively. These amounts are stated net of accumulated depreciation of \$23,161,943 and \$21,445,101 for 2006 and 2005, respectfully. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

| | Capital Assets | | | | | |
|--|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|
| | September 30, 2006 and 2005 | | | | | |
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Land..... | \$ 1,950,539 | 1,950,539 | 154,739 | 154,739 | 2,105,278 | 2,105,278 |
| Construction work in progress..... | 2,500 | 4,987,366 | 1,267,149 | 158,251 | 1,269,649 | 5,145,617 |
| Buildings..... | 3,618,669 | 3,578,101 | 5,721,752 | 5,943,292 | 9,340,421 | 9,521,393 |
| Improvements other than buildings..... | 1,498,781 | 1,477,584 | 8,175,015 | 8,061,297 | 9,673,796 | 9,538,881 |
| Machinery and equipment..... | 1,098,371 | 1,155,668 | 3,193,053 | 3,345,840 | 4,291,424 | 4,501,508 |
| Infrastructure..... | <u>9,267,115</u> | <u>4,113,835</u> | <u>-</u> | <u>-</u> | <u>9,267,115</u> | <u>4,113,835</u> |
| Net total..... | <u>\$ 17,435,975</u> | <u>17,263,093</u> | <u>18,511,708</u> | <u>17,663,419</u> | <u>35,947,683</u> | <u>34,926,512</u> |

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

Long-term Debt. At year end, the City had \$26,929,978 in bonds, notes and other long-term obligations outstanding, all of which are secured solely by specified revenue sources. More detailed information about the City's long-term debt is presented in Note 9 to the financial statements.

The City has an outstanding revenue bond obligation in the amount of \$11,985,000 at year end. The proceeds of these bonds were used to finance improvements to the City's water and sewer utility system and to refund previously issued bonds outstanding. These bonds are payable from revenues generated from the water and sewer system and are payable serially through 2022.

The City has three outstanding revenue note obligations totaling \$7,852,521 at year end. The proceeds from these obligations were used to finance the expansion of the City's primary stormwater management and collection facilities, construct improvements to the City gymnasium and City Hall, and to provide working capital to the water and sewer utility fund. These governmental activities notes are payable from all of the City's general revenues with the exception of its ad valorem tax revenue, and by a pledge on the City's utility

service tax revenues, and are due in varying amounts through 2026. The business-type note is payable from utility fund revenues and is subordinate to the outstanding revenue bonds.

The City also has several low-interest rate revenue note obligations payable to the State of Florida, Department of Environmental Protection State Revolving Fund Loan Program totaling \$7,164,423 in aggregate, at year end. The proceeds of the first FDEP loan (issued in 1998) and third loan (issued in 2005) were used to finance the construction of wastewater infiltration and inflow correction facilities. The second FDEP loan is currently being used to finance construction of needed stormwater drainage improvements. These notes are secured by the City's water and sewer utility and stormwater utility revenues, respectively, and are payable in varying amounts through 2023.

Economic Factors and Next Year's Budgets and Rates

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

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

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 3.1% at the end of September 2006, which is slightly lower than the 3.4% rate experienced one year earlier.
- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.
- Volusia County, in particular Holy Hill, Florida, has experienced growth in assessed taxable value for both residentially and commercially zoned parcels. The City has realized an increase in recurring ad valorem revenues as a result of this trend and this has afforded the City the ability to continue to reduce its millage rate while still keeping pace with the growth in expenditures.

During the current fiscal year, unreserved fund balance in the general fund increased to \$1,668,286 from \$1,592,141. Based on current year budget estimates for 2007, the City has determined that it will be necessary to include approximately \$444,200 of prior years' surplus funds in next year's operating budget. This is planned for the continuation of major improvements to the Parks and Recreation facilities, public works security systems, new medians landscaping projects, and computer system upgrades. It has been anticipated that all of the City's spending requirements will be met with current financial resources in the 2007 fiscal year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET ASSETS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Statement 1

| | Primary Government | | |
|--|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets: | | | |
| Cash and cash equivalents..... | \$ 9,607,268 | 2,575,419 | 12,182,687 |
| Receivables, net of allowance for uncollectible accounts..... | 396,569 | 594,775 | 991,344 |
| Internal balances..... | 21,934 | (21,934) | - |
| Due from other governments..... | 970,632 | 338,606 | 1,309,238 |
| Net pension asset..... | 85,083 | - | 85,083 |
| Prepaid expenses..... | 1,325 | - | 1,325 |
| Unamortized debt issuance costs..... | 97,547 | 190,844 | 288,391 |
| Temporarily restricted assets: | | | |
| Cash and cash equivalents..... | - | 4,852,698 | 4,852,698 |
| Capital assets: | | | |
| Land and construction in progress..... | 1,953,039 | 1,421,888 | 3,374,927 |
| Other capital assets, net of depreciation..... | <u>15,482,936</u> | <u>17,089,820</u> | <u>32,572,756</u> |
| Total assets | <u>28,616,333</u> | <u>27,042,116</u> | <u>55,658,449</u> |
| Liabilities: | | | |
| Accounts payable and accrued liabilities..... | 621,563 | 236,932 | 858,495 |
| Customer deposits and unearned income..... | 145,393 | 631,633 | 777,026 |
| Payable from Restricted Assets: | | | |
| Current maturities of long-term debt..... | - | 712,714 | 712,714 |
| Accounts payable and accrued liabilities..... | - | 517,088 | 517,088 |
| Bonds, notes, and other payables: | | | |
| Due or payable within one year..... | 583,185 | - | 583,185 |
| Due or payable in more than one year..... | 10,766,081 | 13,924,177 | 24,690,258 |
| Compensated absences, long-term portion..... | <u>634,554</u> | <u>135,718</u> | <u>770,272</u> |
| Total liabilities | <u>12,750,776</u> | <u>16,158,262</u> | <u>28,909,038</u> |
| Net assets: | | | |
| Invested in capital assets net of related debt | 12,446,679 | 4,065,661 | 16,512,340 |
| Restricted for: | | | |
| Capital projects..... | 1,411,946 | - | 1,411,946 |
| Community redevelopment projects..... | 540,048 | - | 540,048 |
| Other purposes..... | 131,089 | - | 131,089 |
| Utility plant expansion..... | - | 4,177,830 | 4,177,830 |
| Debt service..... | 348,404 | 157,780 | 506,184 |
| Unrestricted | <u>987,391</u> | <u>2,482,583</u> | <u>3,469,974</u> |
| Total net assets | <u>\$ 15,865,557</u> | <u>10,883,854</u> | <u>26,749,411</u> |

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

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

| | Program Revenue | | | |
|-------------------------------------|----------------------|----------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government..... | \$ 1,635,694 | 190,163 | 9,693 | - |
| Public safety..... | 3,880,653 | 410,324 | 20,877 | - |
| Transportation..... | 505,509 | 63,390 | - | - |
| Economic environment..... | 810,374 | - | - | 62,250 |
| Physical environment..... | 329,480 | 681,386 | - | - |
| Culture/recreation..... | 2,086,894 | 104,153 | 44,824 | 364,449 |
| Interest on long-term debt | <u>448,914</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities..... | <u>9,697,518</u> | <u>1,449,416</u> | <u>75,394</u> | <u>426,699</u> |
| Business-type activities: | | | | |
| Water and Sewer..... | 4,238,066 | 4,646,385 | - | 1,434,318 |
| Solid Waste..... | <u>1,662,639</u> | <u>1,751,147</u> | <u>-</u> | <u>-</u> |
| Total business-type activities..... | <u>5,900,705</u> | <u>6,397,532</u> | <u>-</u> | <u>1,434,318</u> |
| Total primary government..... | <u>\$ 15,598,223</u> | <u>7,846,948</u> | <u>75,394</u> | <u>1,861,017</u> |

General revenues:

| |
|--|
| Property taxes, levied for general purposes..... |
| Property taxes, levied for tax increment district..... |
| Sales taxes..... |
| Local option gas taxes..... |
| Franchise taxes..... |
| Public service taxes..... |
| Unrestricted state revenue sharing..... |
| Other unrestricted intergovernmental revenues..... |
| Investment earnings..... |
| Miscellaneous revenue..... |
| Transfers..... |

Total general revenues and transfers.....

Change in net assets.....

Net assets - beginning of year.....

Net assets - ending.....

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

Statement 2

| Net Revenue and Changes in Net Assets | | |
|---------------------------------------|-----------------------------|--------------------|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| (1,435,838) | | (1,435,838) |
| (3,449,452) | | (3,449,452) |
| (442,119) | | (442,119) |
| (748,124) | | (748,124) |
| 351,906 | | 351,906 |
| (1,573,468) | | (1,573,468) |
| <u>(448,914)</u> | | <u>(448,914)</u> |
| <u>(7,746,009)</u> | | <u>(7,746,009)</u> |
| | 1,842,637 | 1,842,637 |
| | <u>88,508</u> | <u>88,508</u> |
| | <u>1,931,145</u> | <u>1,931,145</u> |
| <u>(7,746,009)</u> | <u>1,931,145</u> | <u>(5,814,864)</u> |
| 1,746,740 | - | 1,746,740 |
| 292,654 | - | 292,654 |
| 691,925 | - | 691,925 |
| 294,645 | - | 294,645 |
| 857,609 | - | 857,609 |
| 1,411,069 | - | 1,411,069 |
| 445,903 | - | 445,903 |
| 819,756 | - | 819,756 |
| 509,477 | 373,771 | 883,248 |
| 276,832 | - | 276,832 |
| <u>1,128,150</u> | <u>(1,128,150)</u> | <u>-</u> |
| <u>8,474,760</u> | <u>(754,379)</u> | <u>7,720,381</u> |
| 728,751 | 1,176,766 | 1,905,517 |
| <u>15,136,806</u> | <u>9,707,088</u> | <u>24,843,894</u> |
| <u>\$ 15,865,557</u> | <u>10,883,854</u> | <u>26,749,411</u> |

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | General | Community Redevelopment | Stormwater Drainage |
|---|---------------------|----------------------------|------------------------|
| Assets: | | | |
| Cash and cash equivalents..... | \$ 1,032,347 | 600,377 | 1,172,925 |
| Receivables, net | | | |
| Accounts receivable..... | 292,800 | - | 61,283 |
| Delinquent taxes..... | 42,486 | - | - |
| Due from other funds..... | 114,324 | - | 85,986 |
| Due from other governments..... | 827,277 | - | - |
| Prepays..... | <u>1,325</u> | <u>-</u> | <u>-</u> |
| Total assets..... | <u>\$ 2,310,559</u> | <u>600,377</u> | <u>1,320,194</u> |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Accounts payable and other current liabilities..... | \$ 382,273 | 14,219 | 12,086 |
| Deposits/deferred revenues..... | 187,879 | - | - |
| Due to other funds..... | <u>28,066</u> | <u>44,110</u> | <u>-</u> |
| Total liabilities..... | <u>598,218</u> | <u>58,329</u> | <u>12,086</u> |
| Fund Balances: | | | |
| Reserved for: | | | |
| Encumbrances..... | 40,023 | - | - |
| Prepays..... | 1,325 | - | - |
| Law enforcement..... | 2,707 | - | - |
| Debt service..... | - | - | - |
| Unreserved, reported in | | | |
| General fund..... | 1,668,286 | - | - |
| Capital projects fund..... | - | - | - |
| Special revenue funds..... | <u>-</u> | <u>542,048</u> | <u>1,308,108</u> |
| Total fund balances..... | <u>1,712,341</u> | <u>542,048</u> | <u>1,308,108</u> |
| Total liabilities and fund balances | <u>\$ 2,310,559</u> | <u>600,377</u> | <u>1,320,194</u> |

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

Statement 3

| Community Redevelopment Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-----------------------------------|--------------------------------|
| 6,262,397 | 539,222 | 9,607,268 |
| - | - | 354,083 |
| - | - | 42,486 |
| 26 | 27,000 | 227,336 |
| - | 143,355 | 970,632 |
| - | - | <u>1,325</u> |
| <u>6,262,423</u> | <u>709,577</u> | <u>11,203,130</u> |
| - | 130 | 408,708 |
| - | - | 187,879 |
| <u>2,000</u> | <u>131,226</u> | <u>205,402</u> |
| <u>2,000</u> | <u>131,356</u> | <u>801,989</u> |
| 122,175 | 27,555 | 189,753 |
| - | - | 1,325 |
| - | 51,982 | 54,689 |
| - | 402,620 | 402,620 |
| - | - | 1,668,286 |
| 6,138,248 | 76,283 | 6,214,531 |
| - | 19,781 | 1,869,937 |
| <u>6,260,423</u> | <u>578,221</u> | <u>10,401,141</u> |
| <u>6,262,423</u> | <u>709,577</u> | <u>11,203,130</u> |

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS **Statement 3A**

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| | |
|---|--------------------------------------|
| Fund balances - total governmental funds | \$ 10,401,141 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds..... | 17,435,975 |
| Delinquent tax revenue deferred in governmental activities are recognized in the period in which they are earned, regardless of the date of their anticipated receipt..... | 42,486 |
| Negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund..... | 59,326 |
| Negative net pension obligation reported in the Municipal Police Officers' Retirement Trust Fund..... | 25,757 |
| <p>Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities and other debt related deferred charges consist of the following:</p> | |
| Bonds and notes payable..... | (11,349,266) |
| Accrued interest payable..... | (54,216) |
| Unamortized debt costs..... | 97,547 |
| Compensated absences..... | <u>(793,193)</u> <u>(12,099,128)</u> |
| Net assets of governmental activities | <u>\$ 15,865,557</u> |

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

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | General | Community Redevelopment | Stormwater Drainage |
|--|---------------------|----------------------------|------------------------|
| Revenue: | | | |
| Taxes..... | \$ 4,315,145 | 292,654 | - |
| Licenses and permits | 518,996 | - | - |
| Intergovernmental..... | 1,572,181 | 645,523 | - |
| Charges for services | 194,118 | - | 681,386 |
| Fines and forfeitures..... | 36,907 | - | - |
| Miscellaneous | <u>404,465</u> | <u>35,462</u> | <u>43,470</u> |
| Total revenue..... | <u>7,041,812</u> | <u>973,639</u> | <u>724,856</u> |
| Expenditures: | | | |
| Current: | | | |
| General government..... | 1,571,903 | - | - |
| Public safety | 3,815,221 | - | - |
| Transportation..... | 866,563 | - | - |
| Economic environment | - | 452,553 | - |
| Physical environment..... | - | - | 303,840 |
| Culture/recreation | 1,788,802 | - | - |
| Capital Outlay: | | | |
| Transportation..... | - | - | - |
| Economic environment | - | - | - |
| Culture/recreation..... | - | - | - |
| Debt Service: | | | |
| Principal retirement | 141,126 | - | - |
| Interest and fiscal charges..... | <u>17,810</u> | <u>-</u> | <u>-</u> |
| Total expenditures..... | <u>8,201,425</u> | <u>452,553</u> | <u>303,840</u> |
| Excess of revenue over (under) expenditures..... | <u>(1,159,613)</u> | <u>521,086</u> | <u>421,016</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | 1,148,400 | - | 106,986 |
| Transfers out..... | <u>-</u> | <u>(495,513)</u> | <u>(397,686)</u> |
| Total other financing sources (uses)..... | <u>1,148,400</u> | <u>(495,513)</u> | <u>(290,700)</u> |
| Net changes in fund balances..... | (11,213) | 25,573 | 130,316 |
| Fund balances, beginning of year | <u>1,723,554</u> | <u>516,475</u> | <u>1,177,792</u> |
| Fund balances, end of year | <u>\$ 1,712,341</u> | <u>542,048</u> | <u>1,308,108</u> |

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

Statement 4

| Community Redevelopment Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-----------------------------------|--------------------------------|
| - | - | 4,607,799 |
| - | - | 518,996 |
| - | 217,212 | 2,434,916 |
| - | 2,035 | 877,539 |
| - | 15,974 | 52,881 |
| <u>293,896</u> | <u>33,776</u> | <u>811,069</u> |
| <u>293,896</u> | <u>268,997</u> | <u>9,303,200</u> |
| - | - | 1,571,903 |
| - | 13,906 | 3,829,127 |
| - | 24,364 | 890,927 |
| - | - | 452,553 |
| - | - | 303,840 |
| - | - | 1,788,802 |
| - | 13,100 | 13,100 |
| 356,223 | - | 356,223 |
| - | 203,338 | 203,338 |
| - | 420,635 | 561,761 |
| <u>-</u> | <u>402,110</u> | <u>419,920</u> |
| <u>356,223</u> | <u>1,077,453</u> | <u>10,391,494</u> |
| <u>(62,327)</u> | <u>(808,456)</u> | <u>(1,088,294)</u> |
| - | 829,083 | 2,084,469 |
| <u>-</u> | <u>(63,120)</u> | <u>(956,319)</u> |
| <u>-</u> | <u>765,963</u> | <u>1,128,150</u> |
| (62,327) | (42,493) | 39,856 |
| <u>6,322,750</u> | <u>620,714</u> | <u>10,361,285</u> |
| <u>6,260,423</u> | <u>578,221</u> | <u>10,401,141</u> |

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES **Statement 4A**

For the Fiscal Year Ended September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

Net change in fund balances - total governmental funds \$ 39,856

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation expense for the current period:

| | | |
|---------------------------------------|------------------|---------|
| Capital outlay expenditures..... | 1,107,519 | |
| Property and equipment disposals..... | (18,166) | |
| Depreciation expense..... | <u>(838,823)</u> | 250,530 |

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of nets assets. Principal repayment in the current period 561,761

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds (increase in delinquent taxes)..... (5,082)

Increase in negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund..... (963)

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

| | | |
|---|-----------------|------------------|
| Change in compensated absences liabilities..... | (114,114) | |
| Change in accrued interest on bonds and notes payable | <u>(28,994)</u> | <u>(143,108)</u> |

Change in net assets of governmental activities \$ 702,994

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|--|--|------------------|---------------------|
| | Water and Sewer | Solid Waste | Total |
| Assets: | | | |
| Current Assets: | | | |
| Cash and cash equivalents..... | \$ 2,477,124 | 98,295 | 2,575,419 |
| Accounts receivable (net)..... | 433,763 | 161,012 | 594,775 |
| Due from other funds..... | - | 28,066 | 28,066 |
| Due from other governments..... | - | 338,606 | 338,606 |
| Restricted-cash and cash equivalents..... | <u>4,852,698</u> | <u>-</u> | <u>4,852,698</u> |
| Total current assets..... | <u>7,763,585</u> | <u>625,979</u> | <u>8,389,564</u> |
| Noncurrent Assets: | | | |
| Property and Equipment: | | | |
| Land..... | 154,739 | - | 154,739 |
| Buildings and improvements..... | 24,135,521 | 54,651 | 24,190,172 |
| Machinery and equipment..... | 6,961,537 | 644,662 | 7,606,199 |
| Construction in progress..... | <u>1,267,149</u> | <u>-</u> | <u>1,267,149</u> |
| | 32,518,946 | 699,313 | 33,218,259 |
| Less: accumulated depreciation..... | <u>(14,030,222)</u> | <u>(676,329)</u> | <u>(14,706,551)</u> |
| Total property and equipment (net of accumulated depreciation)..... | <u>18,488,724</u> | <u>22,984</u> | <u>18,511,708</u> |
| Unamortized debt issuance costs..... | <u>190,844</u> | <u>-</u> | <u>190,844</u> |
| Total noncurrent assets..... | <u>18,679,568</u> | <u>22,984</u> | <u>18,702,552</u> |
| Total assets..... | <u>\$ 26,443,153</u> | <u>648,963</u> | <u>27,092,116</u> |

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

Statement 5

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|---|--|------------------------|-------------------|
| | <u>Water and Sewer</u> | <u>Solid Waste</u> | <u>Total</u> |
| Liabilities: | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities..... | \$ 89,187 | 132,745 | 221,932 |
| Compensated absences..... | 15,000 | - | 15,000 |
| Due to other funds..... | 50,000 | - | 50,000 |
| Deposits..... | <u>631,633</u> | <u>-</u> | <u>631,633</u> |
| Total current liabilities..... | <u>785,820</u> | <u>132,745</u> | <u>918,565</u> |
| Current Liabilities Payable From Restricted Assets: | | | |
| Current maturities of long-term debt..... | 712,714 | - | 712,714 |
| Accounts payable and accrued liabilities..... | <u>517,088</u> | <u>-</u> | <u>517,088</u> |
| Total current liabilities payable from restricted funds..... | <u>1,229,802</u> | <u>-</u> | <u>1,229,802</u> |
| Noncurrent Liabilities: | | | |
| Revenue bonds payable (net)..... | 11,814,213 | - | 11,814,213 |
| Notes payable (net)..... | 2,109,964 | - | 2,109,964 |
| Compensated absences..... | <u>135,718</u> | <u>-</u> | <u>135,718</u> |
| Total noncurrent liabilities..... | <u>14,059,895</u> | <u>-</u> | <u>14,059,895</u> |
| Total liabilities..... | <u>16,075,517</u> | <u>132,745</u> | <u>16,208,262</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt..... | 4,042,677 | 22,984 | 4,065,661 |
| Restricted for debt service..... | 157,780 | - | 157,780 |
| Restricted for utility plant expansion..... | 4,177,830 | - | 4,177,830 |
| Unrestricted..... | <u>1,989,349</u> | <u>493,234</u> | <u>2,482,583</u> |
| Total net assets..... | <u>\$ 10,367,636</u> | <u>516,218</u> | <u>10,883,854</u> |

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

Statement 6

For the Fiscal Year Ended September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|---|--|------------------|--------------------|
| | Water and Sewer | Solid Waste | Total |
| Operating Revenue: | | | |
| Charges for Services: | | | |
| Water sales..... | \$ 2,131,299 | - | 2,131,299 |
| Sewer treatment charges..... | 2,187,164 | - | 2,187,164 |
| Waste disposal fees..... | - | 1,750,994 | 1,750,994 |
| Connections, service and cut-off charges..... | 54,970 | - | 54,970 |
| Other revenues..... | <u>272,952</u> | <u>153</u> | <u>273,105</u> |
| Total operating revenue..... | <u>4,646,385</u> | <u>1,751,147</u> | <u>6,397,532</u> |
| Operating Expenses: | | | |
| Personal services..... | 1,324,584 | - | 1,324,584 |
| Depreciation and amortization | 1,097,069 | 3,495 | 1,100,564 |
| Utilities..... | 362,216 | 138 | 362,354 |
| Materials and supplies..... | 289,083 | 425 | 289,508 |
| Contractual services | 312,459 | 1,333,486 | 1,645,945 |
| Maintenance and repairs..... | 136,510 | 259 | 136,769 |
| Other charges | 28,488 | 604 | 29,092 |
| Bad debt expense..... | <u>23,051</u> | <u>3,898</u> | <u>26,949</u> |
| Total operating expenses | <u>3,573,460</u> | <u>1,342,305</u> | <u>4,915,765</u> |
| Operating income..... | <u>1,072,925</u> | <u>408,842</u> | <u>1,481,767</u> |
| Nonoperating Revenue (Expenses): | | | |
| Interest earnings | 370,012 | 3,759 | 373,771 |
| Loss on disposal of property and equipment..... | (1,356) | - | (1,356) |
| Federal and state grant (reimbursements)..... | - | (320,334) | (320,334) |
| Interest and debt expense..... | <u>(663,250)</u> | <u>-</u> | <u>(663,250)</u> |
| Net nonoperating revenue (expenses)..... | <u>(294,594)</u> | <u>(316,575)</u> | <u>(611,169)</u> |
| Income before contributions and transfers..... | 778,331 | 92,267 | 870,598 |
| Capital contributions..... | 1,434,318 | - | 1,434,318 |
| Transfers in..... | 62,250 | - | 62,250 |
| Transfers (out)..... | <u>(542,000)</u> | <u>(648,400)</u> | <u>(1,190,400)</u> |
| Net increase (decrease) in net assets..... | 1,732,899 | (556,133) | 1,176,766 |
| Net assets, beginning of year..... | <u>8,634,737</u> | <u>1,072,351</u> | <u>9,707,088</u> |
| Net assets, end of year..... | <u>\$ 10,367,636</u> | <u>516,218</u> | <u>10,883,854</u> |

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Statement 7

For the Fiscal Year Ended September 30, 2006
CITY OF NEW HOLLY HILL, FLORIDA

| | Business-type Activities - Enterprise Funds | | |
|--|---|--------------------|--------------------|
| | Water and Sewer | Solid Waste | Total |
| Cash Flows From Operating Activities: | | | |
| Cash received from customers..... | \$ 4,619,828 | 2,071,835 | 6,691,663 |
| Cash paid for personal services..... | (1,312,122) | - | (1,312,122) |
| Cash paid to suppliers..... | <u>(769,159)</u> | <u>(1,572,031)</u> | <u>(2,341,190)</u> |
| Net cash provided by (used in) operating activities..... | <u>2,538,547</u> | <u>499,804</u> | <u>3,038,351</u> |
| Cash Flows From Noncapital and Related Financing Activities: | | | |
| Loans to other funds..... | - | (102,497) | (102,497) |
| Transfers (in)..... | 62,250 | - | 62,250 |
| Transfers (out)..... | <u>(542,000)</u> | <u>(648,400)</u> | <u>(1,190,400)</u> |
| Net cash provided by (used in) noncapital and related financing activities..... | <u>(479,750)</u> | <u>(750,897)</u> | <u>(1,230,647)</u> |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Loans from other funds..... | 50,000 | 296,509 | 346,509 |
| Proceeds from capital debt..... | 1,789,042 | - | 1,789,042 |
| Capital contributions..... | 1,434,318 | - | 1,434,318 |
| Acquisition and construction of capital assets..... | (1,811,168) | - | (1,811,168) |
| Proceeds from sale of property and equipment..... | 3,087 | - | 3,087 |
| Debt reduction outlays..... | (678,682) | - | (678,682) |
| Interest paid on capital debt obligations..... | <u>(663,250)</u> | <u>-</u> | <u>(663,250)</u> |
| Net cash provided by (used in) capital and related financing activities..... | <u>123,347</u> | <u>296,509</u> | <u>419,856</u> |
| Cash Flows From Investing Activities: | | | |
| Interest received..... | <u>370,012</u> | <u>3,759</u> | <u>373,771</u> |
| Net increase (decrease) in cash and cash equivalents..... | 2,552,156 | 49,175 | 2,601,331 |
| Cash and cash equivalents, beginning of year..... | <u>4,777,666</u> | <u>49,120</u> | <u>4,826,786</u> |
| Cash and cash equivalents, end of year..... | <u>\$ 7,329,822</u> | <u>98,295</u> | <u>7,428,117</u> |
| Cash and Cash Equivalents: | | | |
| Unrestricted cash and cash equivalents..... | \$ 2,477,124 | 49,120 | 2,526,244 |
| Restricted cash and cash equivalents..... | <u>4,852,698</u> | <u>-</u> | <u>4,852,698</u> |
| Total cash and cash equivalents..... | <u>\$ 7,329,822</u> | <u>49,120</u> | <u>7,378,942</u> |

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - (Continued)
For the Fiscal Year Ended September 30, 2006
CITY OF NEW HOLLY HILL, FLORIDA

Statement 7

| | <u>Business-type Activities - Enterprise Funds</u> | | |
|---|--|----------------|------------------|
| | Water and Sewer | Solid Waste | Total |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income (loss)..... | \$ 1,072,925 | 408,842 | 1,481,767 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization..... | 1,097,069 | 3,495 | 1,100,564 |
| Provision for bad debts..... | 23,878 | 3,998 | 27,876 |
| Changes in assets and liabilities: | | | |
| Accounts receivable..... | (59,681) | (11,517) | (71,198) |
| Due from other governments | - | 328,207 | 328,207 |
| Accounts payable and accrued liabilities..... | 395,109 | (233,221) | 161,888 |
| Customer deposits..... | <u>9,247</u> | <u>-</u> | <u>9,247</u> |
| Net cash provided by operating activities..... | <u>\$ 2,538,547</u> | <u>499,804</u> | <u>3,038,351</u> |

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Statement 8

| | |
|---|---------------------|
| Assets: | |
| Cash and cash equivalents..... | \$ 517,103 |
| Receivables: | |
| Employer contributions receivable..... | 69,677 |
| Employee contributions receivable..... | 4,876 |
| State contributions receivable..... | 9,945 |
| Interest and dividends receivable..... | <u>34,531</u> |
| Total accounts receivable..... | 119,029 |
| Investments, at fair value | |
| U.S. Government and Agencies: | |
| Federal National Mortgage Association (FNMA) and Home Loan Mortgage Corporation (FHLMC) obligations..... | 732,244 |
| U.S. treasury notes..... | 709,685 |
| U.S. government mortgage backed securities..... | 34,300 |
| U.S. corporate debt obligations | 1,031,107 |
| U.S. corporate equity securities..... | 4,508,937 |
| International equity securities..... | <u>305,210</u> |
| Total investments..... | <u>7,321,483</u> |
| Total assets..... | 7,957,615 |
| Liabilities: | |
| Accounts payable..... | <u>12,336</u> |
| Net assets: | |
| Held in trust for pension benefits..... | <u>\$ 7,945,279</u> |

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

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

Statement 9

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | | |
|--|-----------------|---------------------|
| Additions: | | |
| Contributions from: | | |
| Employer | \$ 280,326 | |
| State | 128,376 | |
| Plan members | <u>133,928</u> | |
| Total contributions..... | | 542,630 |
| Investment income: | | |
| Net realized and unrealized appreciation (depreciation) in fair value of investments..... | 303,292 | |
| Interest and dividend earnings | <u>231,627</u> | |
| | 534,919 | |
| Less: investment management fees | <u>(70,003)</u> | |
| Total investment income | | <u>464,916</u> |
| Total additions | | 1,007,546 |
| Deductions: | | |
| Benefit payments and refunds | 496,085 | |
| Administrative expenses | <u>30,830</u> | |
| Total deductions..... | | <u>526,915</u> |
| Net increase..... | | 480,631 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | | <u>7,464,648</u> |
| End of year | | <u>\$ 7,945,279</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Holly Hill, Florida (the “City”), have been prepared in conformance with accounting principals generally accepted in the United States of America as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for promulgating governmental accounting and financial reporting principles. The following is a summary of the City’s significant accounting policies:

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

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

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

Proprietary fund and pension trust fund financial statements are reported using the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Based on the accounting and reporting standards set forth in Government Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting", the City has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989, as it pertains to the accounting for proprietary fund activity.

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

The City reports the following major governmental funds:

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

Community Redevelopment Capital Projects Fund - The Community Development Capital Projects Fund is a capital projects fund used to account for the disposition of the restricted proceeds of the CRA Redevelopment Revenue Note, Series 2005.

The City reports the following major proprietary funds:

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

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

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

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

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This fund type is used to provide for the debt servicing of the City's outstanding State Revolving Fund Loan commitments.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

The City's investment policies are governed by state statutes and local resolution. These policies authorize the City to invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits. All of the City's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares. All fiduciary (police and fire pension) fund investments are stated at fair value.

2. Receivables and payables

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

5. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the City. To ease implementation efforts, GASB Statement No. 34, provides the City with an extended transition period for reporting existing general infrastructure assets. However, the City has elected to report all known infrastructure assets and related depreciation expense on these assets, for those assets acquired up to, and including, the year of implementation of the pronouncement in the entity-wide statement of net assets and statement of activities.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

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

6. *Compensated Absences*

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

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

Sick leave is granted to all full time employees. General and fire personnel can accumulate, at a rate of one day per month, up to a maximum of 90 days. Upon retirement or death, employees are paid 100% of their accumulated unpaid sick leave. Upon resignation, only those employees with 15 years of service are paid 50% of their accumulated unpaid sick leave. Police personnel are granted extended leave to be used for illnesses involving absences of three or more days. The extended leave accrues at a rate of four hours per month. There is no maximum accumulated amount; however payment is based on the number of years of service with a maximum of 825 hours.

7. *Deferred Revenue*

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

8. *Long-term Obligations*

In the government-wide financial statements and proprietary fund financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond discounts and debt issuance costs are deferred and amortized over the term of the bonds using the bond outstanding method which approximates the effective interest method. Unamortized bond discounts are presented in aggregate on the financial statements as a reduction of the carrying cost of the related long-term debt. Unamortized debt issuance costs are presented as

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

other assets. In the fund financial statements, governmental fund types recognize premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

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

10. Use of Estimates

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

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

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

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

- On or about July 1st, the City Manager submits a preliminary budget to the City Commission for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the City Commission, as needed.
- A summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The City Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Sections 54 to 57 of the City Charter. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- The City Commission must approve all inter-departmental budget amendments and/or appropriations transfers.
- The City Manager may transfer funds between line-item appropriations within a department at the request of a department head in accordance with Article I, Section 30-27 of the City's Code of Ordinances.
- Budgetary control is exercised at the department level.
- Every appropriation lapses at the close of the fiscal year.

B. Excess of Expenditures over Appropriations

During the year ended September 30, 2006, none of the City's budgetary funds incurred total fund expenditures that exceeded budgetary appropriations.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The millage rate assessed by the City was 4.08002 mills for the (2005 tax year) fiscal year ended September 30, 2006. The property tax calendar is as follows:

| | |
|---|------------------------|
| Valuation Date | January 1 |
| Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. | July 1 |
| Within 35 days of certification of value, the City must advise the Property Appraiser of the prior year millage rate, current year proposed millage rate, current year rolled-back rate and the date, time and meeting place of the tentative budget hearing. | August 4 |
| City Commission holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. | September 18 |
| Property Appraiser certified the assessment roll and all real and tangible personal property taxes are due and payable (Levy date). | November 1 |
| A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2005 through March 2006, with the following applicable discounts: | November through March |

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

NOTE 5 - DEPOSITS AND INVESTMENTS

At September 30, 2006, the City had the following investments and maturities.

| <u>Investment Type</u> | <u>Investment Maturities (Years)</u> | | | | |
|--|--------------------------------------|--------------------|------------------|------------------|----------------|
| | <u>Fair Value</u> | <u>Less Than 1</u> | <u>From 1-5</u> | <u>From 6-10</u> | <u>Over 10</u> |
| Repurchase agreements | \$ 1,129,000 | 1,129,000 | - | - | - |
| Local Government Investment Pool | 16,077,651 | 16,077,651 | - | - | - |
| Pension Trust: | | | | | |
| Money market funds..... | 517,103 | 517,103 | - | - | - |
| U.S. Government and Agency: | | | | | |
| FNMA and FHLMC obligations.. | 732,244 | 124,960 | 350,732 | 107,147 | 149,405 |
| U.S. Treasury Notes..... | 709,685 | - | 513,528 | 176,770 | 19,387 |
| U.S. government mortgage-backed securities | 34,300 | - | - | 14,146 | 20,154 |
| Domestic corporate debt..... | 1,031,107 | 170,731 | 779,942 | 34,564 | 45,870 |
| Domestic corporate equities | 4,508,937 | 4,508,937 | - | - | - |
| International equities | 305,210 | 305,210 | - | - | - |
| Totals..... | <u>\$25,045,237</u> | <u>22,833,592</u> | <u>1,644,202</u> | <u>332,627</u> | <u>234,816</u> |

Interest Rate Risk. Generally, the City limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the City's surplus funds are invested in the City's pooled cash accounts, which are included in overnight repurchase agreements, or in the Local Government Investment Pool. Investments held in the City's Police and Fire pension trust funds are generally held to maturity to provide a stable investment interest rate platform which is vital to the projection of actuarial pension costs in the future. While potential current period fair value losses can occur with these investments in any given year, the ultimate realization of fair value losses is mitigated by the holding of these investments to maturity. Investments in U.S. Treasuries typically include discounted, fixed-price notes and bonds that mature within one to five years. The fair value of these short-term investments is less sensitive to interest rate increases since they are held to maturity. Investments in U.S. agencies typically include long-term, fixed-rate collateralized mortgage obligations with maturities of greater than ten years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate bonds are generally made to guaranty the production of cash flows necessary to fund the plan's required payments and operating expenses. These fixed rate investments earn slightly higher rates of return, which are necessary to support the plan's blended interest rate assumptions. Their fair values are inversely sensitive to changes in interest rates.

Credit Risk. The provisions of Section 218.415, Florida Statutes, require that the investment activity of the City be conducted in accordance with a written investment plan adopted by the governing body. Under that plan, the City's basic allowable investment instruments include: Local Government Investment Pool (a 2a-7 like fund); negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the U.S. Government; interest bearing time deposits or savings accounts in banks organized under the laws of this state, in national banks organized under the laws of the United States and doing business and situated in this state, in savings and loan associations which are under state supervision

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

or in federal savings and loan associations located in this state and organized under federal law and federal supervision; money market accounts that invest in U.S. Government obligations; obligations of Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, including Federal Home Loan Mortgage Corporation participation certificates; or the Federal Home Loan Bank or its district banks or obligations guaranteed by the Government National Mortgage Association; obligations of the Federal National Mortgage Association including Federal National Mortgage Association participation certificates and mortgage pass-through certificates guaranteed by the Federal National Mortgage Association.

The Local Government Investment Pool is administered by the Florida State Board of Administration and is operated as a "2a-7-like" fund using the Securities and Exchange Commission investment requirements for 2a-7. The fund has been designed to provide a short-term, very liquid, high quality investment vehicle to participating local governments. The fund is not rated for credit quality.

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

The pension trust funds' investments in U.S. government agency obligations (FNMA and FHLMC) were rated AAA by Standard & Poors. Investments in corporate debt securities were rated between A and AAA by Standard & Poors.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are 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.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

At September 30, 2006, the carrying amount of the City's deposits in the Local Government Surplus Funds Trust Fund was \$16,077,651, all of which was covered by collateral securities in accordance with the Act. The carrying amount of the City's \$1,129,000 investment in repurchase agreements was collateralized with securities held by the Trust Department of the City's depository bank in their name. All remaining deposits of the City were adequately covered by federal depository insurance. All investments held by the City's police and fire pension trust funds were uninsured, unregistered and held by the Plans' brokerage firms, who are also the counterparty for these particular securities.

NOTE 6 – RECEIVABLES (NET)

The City's accounts receivable at September 30, 2006, consist of the following:

Governmental Activities:

General Fund:

| | | |
|--|-----------------|---------|
| Delinquent taxes receivable | \$ 42,486 | |
| Accounts receivable-franchise/utility service payments | 254,637 | |
| Lien collections receivable | 46,560 | |
| Employees purchase program | 7,197 | |
| Other miscellaneous receivables | <u>21,373</u> | |
| | 372,253 | |
| Less allowance for doubtful accounts | <u>(36,967)</u> | |
| Total General Fund accounts receivable, net..... | | 335,286 |

Special Revenue Fund:

Stormwater Drainage Fund:

| | | |
|---|----------------|---------------|
| Accounts receivable | 71,253 | |
| Less allowance for doubtful accounts | <u>(9,970)</u> | |
| Total special revenue fund accounts receivable, net | | <u>61,283</u> |

Total governmental activities accounts receivable, net

| | | |
|--|--|-------------------|
| | | <u>\$ 396,569</u> |
|--|--|-------------------|

Business-Type Activities:

Water and Sewer Fund:

| | | |
|------------------------------------|------------|--|
| Billed accounts receivable | \$ 397,645 | |
| Unbilled accounts receivable | 132,874 | |

Solid Waste Fund:

| | | |
|--|------------------|--|
| Billed accounts receivable | 162,490 | |
| Unbilled accounts receivable | <u>55,547</u> | |
| | 748,556 | |
| Less allowance for doubtful accounts | <u>(153,781)</u> | |

Total business-type activities accounts receivable, net.....

| | | |
|--|--|-------------------|
| | | <u>\$ 594,775</u> |
|--|--|-------------------|

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made. Individual fund short-term interfund receivables and payables expected to be repaid within the next fiscal year at September 30, 2006, are as follows:

| Fund | Due From | Due To |
|-----------------------------------|-------------------|----------------|
| Governmental Activities: | | |
| General Fund: | | |
| Community Redevelopment Fund..... | \$ 19,084 | - |
| Law Enforcement Trust..... | 240 | - |
| Capital projects..... | 45,000 | - |
| Water and sewer | 50,000 | |
| Solid Waste | - | 28,066 |
| Community Redevelopment Fund: | | |
| General Fund | - | 19,084 |
| CRA Capital Projects | - | 26 |
| CRA Debt Service Fund..... | - | 25,000 |
| Stormwater Drainage Fund: | | |
| Debt Service Fund..... | 85,986 | - |
| CRA Capital Projects Fund: | | |
| Community Redevelopment Fund..... | 26 | - |
| CRA Debt Service Fund..... | - | 2,000 |
| Law Enforcement Trust: | | |
| General Fund | - | 240 |
| Debt Service Fund: | | |
| Stormwater Drainage Fund..... | - | 85,986 |
| CRA Debt Service Fund: | | |
| Community Redevelopment Fund..... | 25,000 | - |
| CRA Capital Projects Fund | 2,000 | - |
| Capital Projects Fund: | | |
| General Fund | - | 45,000 |
| Business-Type Activities: | | |
| Water and Sewer: | | |
| General Fund | - | 50,000 |
| Solid Waste: | | |
| General Fund | <u>28,066</u> | <u>-</u> |
| Totals..... | <u>\$ 255,402</u> | <u>255,402</u> |

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Interfund transfers between the City's governmental and business-type funds during the fiscal year ended September 30, 2006, are as follows:

| Fund | Transfer To | Transfer From |
|--|---------------------|------------------|
| Governmental Activities: | | |
| General Fund: | | |
| Water and Sewer | \$ - | 500,000 |
| Solid Waste | - | 648,400 |
| Community Redevelopment Trust Fund: | | |
| CRA Debt Service | 470,513 | - |
| Capital Projects..... | 25,000 | - |
| Stormwater Drainage: | | |
| Community Redevelopment Trust | - | 85,986 |
| Water and Sewer | - | 21,000 |
| Debt Service | 397,686 | - |
| Holly Hill Police Explorers: | | |
| Recreation Activity..... | - | 870 |
| Recreation Activity Fund: | | |
| Holly Hill Police Explorers | 870 | - |
| Community Development Block Grant: | | |
| Water and Sewer | 62,250 | - |
| Debt Service: | | |
| Water and Sewer | - | 21,000 |
| Stormwater Drainage..... | - | 311,700 |
| CRA Debt Service: | | |
| Community Redevelopment Trust Fund | - | 470,513 |
| Capital Projects: | | |
| Community Redevelopment Trust Fund | - | <u>25,000</u> |
| Totals - governmental activities | <u>\$ 956,319</u> | <u>2,084,469</u> |
| Business-type Activities: | | |
| Water and Sewer: | | |
| General | \$ 500,000 | - |
| Debt Service | 42,000 | - |
| Community Development Block Grant..... | - | 62,250 |
| Solid Waste: | | |
| General | <u>648,400</u> | <u>-</u> |
| Totals - business-type activities | <u>1,190,400</u> | <u>62,250</u> |
| Totals - all activities | <u>\$ 2,146,719</u> | <u>2,146,719</u> |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

NOTE 8 - CAPITAL ASSETS

A summary of the capital assets activity for the year ended September 30, 2006, is as follows:

| | Balance 09/30/05 | Addition | Deletions | Balance 09/30/06 |
|--|---------------------|------------------|--------------------|---------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land..... | \$ 1,950,539 | - | - | 1,950,539 |
| Construction work in progress..... | <u>4,987,366</u> | <u>220,437</u> | <u>(5,205,303)</u> | <u>2,500</u> |
| Total capital assets not being depreciated..... | <u>6,937,905</u> | <u>220,437</u> | <u>(5,205,303)</u> | <u>1,953,039</u> |
| Capital assets being depreciated: | | | | |
| Buildings..... | 4,479,859 | 131,153 | - | 4,611,012 |
| Improvements other than buildings..... | 2,285,741 | 113,983 | - | 2,399,724 |
| Machinery and equipment..... | 3,122,633 | 199,441 | (55,404) | 3,266,670 |
| Infrastructure..... | <u>8,090,762</u> | <u>5,570,160</u> | <u>-</u> | <u>13,660,922</u> |
| Total capital assets being depreciated..... | <u>17,978,995</u> | <u>6,014,737</u> | <u>(55,404)</u> | <u>23,938,328</u> |
| Less accumulated depreciation for: | | | | |
| Buildings..... | (901,758) | (90,585) | - | (992,343) |
| Improvements other than buildings..... | (808,157) | (92,786) | - | (900,943) |
| Machinery and equipment..... | (1,966,965) | (238,572) | 37,238 | (2,168,299) |
| Infrastructure..... | <u>(3,976,927)</u> | <u>(416,880)</u> | <u>-</u> | <u>(4,393,807)</u> |
| Total accumulated depreciation..... | <u>(7,653,807)</u> | <u>(838,823)</u> | <u>37,238</u> | <u>(8,455,392)</u> |
| Total capital assets being depreciated, net..... | <u>10,325,188</u> | <u>5,175,914</u> | <u>(18,166)</u> | <u>15,482,936</u> |
| Governmental activities capital assets, net..... | <u>\$17,263,093</u> | <u>5,396,351</u> | <u>(5,223,469)</u> | <u>17,435,975</u> |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land..... | \$ 154,739 | - | - | 154,739 |
| Construction work in progress..... | <u>158,251</u> | <u>1,748,917</u> | <u>(640,019)</u> | <u>1,267,149</u> |
| Total capital assets not being depreciated..... | <u>312,990</u> | <u>1,748,917</u> | <u>(640,019)</u> | <u>1,421,888</u> |
| Capital assets being depreciated: | | | | |
| Buildings..... | 10,899,747 | - | - | 10,899,747 |
| Improvements other than buildings..... | 12,737,738 | 552,687 | - | 13,290,425 |
| Machinery and equipment..... | <u>7,504,238</u> | <u>149,583</u> | <u>(47,622)</u> | <u>7,606,199</u> |
| Total capital assets being depreciated..... | <u>31,141,723</u> | <u>702,270</u> | <u>(47,622)</u> | <u>31,796,371</u> |
| Less accumulated depreciation for: | | | | |
| Buildings..... | (4,956,455) | (221,540) | - | (5,177,995) |
| Improvements other than buildings..... | (4,676,441) | (438,969) | - | (5,115,410) |
| Machinery and equipment..... | <u>(4,158,398)</u> | <u>(297,927)</u> | <u>43,179</u> | <u>(4,413,146)</u> |
| Total accumulated depreciation..... | <u>(13,791,294)</u> | <u>(958,436)</u> | <u>43,179</u> | <u>(14,706,551)</u> |
| Total capital assets being depreciated, net..... | <u>17,350,429</u> | <u>(256,166)</u> | <u>(4,443)</u> | <u>17,089,820</u> |
| Business-type capital assets, net..... | <u>\$17,663,419</u> | <u>1,492,751</u> | <u>(644,462)</u> | <u>18,511,708</u> |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

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

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 57,263 |
| Public safety | 129,017 |
| Transportation | 194,000 |
| Economic environment..... | 3,025 |
| Physical environment | 298,514 |
| Culture/recreation | <u>157,005</u> |
| Total depreciation expense - governmental activities | <u>\$ 838,824</u> |
| Business-type activities: | |
| Water and Sewer Fund | \$ 954,931 |
| Solid Waste Fund | <u>3,495</u> |
| Total depreciation expense - business-type activities..... | <u>\$ 958,426</u> |

NOTE 9 - LONG-TERM DEBT

The City's long-term debt outstanding at September 30, 2006, is as follows:

| Governmental Activities: | Balance Due | Current Maturities |
|--|--------------------|---------------------------|
| Revenue Notes Payable: | | |
| Promissory notes payable to the State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement - 3.27% construction loan (\$353,840) dated January 30, 2001; 3.16% loan (\$884,371) dated September 10, 2001; 2.12% loan (\$1,459,241) dated July 24, 2002; 1.99% loan (\$2,601,357) dated June 24, 2003, in the aggregate amount of \$5,298,810 for local stormwater pollution control and drainage improvements, with combined total payments of \$176,808, due semi-annually, on January 15 and July 15, commencing on January 15, 2005 through 2023; secured with stormwater management service charges..... | \$ 4,946,745 | 240,808 |
| Promissory notes payable to Sun Trust Bank of Volusia County: 4.35% Community Redevelopment Agency (CRA) Redevelopment Revenue Note, Series 2005 dated May 2, 2005; \$235,234 due semi-annually through 2026; secured by tax increment revenues..... | 6,145,761 | 194,241 |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| | | |
|---|---------------------|----------------|
| 4.84% Utility Service Tax Revenue Note, Series 1998A, dated April 14, 1998; \$58,775 due semi-annually through 2008; secured by utility service tax revenues..... | \$ 256,760 | <u>148,136</u> |
| Total revenue notes payable..... | 11,349,266 | 583,185 |
| Compensated absences..... | <u>793,193</u> | <u>158,638</u> |
| Total governmental activities long-term debt..... | <u>\$12,142,369</u> | <u>741,823</u> |

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

| | Balances 09/30/05 | Additions | Deletions | Balances 09/30/06 |
|---|----------------------|----------------|----------------|----------------------|
| Notes payable: | | | | |
| Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans | \$ 5,182,140 | - | 235,395 | 4,946,745 |
| Sun Bank of Volusia County: | | | | |
| 4.84% Utility Service Tax Revenue Note, Series 1998A..... | 397,887 | - | 141,127 | 256,760 |
| 4.53% CRA Redevelopment Revenue Note, Series 2005..... | 6,331,000 | - | 185,239 | 6,145,761 |
| Compensated absences | <u>679,079</u> | <u>114,114</u> | <u>-</u> | <u>793,193</u> |
| Totals | <u>\$12,590,106</u> | <u>114,114</u> | <u>561,761</u> | <u>12,142,459</u> |

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

| Fiscal Year | FDEP SRF Loan | SunTrust 4.53% | SunTrust 4.84% | Total |
|-------------------------------|---------------------|--------------------|-------------------|--------------------|
| September 30, 2007 | \$ 353,616 | 470,469 | 157,372 | 981,457 |
| September 30, 2008 | 353,616 | 470,469 | 110,513 | 934,598 |
| September 30, 2009 | 353,616 | 470,469 | - | 824,085 |
| September 30, 2010 | 353,616 | 470,469 | - | 824,085 |
| September 30, 2011 | 353,616 | 470,469 | - | 824,085 |
| September 20, 2012-2016 | 1,768,082 | 2,352,343 | - | 4,120,425 |
| September 30, 2017-2021 | 1,768,082 | 2,352,343 | - | 4,120,425 |
| September 30, 2022-2026 | <u>707,228</u> | <u>2,352,344</u> | <u>-</u> | <u>3,059,572</u> |
| Total..... | 6,011,472 | 9,409,375 | 267,885 | 15,688,732 |
| Less: interest | <u>(1,064,727)</u> | <u>(3,263,614)</u> | <u>(11,125)</u> | <u>(4,339,466)</u> |
| Net amount..... | <u>\$ 4,946,745</u> | <u>6,145,761</u> | <u>256,760</u> | <u>11,349,266</u> |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

| Business-Type Activities: | Balance Due | Current Maturities |
|---|---------------------|-----------------------|
| Water and Sewer System Refunding Revenue Bond, Series 2002– 2.00% to 5.00%, due serially to 2022 | \$ 11,985,000 | 550,000 |
| Promissory notes payable to Sun Trust Bank of Volusia County: 3.82% Water and Sewer System Improvement Revenue Bond, Series 2005 dated October 11, 2005, due serially to 2025..... | 1,450,000 | 55,000 |
| State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement-3.11% construction loan dated July 28, 1998, in the amount of \$2,647,500, due semi- annually beginning June 2001 through December 2020..... | 1,911,636 | 101,775 |
| State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement-2.12% construction loan dated November 21, 2005, in the amount of \$659,388 (amount drawn to date \$306,042), due semi-annually beginning April 2007 through October 2027..... | <u>306,042</u> | <u>5,939</u> |
| Total bonds and notes payable..... | 15,652,678 | 712,714 |
| Plus: unamortized debt premium | 3,216 | - |
| Less: deferred amount on advance refunding | <u>(1,019,003)</u> | <u>-</u> |
| Net long-term bonded debt | 14,636,891 | 712,714 |
| Compensated absences | <u>150,718</u> | <u>15,000</u> |
| Total business-type activities long-term debt | <u>\$14,787,609</u> | <u>727,714</u> |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
 September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

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

| | Balances 09/30/05 | Additions | Deletions | Balances 09/30/06 |
|--|----------------------|------------------|----------------|----------------------|
| Water and Sewer System Refunding | | | | |
| Revenue Bond, Series 2002 | \$ 12,515,000 | - | 515,000 | 11,985,000 |
| Water and Sewer System Improvement | | | | |
| Revenue Bond, Series 2005 | - | 1,500,000 | 50,000 | 1,450,000 |
| Notes Payable - Florida Department of Environmental Protection-Clean Water State Revolving Fund Loan | 2,010,318 | 306,042 | 98,682 | 2,217,678 |
| Compensated absences | <u>145,891</u> | <u>4,827</u> | <u>-</u> | <u>150,718</u> |
| Totals | <u>\$ 14,671,209</u> | <u>1,810,869</u> | <u>663,682</u> | <u>15,803,396</u> |

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

| Fiscal Year | Bonds | Notes | Total |
|-------------------------------|----------------------|------------------|--------------------|
| September 30, 2007 | \$ 1,189,096 | 169,877 | 1,358,973 |
| September 30, 2008 | 1,184,945 | 179,312 | 1,364,257 |
| September 30, 2009 | 1,188,070 | 179,312 | 1,367,382 |
| September 30, 2010 | 1,184,717 | 179,312 | 1,364,029 |
| September 30, 2011 | 1,179,436 | 179,312 | 1,358,748 |
| September 30, 2012-2016 | 5,932,527 | 896,560 | 6,829,087 |
| September 30, 2017-2021 | 5,924,381 | 896,560 | 6,820,941 |
| September 30, 2022-2026 | 1,509,641 | 94,350 | 1,603,991 |
| September 30, 2027 | <u>-</u> | <u>9,435</u> | <u>9,435</u> |
| Total requirements | 19,292,813 | 2,784,030 | 22,076,843 |
| Less: interest | <u>(5,857,813)</u> | <u>(566,352)</u> | <u>(6,424,165)</u> |
| Net amount..... | <u>\$ 13,435,000</u> | <u>2,217,678</u> | <u>15,652,678</u> |

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

participation in the Local Government Surplus Funds Trust Fund, and any other investments allowed by Florida law.

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

NOTE 10 - PENSION PLANS

General Employees - Defined Benefit Pension Plan

Plan Description. (Pre-01/01/96 and post-10/01/05 general employees) The City contributes to the Florida Retirement System (the "FRS") of the State of Florida, a cost-sharing, multiple-employer public employee retirement system created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Administration, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 121, F.S. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Florida Retirement System, Department of Administration, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, FL 32399-1560, or calling 850-488-5706.

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

The City funded all required contributions to the plan for the fiscal years ended September 30, 2006, 2005, and 2004, which were \$215,747, \$86,625, and \$90,677, respectively. There were no employee contributions made during these years. The following is a summary of employer contribution percentages for qualifying compensation paid to general participants/DROP participants in effect during each of the past three fiscal years ended September 30, 2006, 2005, and 2004 by retirement plan periods:

| | <u>Regular</u> <u>Employees</u> | <u>DROP</u> <u>Employees</u> |
|---|------------------------------------|---------------------------------|
| Plan year beginning June 30, 2006 | 9.85% | 10.91% |
| Plan year beginning June 30, 2005 | 7.83% | 9.33% |
| Plan year beginning June 30, 2004 | 7.39% | 9.11% |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

General Employees - Defined Contribution Plan

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

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

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

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

The required employer contributions to the Plan for the fiscal years ended September 30, 2006, 2005, and 2004 were \$26,252, \$104,551, and \$79,974, respectively. Employee contributions to the Plan for the fiscal years ended September 30, 2006, 2005, and 2004 were \$81,842, \$91,589, and \$81,431, respectively.

Police Officers and Firefighters - Defined Benefit Pension Plans:

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

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

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

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

| | <u>Police Plan</u> | <u>Fire Plan</u> |
|--|------------------------|----------------------|
| Participant data as of October 1, 2005, the date of the most recent actuarial valuation: | | |
| Retirees and beneficiaries currently receiving benefits | 10 | 5 |
| Beneficiaries receiving death benefits | 2 | 1 |
| Vested terminated employees | 0 | 1 |
| Active employees: | | |
| Fully vested... .. | 0 | 0 |
| Nonvested | <u>26</u> | <u>16</u> |
| Total participants | <u>38</u> | <u>23</u> |

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

The City has adopted GASB Statement No. 27 on pension accounting and reporting. This statement requires the computation of a net pension obligation (NPO) or asset which would result if the City's contributions to the pension funds did not equal the annual pension cost as computed by the plan actuaries. During the current year, the City evaluated both plans to determine the net pension obligation or assets at the end of 2005.

The City's annual pension cost and net pension obligations to the Police and Fire Plans (based on the most current valuations available) were as follows:

Municipal Police Officers' Retirement Trust Fund

| <u>Fiscal Year Ending</u> | Actuarial Determined <u>Contribution</u> | Percentage of ADC <u>Contributed</u> | Net Pension <u>Obligation</u> |
|---------------------------------|--|--|-------------------------------------|
| 09/30/2005..... | \$ 79,564 | 100% | (25,757) |
| 09/30/2004..... | 125,473 | 121% | (26,043) |
| 09/30/2003..... | 14,537 | 100% | 0 |

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

Municipal Firefighters' Pension Trust Fund

| <u>Fiscal Year Ending</u> | Actuarial Determined <u>Contribution</u> | Percentage of ADC <u>Contributed</u> | Net Pension <u>Obligation</u> |
|---------------------------------|--|--|-------------------------------------|
| 09/30/2005..... | \$ 122,751 | 100% | \$ (59,326) |
| 09/30/2004..... | 89,132 | 109% | (60,289) |
| 09/30/2003..... | 74,407 | 100% | (54,885) |

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

The development of the revised Net Pension Obligation (NPO) in the Police Plan to date is as follows:

| | <u>09/30/03</u> | <u>09/30/04</u> | <u>09/30/05</u> |
|--------------------------------------|-----------------|-----------------|-----------------|
| Actuarially determined contribution. | \$ | | 79,564 |
| Interest on NPO | | | (2,083) |
| Adjustment | | | <u>2,369</u> |
| Annual Pension Cost | | | 79,850 |
| Contributions made | | | <u>79,564</u> |
| Increase in NPO..... | | | 286 |
| NPO - beginning of year | | | <u>(26,043)</u> |
| NPO - end of year..... | | <u>(26,043)</u> | <u>(25,757)</u> |

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

The development of the Net Pension Obligation (NPO) in the Fire Plan through October 1, 2005 is as follows:

| | <u>09/30/03</u> | <u>09/30/04</u> | <u>09/30/05</u> |
|--------------------------------------|------------------------|---------------------|---------------------|
| Actuarially determined contribution. | \$ 74,407 | 89,132 | 122,751 |
| Interest on NPO | (4,183) | (4,116) | (4,522) |
| Adjustment | <u>5,074</u> | <u>6,508</u> | <u>5,485</u> |
| Annual Pension Cost | 75,298 | 91,524 | 123,714 |
| Contributions made | <u>74,407</u> | <u>96,928</u> | <u>122,751</u> |
| Increase in NPO..... | 891 | (5,404) | 963 |
| NPO - beginning of year | <u>(55,776)</u> | <u>(54,885)</u> | <u>(60,289)</u> |
| NPO - end of year..... | <u>\$ (54,885)</u> | <u>(60,289)</u> | <u>(59,326)</u> |

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

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

| | <u>Police Plan</u> | <u>Fire Plan</u> |
|-------------------------------------|--------------------------|-------------------------|
| Contribution rates as of 09/30/05: | | |
| City (employer) | 0.4% | 17.9% |
| City for Members | 8.0% | 0.0% |
| Plan Members..... | 11.2% | 10.0% |
| Annual pension cost | \$79,564 | \$122,751 |
| Contributions made | \$79,564 | \$122,751 |
| Actuarial valuation dates | 10/01/03 | 10/01/03 |
| Actuarial cost method..... | Entry Age Normal | Entry Age Normal |
| Amortization method..... | Level % of Pay, Closed | Level % of Pay, Closed |
| Remaining amortization period | 30 Years (as of 10/1/03) | 30 Years |
| Asset valuation method | 4yr. Smoothed Market | 4yr. Smoothed Market |
| Actuarial assumptions: | | |
| Investment rate of return | 8.0% | 7.5% |
| Projected salary increases *..... | 6.0% | 5.0% |
| *Includes inflation at..... | 3.0% | 2.5% |
| Cost of living adjustments..... | 0.0% | 0.0% |

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

NOTE 11 - DEFERRED EMPLOYEE BENEFITS

The City offers its City Manager participation in a Money Purchase Plan and Trust, created in accordance with Section 401(a) of the Internal Revenue Code. The assets of this plan are administered by the International City Managers Association Retirement Corporation. Upon separation from service for reasons of death, disability or attainment of age 59½ (normal retirement age) the participant may elect to commence receiving benefits which equal accumulated employers' contributions plus earnings thereon. All benefits vest with the employee at the date of contribution. The City contributes 18% of the participant's salary to the Plan. For the year ended September 30, 2006, the City's covered payroll was \$101,598 and contributions were \$18,288.

The City also offers an alternative Section 457 plan to accommodate supplemental employee elective deferrals for employees covered in the City's defined benefit plans. The assets of this plan are also administered by the International City Managers Association Retirement Corporation. Supplemental employee contributions to the Plan for the fiscal year ended September 30, 2006 totaled \$39,613.

NOTE 12 - LEGAL MATTERS

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

NOTE 13 - COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). Amounts disallowed for disaster recovery assistance revenues recognized in the fiscal year ended September 30, 2005, totaled \$320,334, all of which has been recognized in the current year. The amount, if any, of other expenditures from current or prior years which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

Schedule 1

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Original | Final | Actual Amounts | Variance |
|---|------------------|------------------|-------------------|----------------|
| Revenue: | | | | |
| Taxes: | | | | |
| General property taxes: | | | | |
| Current ad valorem taxes..... | \$ 1,741,900 | 1,746,600 | 1,746,671 | 71 |
| Delinquent ad valorem taxes..... | 8,000 | 15,000 | 5,151 | (9,849) |
| Local option gas tax..... | 174,600 | 172,600 | 171,016 | (1,584) |
| 2nd Local option gas tax..... | 128,300 | 124,300 | 123,629 | (671) |
| Franchise taxes | 696,200 | 797,600 | 857,609 | 60,009 |
| Utility service taxes..... | <u>1,400,000</u> | <u>1,388,000</u> | <u>1,411,069</u> | <u>23,069</u> |
| Total taxes..... | <u>4,149,000</u> | <u>4,244,100</u> | <u>4,315,145</u> | <u>71,045</u> |
| Licenses and permits: | | | | |
| Business | 175,000 | 175,000 | 175,866 | 866 |
| Nonbusiness..... | <u>198,900</u> | <u>341,000</u> | <u>343,130</u> | <u>2,130</u> |
| Total licenses and permits | <u>373,900</u> | <u>516,000</u> | <u>518,996</u> | <u>2,996</u> |
| Intergovernmental Revenue: | | | | |
| Federal Grants: | | | | |
| Department of Homeland Security..... | - | 144,600 | 221,094 | 76,494 |
| State Grants: | | | | |
| Division of Historical Resources..... | - | 15,000 | 14,750 | (250) |
| Department of Community Affairs..... | - | - | 24,276 | 24,276 |
| State Shared Revenues: | | | | |
| State revenue sharing proceeds..... | 430,000 | 430,500 | 445,903 | 15,403 |
| Mobile home licenses | 17,000 | 17,000 | 15,993 | (1,007) |
| Alcoholic beverage licenses..... | 7,000 | 7,600 | 7,702 | 102 |
| Local government half-cent sales tax..... | 691,500 | 691,500 | 691,925 | 425 |
| Motor fuel tax rebate..... | 300 | 300 | 295 | (5) |
| Firefighters insurance premium tax..... | - | - | 44,033 | 44,033 |
| Police insurance premium tax..... | - | - | 74,699 | 74,699 |
| Firefighters' supplemental revenue..... | 1,000 | 1,500 | 11,088 | 9,588 |
| Other Shared Revenues: | | | | |
| Other local grants..... | - | 3,300 | 3,310 | 10 |
| County shared revenues | <u>14,800</u> | <u>18,300</u> | <u>17,113</u> | <u>(1,187)</u> |
| Total intergovernmental revenue..... | <u>1,161,600</u> | <u>1,329,600</u> | <u>1,572,181</u> | <u>242,581</u> |
| Charges for services: | | | | |
| General government..... | 10,400 | 13,400 | 14,297 | 897 |
| Public safety..... | 5,500 | 14,000 | 14,313 | 313 |
| Transportation..... | 57,100 | 62,000 | 63,390 | 1,390 |
| Culture/recreation..... | <u>82,000</u> | <u>100,600</u> | <u>102,118</u> | <u>1,518</u> |
| Total charges for services | <u>155,000</u> | <u>190,000</u> | <u>194,118</u> | <u>4,118</u> |

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

Schedule 1

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Original | Final | Actual Amounts | Variance |
|--------------------------------------|-----------|-----------|-------------------|----------|
| Fines and forfeitures: | | | | |
| Court cases..... | \$ 39,600 | 36,700 | 32,792 | (3,908) |
| Local ordinance violations | 700 | 400 | 4,115 | 3,715 |
| Total fines and forfeitures..... | 40,300 | 37,100 | 36,907 | (193) |
| Miscellaneous Revenues: | | | | |
| Interest earnings | 53,000 | 109,000 | 119,129 | 10,129 |
| Sale of property and equipment | 20,000 | 11,700 | 57,786 | 46,086 |
| Contributions and donations..... | 4,500 | 5,100 | 9,693 | 4,593 |
| Miscellaneous revenues | 42,500 | 240,900 | 217,857 | (23,043) |
| Total miscellaneous revenue | 120,000 | 366,700 | 404,465 | 37,765 |
| Total revenue | 5,999,800 | 6,683,500 | 7,041,812 | 358,312 |
| Expenditures: | | | | |
| General Government: | | | | |
| Legislative: | | | | |
| Personal services | 41,400 | 30,200 | 27,403 | 2,797 |
| Operating expenditures..... | 57,400 | 55,900 | 54,773 | 1,127 |
| | 98,800 | 86,100 | 82,176 | 3,924 |
| Executive: | | | | |
| Personal services | 357,100 | 334,700 | 331,084 | 3,616 |
| Operating expenditures..... | 46,300 | 43,300 | 39,174 | 4,126 |
| | 403,400 | 378,000 | 370,258 | 7,742 |
| Financial and Administrative: | | | | |
| Personal services..... | 520,500 | 503,500 | 497,697 | 5,803 |
| Operating expenditures..... | 304,800 | 396,000 | 376,341 | 19,659 |
| | 825,300 | 899,500 | 874,038 | 25,462 |
| Other General Government: | | | | |
| Personal services..... | 16,500 | 24,600 | 24,390 | 210 |
| Operating expenditures | 133,900 | 148,600 | 148,133 | 467 |
| Capital outlay..... | 41,300 | 31,000 | 30,748 | 252 |
| Grants and aids..... | 24,000 | 42,200 | 42,160 | 40 |
| | 215,700 | 246,400 | 245,431 | 969 |
| Total general government | 1,543,200 | 1,610,000 | 1,571,903 | 38,097 |
| Public Safety: | | | | |
| Law Enforcement: | | | | |
| Personal services..... | 1,742,700 | 1,661,300 | 1,691,719 | (30,419) |
| Operating expenditures..... | 320,200 | 337,600 | 331,245 | 6,355 |
| Capital outlay..... | 47,000 | 47,000 | 46,845 | 155 |
| | 2,109,900 | 2,045,900 | 2,069,809 | (23,909) |

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

Schedule 1

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Original | Final | Actual Amounts | Variance |
|-------------------------------------|----------------------|----------------------|----------------------|---------------------|
| Fire Protection: | | | | |
| Personal services | \$ 1,115,400 | 1,113,700 | 1,164,902 | (51,202) |
| Operating expenditures | 144,100 | 128,900 | 121,934 | 6,966 |
| Capital outlay | <u>22,200</u> | <u>21,100</u> | <u>21,089</u> | <u>11</u> |
| | <u>1,281,700</u> | <u>1,263,700</u> | <u>1,307,925</u> | <u>(44,225)</u> |
| Building Inspection: | | | | |
| Personal services | 306,600 | 300,200 | 292,772 | 7,428 |
| Operating expenditures | 100,800 | 164,300 | 133,585 | 30,715 |
| Capital outlay..... | <u>12,500</u> | <u>11,200</u> | <u>11,130</u> | <u>70</u> |
| | <u>419,900</u> | <u>475,700</u> | <u>437,487</u> | <u>38,213</u> |
| Total public safety..... | <u>3,811,500</u> | <u>3,785,300</u> | <u>3,815,221</u> | <u>(29,921)</u> |
| Transportation: | | | | |
| Road and Street Facilities: | | | | |
| Personal services..... | 415,100 | 393,400 | 387,676 | 5,724 |
| Operating expenditures | 350,800 | 300,700 | 285,501 | 15,199 |
| Capital outlay | <u>120,000</u> | <u>194,000</u> | <u>193,386</u> | <u>614</u> |
| Total transportation..... | <u>885,900</u> | <u>888,100</u> | <u>866,563</u> | <u>21,537</u> |
| Culture/Recreation: | | | | |
| Parks: | | | | |
| Personal services..... | 435,000 | 426,200 | 421,525 | 4,675 |
| Operating expenditures | 163,700 | 233,300 | 212,488 | 20,812 |
| Capital outlay | <u>102,000</u> | <u>728,200</u> | <u>709,958</u> | <u>18,242</u> |
| | <u>700,700</u> | <u>1,387,700</u> | <u>1,343,971</u> | <u>43,729</u> |
| Recreation: | | | | |
| Personal services..... | 299,200 | 307,200 | 306,204 | 996 |
| Operating expenditures | 147,900 | 137,000 | 135,626 | 1,374 |
| Capital outlay | <u>-</u> | <u>3,000</u> | <u>3,001</u> | <u>(1)</u> |
| | <u>447,100</u> | <u>447,200</u> | <u>444,831</u> | <u>2,369</u> |
| Total culture/recreation..... | <u>1,147,800</u> | <u>1,834,900</u> | <u>1,788,802</u> | <u>46,098</u> |
| Debt Service: | | | | |
| Principal retirement: | | | | |
| General government | 141,200 | 141,200 | 141,126 | 74 |
| Interest and fiscal charges: | | | | |
| General government | <u>16,200</u> | <u>17,900</u> | <u>17,810</u> | <u>90</u> |
| Total debt service | <u>157,400</u> | <u>159,100</u> | <u>158,936</u> | <u>164</u> |

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

Schedule 1

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Original | Final | Actual Amounts | Variance |
|---|--------------|-------------|-------------------|-----------|
| Total expenditures..... | \$ 7,545,800 | 8,277,400 | 8,201,425 | 75,975 |
| Excess of revenue over (under) expenditures..... | (1,546,000) | (1,593,900) | (1,159,613) | 434,287 |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | 798,400 | 1,098,400 | 1,148,400 | 50,000 |
| Transfers (out)..... | - | (24,600) | - | 24,600 |
| Appropriated fund balance..... | 747,600 | 520,100 | - | (520,100) |
| Total financing sources (uses)..... | 1,546,000 | 1,593,900 | 1,148,400 | (445,500) |
| Net change in fund balance..... | - | - | (11,213) | (11,213) |
| Fund balance, beginning of year..... | 1,723,554 | 1,723,554 | 1,723,554 | - |
| Fund balance, end of year..... | \$ 1,723,554 | 1,723,554 | 1,712,341 | (11,213) |

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Schedule 2

| | Original | Final | Actual Amounts | Variance |
|---|------------|-----------|-------------------|-----------|
| Revenue: | | | | |
| Taxes: | | | | |
| General property taxes: | | | | |
| Current ad valorem taxes..... | \$ 309,800 | 292,700 | 292,654 | (46) |
| Intergovernmental Revenue: | | | | |
| Shared revenues from other local units..... | 685,500 | 645,500 | 645,523 | 23 |
| Miscellaneous Revenue: | | | | |
| Miscellaneous..... | - | 1,200 | 1,188 | (12) |
| Interest earnings..... | 6,000 | 20,000 | 34,274 | 14,274 |
| Total miscellaneous revenue..... | 6,000 | 21,200 | 35,462 | 14,262 |
| Total revenue..... | 1,001,300 | 959,400 | 973,639 | 14,239 |
| Expenditures: | | | | |
| Economic Environment: | | | | |
| Personal services..... | 336,300 | 321,000 | 247,563 | 73,437 |
| Operating expenditures | 89,600 | 108,300 | 96,561 | 11,739 |
| Capital outlay..... | 61,800 | 83,800 | 76,667 | 7,133 |
| Grants and aids..... | - | 155,300 | 31,762 | 123,538 |
| Total economic environment..... | 487,700 | 668,400 | 452,553 | 215,847 |
| Excess of revenue over (under) expenditures..... | 513,600 | 291,000 | 521,086 | 230,086 |
| Other Financing Sources (Uses): | | | | |
| Transfer (out)..... | (470,500) | (495,500) | (495,513) | (13) |
| Appropriated fund balance..... | 204,500 | 204,500 | - | (204,500) |
| Total other financing sources (uses)..... | (266,000) | (291,000) | (495,513) | (204,513) |
| Net change in fund balance..... | 247,600 | - | 25,573 | 25,573 |
| Fund balance, beginning of year | 516,475 | 516,475 | 516,475 | - |
| Fund balance, end of year..... | \$ 764,075 | 516,475 | 542,048 | 25,573 |

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
STORMWATER DRAINAGE FUND

Schedule 3

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Original | Final | Actual Amounts | Variance |
|---|--------------|-----------|-------------------|----------|
| Charges for Services: | | | | |
| Physical Environment: | | | | |
| Stormwater management fees | \$ 680,000 | 680,000 | 681,386 | 1,386 |
| Miscellaneous Revenue: | | | | |
| Interest earnings..... | 7,000 | 22,000 | 43,470 | 21,470 |
| Total revenue..... | 687,000 | 702,000 | 724,856 | 22,856 |
| Expenditures: | | | | |
| Physical Environment: | | | | |
| Personal services..... | 185,700 | 186,900 | 184,830 | 2,070 |
| Operating expenditures..... | 120,600 | 126,400 | 115,475 | 10,925 |
| Capital outlay | 111,500 | 104,500 | 3,535 | 100,965 |
| Total physical environment..... | 417,800 | 417,800 | 303,840 | 113,960 |
| Excess of revenue over (under) expenditures..... | 269,200 | 284,200 | 421,016 | 136,816 |
| Other Financing Sources (Uses): | | | | |
| Appropriated fund balance..... | 42,500 | 27,500 | - | (27,500) |
| Transfers in..... | - | - | 106,986 | 106,986 |
| Transfers (out)..... | (311,700) | (311,700) | (397,686) | (85,986) |
| Total other financing sources..... | (269,200) | (284,200) | (290,700) | (6,500) |
| Net change in fund balance..... | - | - | 130,316 | 130,316 |
| Fund balance, beginning of year | 1,177,792 | 1,177,792 | 1,177,792 | - |
| Fund balance, end of year..... | \$ 1,177,792 | 1,177,792 | 1,308,108 | 130,316 |

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Schedule 4

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (Assets in Excess of) AAL (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|--|--|--|--------------------------|---------------------------|--|
| <u>Municipal Firefighters' Pension Trust Fund</u> | | | | | | |
| 10/01/2005 | \$ 2,312,599 | \$ 3,318,215 | \$ 1,005,616 | 69.69% | \$ 734,633 | 136.89% |
| 10/01/2004 | \$ 2,154,101 | \$ 2,954,838 | \$ 800,737 | 72.90% | \$ 590,000 | 135.72% |
| 10/02/2003 | \$ 2,120,170 | \$ 2,120,170 | \$ - | 100.00% | \$ 466,503 | 0.00% |
| 10/02/2002 | \$ 2,100,744 | \$ 2,100,744 | \$ - | 100.00% | \$ 467,323 | 0.00% |
| 10/02/2001 | \$ 2,089,520 | \$ 2,089,520 | \$ - | 100.00% | \$ 402,803 | 0.00% |
| 10/01/2000 | \$ 2,044,098 | \$ 2,044,098 | \$ - | 100.00% | \$ 339,489 | 0.00% |
| <u>Municipal Police Officers' Retirement Trust Fund</u> | | | | | | |
| 10/01/2005 | \$ 5,355,209 | \$ 7,074,349 | \$ 1,719,140 | 75.70% | \$ 1,075,136 | 159.90% |
| 10/01/2004 | \$ 5,164,093 | \$ 6,175,838 | \$ 1,011,745 | 83.62% | \$ 938,089 | 107.85% |
| 10/02/2003 | \$ 5,267,378 | \$ 5,805,326 | \$ 537,948 | 90.73% | \$ 894,861 | 60.12% |
| 10/02/2002 | \$ 4,997,881 | \$ 5,922,253 | \$ 924,372 | 84.39% | \$ 918,337 | 100.66% |
| 10/02/2001 | \$ 4,610,473 | \$ 4,610,473 | \$ - | 100.00% | \$ 871,152 | 0.00% |
| 10/01/2000 | \$ 5,500,526 | \$ 6,064,771 | \$ 564,245 | 90.70% | \$ 744,912 | 75.75% |

Source: Foster & Foster, Inc., Actuaries
Valuations dated 10/01/2005

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS OF EMPLOYER AND OTHER
CONTRIBUTING ENTITIES
 September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

Schedule 5

| <u>Fiscal Year Ended</u> | <u>Annual Required Contribution</u> | <u>Employer Contributions</u> | <u>State Contributions</u> | <u>Total Contributions</u> | <u>Percentage Contributed</u> |
|---|-------------------------------------|-------------------------------|----------------------------|----------------------------|-------------------------------|
| <u>Municipal Firefighters' Pension Trust Fund</u> | | | | | |
| 09/30/2005 | \$ 158,624 | \$ 122,751 | \$ 35,873 * | \$ 158,624 | 100.00% |
| 09/30/2004 | \$ 125,005 | \$ 96,928 | \$ 35,873 * | \$ 132,801 | 106.24% |
| 09/30/2003 | \$ 102,484 | \$ 74,407 | \$ 28,077 * | \$ 102,484 | 100.00% |
| 09/30/2002 | \$ 97,604 | \$ 69,527 | \$ 28,077 * | \$ 97,604 | 100.00% |
| 09/30/2001 | \$ 70,960 | \$ 60,875 | \$ 28,077 * | \$ 88,952 | 125.36% |
| 09/30/2000 | \$ 70,054 | \$ 41,977 | \$ 28,077 * | \$ 70,054 | 100.00% |

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

| | | | | | |
|---|------------|------------|-----------|------------|---------|
| <u>Municipal Police Officers' Retirement Trust Fund</u> | | | | | |
| 09/30/2005 | \$ 154,263 | \$ 79,564 | \$ 74,699 | \$ 154,263 | 100.00% |
| 09/30/2004 | \$ 197,098 | \$ 151,516 | \$ 71,625 | \$ 223,141 | 113.21% |
| 09/30/2003 | \$ 75,278 | \$ 14,537 | \$ 60,741 | \$ 75,278 | 100.00% |
| 09/30/2002 | \$ 71,017 | \$ 25,404 | \$ 51,038 | \$ 76,442 | 100.00% |
| 09/30/2001 | \$ 5,651 | \$ - | \$ 45,613 | \$ 45,613 | 100.00% |
| 09/30/2000 | \$ 26,549 | \$ - | \$ 45,177 | \$ 45,177 | 100.00% |

Source: Foster & Foster, Inc., Actuaries
 Valuations dated 10/01/2005

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

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Nonmajor Special Revenue | | | |
|--|-----------------------------|-----------------------------------|------------------------|--|
| | Law Enforcement Trust | Holly Hill Police Explorers | Recreation Activity | Community Development Block Grant |
| Assets: | | | | |
| Cash and cash equivalents..... | \$ 52,222 | 2,199 | 17,712 | - |
| Due from other funds..... | - | - | - | - |
| Due from other governments..... | - | - | - | - |
| Total assets..... | <u>\$ 52,222</u> | <u>2,199</u> | <u>17,712</u> | <u>-</u> |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | 130 | - | - |
| Due to other funds..... | <u>240</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities..... | <u>240</u> | <u>130</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | - | - | - | - |
| Law enforcement | 51,982 | - | - | - |
| Debt service | - | - | - | - |
| Unreserved | <u>-</u> | <u>2,069</u> | <u>17,712</u> | <u>-</u> |
| Total fund balances | <u>51,982</u> | <u>2,069</u> | <u>17,712</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 52,222</u> | <u>2,199</u> | <u>17,712</u> | <u>-</u> |

Exhibit 1

| Funds | Nonmajor Debt Service Funds | | | | Nonmajor Capital Projects Fund | Total |
|-------|-----------------------------------|--------------------------------------|-------------------|-----------------------|-----------------------------------|-----------------------|
| | Local Law Enforcement Block Grant | Total Nonmajor Special Revenue Funds | Debt Service Fund | CRA Debt Service Fund | Total Nonmajor Debt Service Funds | Capital Projects Fund |
| - | 72,133 | 286,513 | 175,093 | 461,606 | 5,483 | 539,222 |
| - | - | - | 27,000 | 27,000 | - | 27,000 |
| - | - | - | - | - | 143,355 | 143,355 |
| - | <u>72,133</u> | <u>286,513</u> | <u>202,093</u> | <u>488,606</u> | <u>148,838</u> | <u>709,577</u> |
| - | 130 | - | - | - | - | 130 |
| - | <u>240</u> | <u>85,986</u> | - | <u>85,986</u> | <u>45,000</u> | <u>131,226</u> |
| - | <u>370</u> | <u>85,986</u> | - | <u>85,986</u> | <u>45,000</u> | <u>131,356</u> |
| - | - | - | - | - | 27,555 | 27,555 |
| - | 51,982 | - | - | - | - | 51,982 |
| - | - | 200,527 | 202,093 | 402,620 | - | 402,620 |
| - | <u>19,781</u> | - | - | - | <u>76,283</u> | <u>96,064</u> |
| - | <u>71,763</u> | <u>200,527</u> | <u>202,093</u> | <u>402,620</u> | <u>103,838</u> | <u>578,221</u> |
| - | <u>72,133</u> | <u>286,513</u> | <u>202,093</u> | <u>488,606</u> | <u>148,838</u> | <u>709,577</u> |

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Nonmajor Special Revenue | | | |
|--|-----------------------------|-----------------------------------|------------------------|--|
| | Law Enforcement Trust | Holly Hill Police Explorers | Recreation Activity | Community Development Block Grant |
| Revenue: | | | | |
| Charges for services..... | \$ - | - | 2,035 | - |
| Intergovernmental | - | - | - | 62,250 |
| Fines and forfeitures | 15,974 | - | - | - |
| Miscellaneous | <u>223</u> | <u>9,270</u> | <u>5,798</u> | <u>-</u> |
| Total revenue..... | <u>16,197</u> | <u>9,270</u> | <u>7,833</u> | <u>62,250</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety..... | 2,299 | - | - | - |
| Culture/recreation..... | - | 10,148 | 14,216 | - |
| Capital Outlay: | | | | |
| Transportation..... | - | - | - | - |
| Culture/recreation..... | - | - | - | - |
| Debt Service: | | | | |
| Principal retirements..... | - | - | - | - |
| Interest payments..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures..... | <u>2,299</u> | <u>10,148</u> | <u>14,216</u> | <u>-</u> |
| Excess of revenue over (under) expenditures | 13,898 | (878) | (6,383) | 62,250 |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | - | 870 | - | - |
| Transfers (out)..... | <u>-</u> | <u>-</u> | <u>(870)</u> | <u>(62,250)</u> |
| Total other financing sources (uses)..... | <u>-</u> | <u>870</u> | <u>(870)</u> | <u>(62,250)</u> |
| Net changes in fund balances..... | 13,898 | (8) | (7,253) | - |
| Fund balances, beginning of year..... | <u>38,084</u> | <u>2,077</u> | <u>24,965</u> | <u>-</u> |
| Fund balances, end of year..... | <u>\$ 51,982</u> | <u>2,069</u> | <u>17,712</u> | <u>-</u> |

Exhibit 2

| Funds | Nonmajor Debt Service Funds | | | | Nonmajor Capital Projects Fund | Total |
|---------------|-----------------------------------|--------------------------------------|-------------------|-----------------------|-----------------------------------|-----------------------|
| | Local Law Enforcement Block Grant | Total Nonmajor Special Revenue Funds | Debt Service Fund | CRA Debt Service Fund | Total Nonmajor Debt Service Funds | Capital Projects Fund |
| - | 2,035 | - | - | - | - | 2,035 |
| 11,607 | 73,857 | - | - | - | 143,355 | 217,212 |
| - | 15,974 | - | - | - | - | 15,974 |
| - | 15,291 | 13,233 | 3,838 | 17,071 | 1,414 | 33,776 |
| <u>11,607</u> | <u>107,157</u> | <u>13,233</u> | <u>3,838</u> | <u>17,071</u> | <u>144,769</u> | <u>268,997</u> |
| 11,607 | 13,906 | - | - | - | - | 13,906 |
| - | 24,364 | - | - | - | - | 24,364 |
| - | - | - | - | - | 13,100 | 13,100 |
| - | - | - | - | - | 203,338 | 203,338 |
| - | - | 235,396 | 185,239 | 420,635 | - | 420,635 |
| - | - | 118,221 | 283,889 | 402,110 | - | 402,110 |
| <u>11,607</u> | <u>38,270</u> | <u>353,617</u> | <u>469,128</u> | <u>822,745</u> | <u>216,438</u> | <u>1,077,453</u> |
| - | 68,887 | (340,384) | (465,290) | (805,674) | (71,669) | (808,456) |
| - | 870 | 332,700 | 470,513 | 803,213 | 25,000 | 829,083 |
| - | (63,120) | - | - | - | - | (63,120) |
| - | (62,250) | 332,700 | 470,513 | 803,213 | 25,000 | 765,963 |
| - | 6,637 | (7,684) | 5,223 | (2,461) | (46,669) | (42,493) |
| - | 65,126 | 208,211 | 196,870 | 405,081 | 150,507 | 620,714 |
| <u>-</u> | <u>71,763</u> | <u>200,527</u> | <u>202,093</u> | <u>402,620</u> | <u>103,838</u> | <u>578,221</u> |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LAW ENFORCEMENT TRUST FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 3

| | Budgeted Amounts | | Actual Amounts | Variance |
|--|------------------|--------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Fines and Forfeitures: | | | | |
| Confiscated property..... | \$ - | 15,500 | 15,974 | 474 |
| Miscellaneous: | | | | |
| Interest earnings..... | - | 200 | 223 | 23 |
| Total revenue..... | - | 15,700 | 16,197 | 497 |
| Expenditures: | | | | |
| Current: | | | | |
| Public Safety: | | | | |
| Operating expenditures..... | - | 15,700 | 2,299 | 13,401 |
| Excess of revenue over (under) expenditures | - | - | 13,898 | (12,904) |
| Fund balances, beginning of year..... | 38,084 | 38,084 | 38,084 | - |
| Fund balances, end of year..... | \$ 38,084 | 38,084 | 51,982 | (12,904) |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR HOLLY HILL POLICE EXPLORERS FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 4

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|---------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Miscellaneous: | | | | |
| Contributions..... | \$ - | 8,600 | 9,270 | 670 |
| Miscellaneous revenues..... | - | 800 | - | (800) |
| Total revenue..... | - | 9,400 | 9,270 | (130) |
| Expenditures: | | | | |
| Current: | | | | |
| Culture/recreation: | | | | |
| Operating expenditures..... | - | 10,400 | 10,148 | 252 |
| Excess of revenue over (under) expenditures..... | - | (1,000) | (878) | 122 |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | - | 1,000 | 870 | (130) |
| Net change in fund balance..... | - | - | (8) | (8) |
| Fund balances, beginning of year..... | 2,077 | 2,077 | 2,077 | - |
| Fund balances, end of year..... | \$ 2,077 | 2,077 | 2,069 | (8) |

**BUDGETARY COMPARISON SCHEDULE
NONMAJOR RECREATION ACTIVITY FUND**

Exhibit 5

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|------------------|-------------------|-------------------|
| | Original | Final | | |
| Revenue: | | | | |
| Charges for services: | | | | |
| Special events..... | \$ - | 2,000 | 2,035 | 35 |
| Miscellaneous: | | | | |
| Contributions..... | <u>4,800</u> | <u>5,000</u> | <u>5,798</u> | <u>798</u> |
| Total revenue | <u>4,800</u> | <u>7,000</u> | <u>7,833</u> | <u>833</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Culture/recreation: | | | | |
| Operating expenditures..... | <u>16,100</u> | <u>15,200</u> | <u>14,216</u> | <u>984</u> |
| Excess of revenue over (under) expenditures..... | (11,300) | (8,200) | (6,383) | 1,817 |
| Other Financing Sources (Uses): | | | | |
| Appropriated fund balance..... | 11,300 | 9,100 | - | (9,100) |
| Transfers (out)..... | <u>-</u> | <u>(900)</u> | <u>(870)</u> | <u>30</u> |
| Net change in fund balance..... | - | - | (7,253) | (7,253) |
| Fund balances, beginning of year | <u>24,965</u> | <u>24,965</u> | <u>24,965</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 24,965</u> | <u>\$ 24,965</u> | <u>\$ 17,712</u> | <u>\$ (7,253)</u> |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 6

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|--------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Intergovernmental Revenue: | | | | |
| Federal Grants: | | | | |
| Department of Housing and Urban Development..... | \$ 96,700 | 97,800 | 62,250 | (35,550) |
| Expenditures: | | | | |
| Current: | | | | |
| Physical Environment: | | | | |
| Capital outlay..... | 33,000 | 62,300 | - | 62,300 |
| Transportation: | | | | |
| Capital outlay..... | 63,700 | 35,500 | - | 35,500 |
| Total expenditures..... | 96,700 | 97,800 | - | 97,800 |
| Excess of revenue over (under) expenditures..... | - | - | 62,250 | 62,250 |
| Other Financing Sources (Uses): | | | | |
| Transfers (out)..... | - | - | (62,250) | (62,250) |
| Net change in fund balance..... | - | - | - | - |
| Fund balances, beginning of year..... | - | - | - | - |
| Fund balances, end of year..... | \$ - | - | - | - |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR LOCAL LAW ENFORCEMENT BLOCK GRANT FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 7

| | Budgeted Amounts | | Actual Amounts | Variance |
|---------------------------------------|------------------|--------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Intergovernmental Revenue: | | | | |
| Federal Grants: | | | | |
| Department of Justice..... | \$ - | 12,000 | 11,607 | (393) |
| Expenditures: | | | | |
| Current: | | | | |
| Public Safety: | | | | |
| Operating expenditures..... | - | 9,000 | 8,973 | 27 |
| Capital outlay..... | - | 3,000 | 2,634 | 366 |
| Total expenditures..... | - | 12,000 | 11,607 | 393 |
| Net change in fund balance..... | - | - | - | (786) |
| Fund balances, beginning of year..... | - | - | - | - |
| Fund balances, end of year..... | \$ - | - | - | (786) |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 8

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|-----------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Miscellaneous: | | | | |
| Interest earnings..... | \$ - | - | 13,233 | 13,233 |
| Expenditures: | | | | |
| Debt Service: | | | | |
| Principal retirement..... | 235,400 | 235,400 | 235,396 | 4 |
| Interest payments..... | 118,300 | 118,300 | 118,221 | 79 |
| Total expenditures..... | 353,700 | 353,700 | 353,617 | 83 |
| Excess of revenue over (under) expenditures..... | (353,700) | (353,700) | (340,384) | 13,316 |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | 353,700 | 353,700 | 332,700 | (21,000) |
| Net change in fund balance..... | - | - | (7,684) | (7,684) |
| Fund balances, beginning of year | 208,211 | 208,211 | 208,211 | - |
| Fund balances, end of year..... | \$ 208,211 | 208,211 | 200,527 | (7,684) |

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

Exhibit 9

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|-----------|-------------------|----------|
| | Original | Final | | |
| Revenue: | | | | |
| Miscellaneous: | | | | |
| Interest earnings..... | \$ - | - | 3,838 | 3,838 |
| Expenditures: | | | | |
| Debt Service: | | | | |
| Principal retirement..... | 190,000 | 186,500 | 185,239 | 1,261 |
| Interest payments..... | 280,500 | 284,000 | 283,889 | 111 |
| Total expenditures..... | 470,500 | 470,500 | 469,128 | 1,372 |
| Excess of revenue over (under) expenditures..... | (470,500) | (470,500) | (465,290) | 2,466 |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | 470,500 | 470,500 | 470,513 | 13 |
| Net change in fund balance..... | - | - | 5,223 | 2,479 |
| Fund balances, beginning of year | 196,870 | 196,870 | 196,870 | - |
| Fund balances, end of year..... | \$ 196,870 | 196,870 | 202,093 | 2,479 |

BUDGETARY COMPARISON SCHEDULE
MAJOR COMMUNITY REDEVELOPMENT
AGENCY CAPITAL PROJECTS FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 10

| | Budgeted Amounts | | Actual Amounts | Variance |
|---|------------------|-------------|-------------------|-------------|
| | Original | Final | | |
| Revenue: | | | | |
| Miscellaneous: | | | | |
| Interest earnings..... | \$ - | 174,000 | 293,896 | 119,896 |
| Total revenue..... | - | 174,000 | 293,896 | 119,896 |
| Expenditures: | | | | |
| Current: | | | | |
| Economic Environment: | | | | |
| Capital outlay..... | 6,131,000 | 6,496,000 | 356,223 | 6,139,777 |
| Total expenditures..... | 6,131,000 | 6,496,000 | 356,223 | 6,139,777 |
| Excess of revenue over (under) expenditures..... | (6,131,000) | (6,322,000) | (62,327) | 6,259,673 |
| Other Financing Sources (Uses): | | | | |
| Appropriated fund balance..... | 6,131,000 | 6,322,000 | - | (6,322,000) |
| Net change in fund balance..... | - | - | (62,327) | (62,327) |
| Fund balances, beginning of year..... | 6,322,750 | 6,322,750 | 6,322,750 | - |
| Fund balances, end of year..... | \$ 6,322,750 | 6,322,750 | 6,260,423 | (62,327) |

BUDGETARY COMPARISON SCHEDULE
NONMAJOR CAPITAL PROJECTS FUND
For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Exhibit 11

| | Budgeted Amounts | | Actual Amounts | Variance |
|--|-------------------|-----------------|-------------------|------------------|
| | Original | Final | | |
| Revenue: | | | | |
| Intergovernmental: | | | | |
| State grant: | | | | |
| Florida Department of Environmental Protection..... | \$ - | 200,000 | - | (200,000) |
| Local grant: | | | | |
| Ponce Inlet Port Authority..... | - | 195,000 | - | (195,000) |
| Florida Inland Navigation District..... | - | 45,000 | - | (45,000) |
| County of Volusia..... | - | <u>143,400</u> | <u>143,355</u> | <u>(45)</u> |
| | - | <u>583,400</u> | <u>143,355</u> | <u>(440,045)</u> |
| Miscellaneous: | | | | |
| Interest earnings..... | - | - | <u>1,414</u> | <u>1,414</u> |
| Total revenue..... | - | <u>583,400</u> | <u>144,769</u> | <u>(438,631)</u> |
| Expenditures: | | | | |
| Capital Outlay: | | | | |
| Transportation..... | - | 13,100 | 13,100 | - |
| Culture/recreation..... | - | <u>646,500</u> | <u>203,338</u> | <u>443,162</u> |
| Total expenditures..... | - | <u>659,600</u> | <u>216,438</u> | <u>443,162</u> |
| Excess of revenue over (under) expenditures..... | - | <u>(76,200)</u> | <u>(71,669)</u> | <u>4,531</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in..... | - | 25,000 | 25,000 | - |
| Appropriated fund balance..... | - | <u>51,200</u> | - | <u>(51,200)</u> |
| Total other financing sources..... | - | <u>76,200</u> | <u>25,000</u> | <u>(51,200)</u> |
| Net change in fund balance..... | - | - | (46,669) | (46,669) |
| Fund balances, beginning of year | <u>150,507</u> | <u>150,507</u> | <u>150,507</u> | - |
| Fund balances, end of year | <u>\$ 150,507</u> | <u>150,507</u> | <u>103,838</u> | <u>(46,669)</u> |

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

Exhibit 12

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| | Police Officers' Retirement Trust Fund | Municipal Firefighters' Pension Trust Fund | Total- Fiduciary Funds |
|--|--|--|------------------------------|
| Assets: | | | |
| Cash and cash equivalents..... | \$ 381,092 | 136,011 | 517,103 |
| Receivables: | | | |
| Employer contributions receivable..... | 69,596 | 81 | 69,677 |
| Employee contributions receivable..... | 2,000 | 2,876 | 4,876 |
| State contributions receivable..... | - | 9,945 | 9,945 |
| Interest and dividends receivable..... | 26,560 | 7,971 | 34,531 |
| Total accounts receivable..... | 98,156 | 20,873 | 119,029 |
| Investments, at fair value | | | |
| U.S. Government and Agencies: | | | |
| Federal National Mortgage Association (FNMA) and Home Loan Mortgage Corporation (FHLMC) obligations..... | | | |
| | 466,078 | 266,166 | 732,244 |
| U.S. treasury notes..... | 579,251 | 130,434 | 709,685 |
| U.S. government mortgage backed securities..... | - | 34,300 | 34,300 |
| U.S. corporate debt obligations | 872,267 | 158,840 | 1,031,107 |
| U.S. corporate equity securities..... | 2,749,325 | 1,759,612 | 4,508,937 |
| International equity securities..... | 305,210 | - | 305,210 |
| Total investments..... | 4,972,131 | 2,349,352 | 7,321,483 |
| Total assets..... | 5,451,379 | 2,506,236 | 7,957,615 |
| Liabilities: | | | |
| Accounts payable..... | 8,255 | 4,081 | 12,336 |
| Net assets: | | | |
| Held in trust for pension benefits..... | \$ 5,443,124 | 2,502,155 | 7,945,279 |

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

Exhibit 13

For the Fiscal Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | Police Officers' Retirement Trust Fund | Municipal Firefighters' Pension Trust Fund | Total- Fiduciary Funds |
|--|--|--|------------------------------|
| Additions: | | | |
| Contributions from: | | | |
| Employer..... | \$ 180,780 | 99,546 | 280,326 |
| State..... | 74,699 | 53,677 | 128,376 |
| Plan members | <u>57,987</u> | <u>75,941</u> | <u>133,928</u> |
| Total contributions..... | <u>313,466</u> | <u>229,164</u> | <u>542,630</u> |
| Investment income: | | | |
| Net realized and unrealized appreciation (depreciation) in fair value of investments..... | | | |
| | 238,345 | 64,947 | 303,292 |
| Interest and dividend earnings..... | <u>149,753</u> | <u>81,874</u> | <u>231,627</u> |
| | 388,098 | 146,821 | 534,919 |
| Less: investment management fees | <u>(51,026)</u> | <u>(18,977)</u> | <u>(70,003)</u> |
| Total investment income | <u>337,072</u> | <u>127,844</u> | <u>464,916</u> |
| Total additions | <u>650,538</u> | <u>357,008</u> | <u>1,007,546</u> |
| Deductions: | | | |
| Benefit payments and refunds | 336,747 | 159,338 | 496,085 |
| Administrative expenses | <u>8,623</u> | <u>22,207</u> | <u>30,830</u> |
| Total deductions..... | <u>345,370</u> | <u>181,545</u> | <u>526,915</u> |
| Net increase..... | 305,168 | 175,463 | 480,631 |
| Net assets held in trust for pension benefits: | | | |
| Beginning of year | <u>5,137,956</u> | <u>2,326,692</u> | <u>7,464,648</u> |
| End of year..... | <u>\$ 5,443,124</u> | <u>2,502,155</u> | <u>7,945,279</u> |

STATISTICAL SECTION

This part of City of Holly Hill, Florida’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

| <u>Contents</u> | <u>Pages</u> |
|--|---------------------|
| Financial Trends | 78-84 |
| <i>These tables contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.</i> | |
| Revenue Capacity | 85-91 |
| <i>These tables contain information to help the reader assess the City’s most significant revenue sources, the property tax.</i> | |
| Debt Capacity | 92-98 |
| <i>These tables present information to help the reader assess the affordability of the City’s current levels of outstanding debt and its ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information | 99-101 |
| <i>These tables offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.</i> | |
| Operating Information | 102-107 |
| <i>These tables contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the Commission provides and the activities it performs.</i> | |

Sources: *Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.*

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NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA
(Accrual basis of accounting)

| | Fiscal Year | | | |
|--|----------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Governmental Activities: | | | | |
| Invested in capital assets, net of related debt... | \$ 12,446,679 | 5,352,066 | 11,024,444 | 10,344,199 |
| Restricted..... | 2,431,487 | 8,610,689 | 1,459,262 | 1,199,398 |
| Unrestricted..... | <u>987,391</u> | <u>1,174,051</u> | <u>1,777,068</u> | <u>2,447,696</u> |
| Total governmental activities net assets.... | <u>15,865,557</u> | <u>15,136,806</u> | <u>14,260,774</u> | <u>13,991,293</u> |
| Business-type Activities: | | | | |
| Invested in capital assets, net of related debt... | 4,065,661 | 4,469,861 | 3,924,901 | 4,528,390 |
| Restricted..... | 4,335,610 | 2,337,539 | 2,190,356 | 1,603,691 |
| Unrestricted..... | <u>2,482,583</u> | <u>2,899,688</u> | <u>3,129,737</u> | <u>2,842,229</u> |
| Total business-type activities net assets.... | <u>10,883,854</u> | <u>9,707,088</u> | <u>9,244,994</u> | <u>8,974,310</u> |
| Primary Government: | | | | |
| Invested in capital assets, net of related debt... | 16,512,340 | 9,821,927 | 14,949,345 | 14,872,589 |
| Restricted..... | 6,767,097 | 10,948,228 | 3,649,618 | 2,803,089 |
| Unrestricted..... | <u>3,469,974</u> | <u>4,073,739</u> | <u>4,906,805</u> | <u>5,289,925</u> |
| Total primary government net assets..... | <u>\$ 26,749,411</u> | <u>24,843,894</u> | <u>23,505,768</u> | <u>22,965,603</u> |

CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA
(Accrual basis of accounting)

| | Fiscal Year | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Expenses: | | | | |
| Governmental Activities: | | | | |
| General government..... | \$ 1,635,694 | 1,537,736 | 1,426,332 | 1,266,274 |
| Public safety..... | 3,880,653 | 3,556,976 | 3,270,335 | 3,024,156 |
| Transportation..... | 505,509 | 537,269 | 886,017 | 809,073 |
| Economic environment..... | 810,374 | 420,463 | 334,097 | 114,213 |
| Physical environment..... | 329,480 | 226,225 | 457,326 | 311,713 |
| Culture/recreation..... | 2,086,894 | 1,193,577 | 909,289 | 922,641 |
| Interest on long-term debt..... | <u>448,914</u> | <u>144,761</u> | <u>123,804</u> | <u>41,186</u> |
| Total governmental activities expenses..... | <u>9,697,518</u> | <u>7,617,007</u> | <u>7,407,200</u> | <u>6,489,256</u> |
| Business-Type Activities: | | | | |
| Water and Sewer..... | 4,238,066 | 3,842,182 | 3,569,542 | 3,420,186 |
| Solid Waste..... | <u>1,662,639</u> | <u>1,591,794</u> | <u>2,735,571</u> | <u>1,107,784</u> |
| Total business-type activities expenses..... | <u>5,900,705</u> | <u>5,433,976</u> | <u>6,305,113</u> | <u>4,527,970</u> |
| Total primary government expenses..... | <u>15,598,223</u> | <u>13,050,983</u> | <u>13,712,313</u> | <u>11,017,226</u> |
| Program Revenues: | | | | |
| Governmental Activities: | | | | |
| Charges for Services: | | | | |
| General government..... | 190,163 | 296,630 | 288,931 | 6,342 |
| Public safety..... | 410,324 | 72,895 | 61,738 | 334,807 |
| Transportation..... | 63,390 | 54,779 | 55,473 | 45,858 |
| Physical environment..... | 681,386 | 674,491 | 531,867 | 423,109 |
| Culture/recreation..... | 104,153 | 81,047 | 77,385 | 79,083 |
| Operating grants and contributions..... | 75,394 | 47,815 | 58,959 | 186,284 |
| Capital grants and contributions..... | <u>426,699</u> | <u>336,710</u> | <u>536,974</u> | <u>-</u> |
| Total governmental program revenues..... | <u>1,951,509</u> | <u>1,564,367</u> | <u>1,611,327</u> | <u>1,075,483</u> |
| Business-Type Activities: | | | | |
| Charges for Services: | | | | |
| Water/Sewer..... | 4,646,385 | 4,307,737 | 4,084,770 | 4,046,227 |
| Solid Waste..... | 1,751,147 | 1,685,183 | 1,532,145 | 1,543,664 |
| Operating grants and contributions..... | - | 465,949 | 1,479,833 | - |
| Capital grants and contributions..... | <u>1,434,318</u> | <u>98,700</u> | <u>118,956</u> | <u>105,235</u> |
| Total business-type program revenues..... | <u>7,831,850</u> | <u>6,557,569</u> | <u>7,215,704</u> | <u>5,695,126</u> |
| Total primary government program revenues... | <u>9,783,359</u> | <u>8,121,936</u> | <u>8,827,031</u> | <u>6,770,609</u> |
| Net (Expense)/Revenue: | | | | |
| Governmental activities..... | (7,746,009) | (6,052,640) | (5,795,873) | (5,413,773) |
| Business-type activities..... | <u>1,931,145</u> | <u>1,123,593</u> | <u>910,591</u> | <u>1,167,156</u> |
| Total primary government net expense..... | <u>(5,814,864)</u> | <u>(4,929,047)</u> | <u>(4,885,282)</u> | <u>(4,246,617)</u> |

CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS - (Continued)
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA
(Accrual basis of accounting)

| | Fiscal Year | | | |
|--|-------------------------|----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2004 | 2003 |
| General Revenues and Other Changes in Net Assets: | | | | |
| Governmental Activities: | | | | |
| Taxes: | | | | |
| Property taxes..... | \$ 2,039,394 | 1,584,639 | 1,459,486 | 1,489,626 |
| Sales taxes..... | 691,925 | 700,190 | 652,814 | 667,245 |
| Local option gas tax..... | 294,645 | 296,820 | 278,442 | 266,516 |
| Franchise taxes..... | 857,609 | 737,798 | 640,107 | 633,659 |
| Public service taxes..... | 1,411,069 | 1,366,428 | 1,319,858 | 1,258,522 |
| Intergovernmental revenues..... | 1,265,659 | 510,067 | 397,475 | 42,058 |
| Investment earnings..... | 509,477 | 205,338 | 59,977 | 74,046 |
| Miscellaneous revenue..... | 276,832 | 732,392 | 547,195 | 678,070 |
| Transfers..... | <u>1,128,150</u> | <u>795,000</u> | <u>710,000</u> | <u>935,000</u> |
| Total governmental activities..... | <u>8,474,760</u> | <u>6,928,672</u> | <u>6,065,354</u> | <u>6,044,742</u> |
| Business-Type Activities: | | | | |
| Investment earnings..... | 373,771 | 137,691 | 77,712 | 83,148 |
| Transfers..... | (1,128,150) | (795,000) | (710,000) | (935,000) |
| Other..... | <u>-</u> | <u>(4,190)</u> | <u>(7,619)</u> | <u>26,194</u> |
| Total business-type activities..... | <u>(754,379)</u> | <u>(661,499)</u> | <u>(639,907)</u> | <u>(825,658)</u> |
| Total primary government..... | <u>7,720,381</u> | <u>6,267,173</u> | <u>5,425,447</u> | <u>5,219,084</u> |
| Changes in Net Assets: | | | | |
| Governmental activities..... | 728,751 | 876,032 | 269,481 | 630,969 |
| Business-type activities..... | <u>1,176,766</u> | <u>462,094</u> | <u>270,684</u> | <u>341,498</u> |
| Total primary government..... | <u>\$ 1,905,517</u> | <u>1,338,126</u> | <u>540,165</u> | <u>972,467</u> |

FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA
(Modified accrual basis of accounting)

| | 2006 | 2005 | 2004 | 2003 |
|---|---------------------|------------------|------------------|------------------|
| General Fund: | | | | |
| Reserved..... | \$ 44,055 | 131,412 | 333,999 | 123,686 |
| Unreserved..... | <u>1,668,286</u> | <u>1,592,141</u> | <u>1,746,494</u> | <u>2,552,300</u> |
| Total general fund..... | <u>1,712,341</u> | <u>1,723,553</u> | <u>2,080,493</u> | <u>2,675,986</u> |
| All Other Governmental Funds: | | | | |
| Reserved..... | 604,332 | 730,107 | 545,791 | 633,844 |
| Unreserved, reported in: | | | | |
| Special revenue funds..... | 1,869,937 | 1,788,136 | 1,177,858 | 912,893 |
| Capital projects funds..... | 6,214,531 | 6,119,488 | - | - |
| Debt service funds..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total all other governmental funds..... | <u>\$ 8,688,800</u> | <u>8,637,731</u> | <u>1,723,649</u> | <u>1,546,737</u> |

Fiscal Year

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| 287,751 | 265,166 | 146,658 | 91,815 | 102,000 | 40,000 |
| <u>2,578,006</u> | <u>2,412,481</u> | <u>2,028,084</u> | <u>1,574,270</u> | <u>1,307,000</u> | <u>960,000</u> |
| <u>2,865,757</u> | <u>2,677,647</u> | <u>2,174,742</u> | <u>1,666,085</u> | <u>1,409,000</u> | <u>1,000,000</u> |
| 1,370,806 | 1,197,282 | 1,144,466 | 987,768 | 1,516,000 | 851,000 |
| 200,550 | 121,093 | 4,770 | (18,597) | (13,000) | 7,000 |
| - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>1,571,356</u> | <u>1,318,375</u> | <u>1,149,236</u> | <u>969,171</u> | <u>1,503,000</u> | <u>858,000</u> |

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

Year Ending September 30, 2006

CITY OF HOLLY HILL, FLORIDA

(Modified accrual basis of accounting)

| | 2006 | 2005 | 2004 | 2003 |
|---|--------------------|------------------|--------------------|--------------------|
| Revenue: | | | | |
| Taxes | \$ 4,607,799 | 4,183,610 | 3,837,119 | 3,732,196 |
| Licenses and permits | 518,996 | 284,989 | 277,733 | 264,819 |
| Intergovernmental | 2,434,916 | 2,010,954 | 2,011,268 | 1,374,521 |
| Charges for services | 877,539 | 827,162 | 681,770 | 562,248 |
| Fines and forfeitures | 52,881 | 67,693 | 55,891 | 55,487 |
| Miscellaneous | <u>811,069</u> | <u>319,427</u> | <u>131,818</u> | <u>191,315</u> |
| Total revenue | <u>9,303,200</u> | <u>7,693,835</u> | <u>6,995,599</u> | <u>6,180,586</u> |
| Expenditures: | | | | |
| General government | 1,571,903 | 1,466,599 | 1,428,653 | 1,225,562 |
| Public safety | 3,829,127 | 3,433,086 | 3,325,049 | 3,018,765 |
| Transportation | 890,927 | 634,688 | 1,079,104 | 1,100,742 |
| Economic environment | 452,553 | 419,060 | 327,646 | 193,493 |
| Physical environment | 303,840 | 259,554 | 3,144,603 | 2,394,921 |
| Culture/recreation | 1,788,802 | 1,099,406 | 853,709 | 875,904 |
| Capital outlay..... | 572,661 | 645,976 | 148,142 | - |
| Debt Service: | | | | |
| Principal retirement | 561,761 | 402,756 | 463,599 | 175,054 |
| Interest and fiscal charges | <u>419,920</u> | <u>144,761</u> | <u>123,854</u> | <u>41,186</u> |
| Total expenditures | <u>10,391,494</u> | <u>8,505,886</u> | <u>10,894,359</u> | <u>9,025,627</u> |
| Excess of revenue over (under) expenditures | <u>(1,088,294)</u> | <u>(812,051)</u> | <u>(3,898,760)</u> | <u>(2,845,041)</u> |
| Other Financing Sources (Uses): | | | | |
| Issuance of debt | - | 6,574,194 | 2,770,179 | 1,695,651 |
| Transfers in | 2,084,469 | 1,479,489 | 1,451,958 | 1,193,004 |
| Transfers out | <u>(956,319)</u> | <u>(684,490)</u> | <u>(741,958)</u> | <u>(258,005)</u> |
| Total other financing sources (uses) | <u>1,128,150</u> | <u>7,369,193</u> | <u>3,480,179</u> | <u>2,630,650</u> |
| Net change in fund balances..... | <u>\$ 39,856</u> | <u>6,557,142</u> | <u>(418,581)</u> | <u>(214,391)</u> |
| Debt service as a percentage of noncapital expenditures..... | <u>10.0%</u> | <u>7.0%</u> | <u>5.5%</u> | <u>2.4%</u> |

| Fiscal Year | | | | | |
|--------------------|------------------|------------------|--------------------|------------------|------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| 3,669,565 | 3,677,333 | 3,312,574 | 3,233,237 | 2,977,000 | 2,874,000 |
| 247,330 | 241,509 | 179,580 | 245,185 | 234,000 | 220,000 |
| 1,243,035 | 1,219,994 | 1,712,567 | 1,570,406 | 1,351,000 | 1,135,000 |
| 549,750 | 516,804 | 504,637 | 474,983 | 1,058,000 | 931,000 |
| 86,939 | 115,398 | 86,718 | 107,245 | 93,000 | 67,000 |
| <u>310,472</u> | <u>340,929</u> | <u>270,214</u> | <u>245,444</u> | <u>220,000</u> | <u>200,000</u> |
| <u>6,107,091</u> | <u>6,111,967</u> | <u>6,066,290</u> | <u>5,876,500</u> | <u>5,933,000</u> | <u>5,427,000</u> |
| 1,644,990 | 1,327,157 | 1,026,223 | 1,166,662 | 1,104,000 | 1,031,000 |
| 2,691,816 | 2,748,113 | 2,464,014 | 2,333,607 | 2,291,000 | 2,259,000 |
| 847,439 | 690,707 | 750,579 | 537,572 | 520,000 | 531,000 |
| 130,539 | 82,715 | 82,565 | - | 88,000 | 55,000 |
| 936,195 | 610,272 | 307,016 | 93,778 | - | - |
| 772,047 | 847,733 | 701,624 | 585,187 | 508,000 | 522,000 |
| 344,297 | - | 561,102 | 2,380,050 | 926,000 | 728,000 |
| 216,973 | 204,596 | 169,034 | 161,610 | 617,000 | 135,000 |
| <u>51,921</u> | <u>58,997</u> | <u>60,849</u> | <u>65,719</u> | <u>53,000</u> | <u>38,000</u> |
| <u>7,636,217</u> | <u>6,570,290</u> | <u>6,123,006</u> | <u>7,324,185</u> | <u>6,107,000</u> | <u>5,299,000</u> |
| <u>(1,529,126)</u> | <u>(458,323)</u> | <u>(56,716)</u> | <u>(1,447,685)</u> | <u>(174,000)</u> | <u>128,000</u> |
| 652,945 | 458,766 | - | - | 1,234,000 | 250,000 |
| 883,147 | 692,191 | 1,086,517 | 1,658,117 | 487,000 | - |
| <u>(183,147)</u> | <u>(2,191)</u> | <u>(331,217)</u> | <u>(367,817)</u> | <u>(487,000)</u> | <u>-</u> |
| <u>1,352,945</u> | <u>1,148,766</u> | <u>755,300</u> | <u>1,290,300</u> | <u>1,234,000</u> | <u>250,000</u> |
| <u>(176,181)</u> | <u>690,443</u> | <u>698,584</u> | <u>(157,385)</u> | <u>1,060,000</u> | <u>378,000</u> |
| <u>3.7%</u> | <u>4.0%</u> | <u>4.1%</u> | <u>4.6%</u> | <u>12.9%</u> | <u>3.8%</u> |

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| Fiscal Year Ended September 30, | Tax Year Ended December 31, | Residential Property | Commercial Property | Industrial Property | Agricultural Property ² | Institutional Property |
|--|--------------------------------------|-------------------------|------------------------|------------------------|---------------------------------------|---------------------------|
| 1997 | 1996 | 192,308,771 | 56,837,387 | 29,238,261 | 499,220 | 31,781,901 |
| 1998 | 1997 | 199,425,759 | 55,091,420 | 28,714,935 | 498,271 | 31,944,851 |
| 1999 | 1998 | 204,692,201 | 58,745,729 | 31,146,117 | 437,152 | 34,218,543 |
| 2000 | 1999 | 213,895,287 | 61,601,860 | 33,716,962 | - | 35,681,975 |
| 2001 | 2000 | 229,913,299 | 65,035,534 | 36,172,511 | - | 40,789,494 |
| 2002 | 2001 | 240,188,185 | 69,720,327 | 36,443,970 | - | 40,126,607 |
| 2003 | 2002 | 270,472,710 | 71,524,950 | 38,197,873 | - | 40,976,363 |
| 2004 | 2003 | 299,650,724 | 88,091,927 | 42,953,904 | - | 43,112,432 |
| 2005 | 2004 | 349,685,713 | 96,111,858 | 51,064,002 | 169,094 | 46,235,460 |
| 2006 | 2005 | 410,935,009 | 118,719,392 | 58,386,687 | 175,533 | 49,130,546 |

Source: Volusia County, Florida, Property Appraiser.

Note: ¹Property in the City of Holly Hill is reassessed each year by the Volusia County Property Appraiser. Property is assessed at actual value. Tax rates are per \$1,000 of assessed value.

² 649 6th St. rezoned in 2003

Complete pre-2000 valuation data was not available.

| Government Property | Vacant Land and Other | Tangible Personal Property | Total Just Value | Less: Tax-Exempt Property | Total Taxable Assessed Value ¹ | Total Direct Tax Rate ¹ |
|------------------------|--------------------------------|----------------------------------|------------------------|---------------------------------|--|---|
| 14,088,353 | 10,490,477 | 39,077,885 | 374,322,255 | 108,516,823 | 265,805,432 | 25.43570 |
| 13,967,534 | 10,317,558 | 41,234,134 | 381,194,462 | 110,328,743 | 270,865,719 | 25.01274 |
| 14,706,261 | 11,210,429 | 43,823,310 | 398,979,742 | 115,000,278 | 283,979,464 | 24.38581 |
| 14,836,186 | 11,246,318 | 45,983,941 | 416,962,529 | 119,560,111 | 297,402,418 | 24.38581 |
| 16,400,033 | 11,670,161 | 56,714,007 | 456,695,039 | 128,234,086 | 328,460,953 | 23.95607 |
| 16,444,217 | 14,039,018 | 58,691,245 | 475,653,569 | 130,697,836 | 344,955,733 | 23.69750 |
| 16,331,295 | 14,107,534 | 58,279,286 | 509,890,011 | 146,349,727 | 363,540,284 | 23.21150 |
| 17,945,682 | 16,622,686 | 56,743,054 | 565,120,409 | 160,084,135 | 405,036,274 | 22.51152 |
| 25,311,919 | 17,999,484 | 55,985,552 | 642,563,082 | 192,656,721 | 449,906,361 | 23.02952 |
| 27,641,569 | 21,224,422 | 56,424,310 | 742,637,468 | 224,752,663 | 517,884,805 | 22.46152 |

DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| Fiscal Year | Tax Year | Holly Hill | Volusia County-Operating | Volusia County-Voter Approved | Volusia County-School District | St. Johns Water Management District |
|-------------|----------|------------|--------------------------|-------------------------------|--------------------------------|-------------------------------------|
| 1997 | 1996 | 5.51831 | 6.20400 | 0.17700 | 10.48700 | 0.48200 |
| 1998 | 1997 | 5.25000 | 6.20400 | 0.17400 | 10.37600 | 0.48200 |
| 1999 | 1998 | 5.09007 | 6.20400 | 0.16900 | 9.91700 | 0.48200 |
| 2000 | 1999 | 5.09007 | 6.20400 | 0.16900 | 9.91700 | 0.48200 |
| 2001 | 2000 | 5.09007 | 6.20400 | 0.16300 | 9.15800 | 0.47200 |
| 2002 | 2001 | 4.75000 | 6.20400 | 0.40000 | 9.01500 | 0.46200 |
| 2003 | 2002 | 4.50000 | 6.20400 | 0.40000 | 8.89900 | 0.46200 |
| 2004 | 2003 | 4.08002 | 6.20400 | 0.40000 | 8.69900 | 0.46200 |
| 2005 | 2004 | 4.08002 | 6.20400 | 0.40000 | 8.51700 | 0.46200 |
| 2006 | 2005 | 4.08002 | 5.89400 | 0.40000 | 8.25900 | 0.46200 |

Source: County of Volusia Financial and Administrative Services

Note: Tax millage rates are per \$1,000 of assessed value.

¹All property valuations for the specified fiscal year ends are obtained from the previous year's tax roll (i.e. all fiscal 1997 data was obtained from the 1996 calendar year tax roll).

⁴Includes voted debt service millage rates, as applicable.

| Florida Inland Navigation District | Hospital District | Ponce DeLeon Inlet and Port Authority | East Volusia Mosquito Control District | Total- All Taxing Districts |
|---|----------------------|--|---|--------------------------------------|
| 0.05000 | 2.18939 | 0.09000 | 0.23800 | 25.43570 |
| 0.04700 | 2.15174 | 0.09000 | 0.23800 | 25.01274 |
| 0.04400 | 2.15174 | 0.09000 | 0.23800 | 24.38581 |
| 0.04400 | 2.15174 | 0.09000 | 0.23800 | 24.38581 |
| 0.04100 | 2.50000 | 0.09000 | 0.23800 | 23.95607 |
| 0.03850 | 2.50000 | 0.09000 | 0.23800 | 23.69750 |
| 0.03850 | 2.38000 | 0.09000 | 0.23800 | 23.21150 |
| 0.03850 | 2.30000 | 0.09000 | 0.23800 | 22.51152 |
| 0.03850 | 3.00000 | 0.09000 | 0.23800 | 23.02952 |
| 0.03850 | 3.00000 | 0.09000 | 0.23800 | 22.46152 |

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT AND NINE YEARS AGO**
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| Taxpayer | September 30, 2006 | | |
|---|---|------|---|
| | Assessed Taxable Value (\$ in Thousands) | Rank | Percent to Total Assessed Taxable Value |
| Holly Hill Associates, Ltd..... | \$ 13,337 | 1 | 2.58% |
| Holly Hill RHF Housing, Inc..... | 12,498 | 2 | 2.41% |
| Sun Communities, (Holly Forest Mobile Home Park)..... | 7,285 | 3 | 1.41% |
| Charleston Place Ltd., Partnership..... | 7,230 | 4 | 1.40% |
| Florida Power & Light..... | 6,914 | 5 | 1.34% |
| HK New Plan Exc Prop..... | 6,142 | 6 | 1.19% |
| Highlander Corp..... | 5,960 | 7 | 1.15% |
| Holly Hill (E&A) LLC..... | 5,043 | 8 | 0.97% |
| Bellsouth Telecommunications, Inc..... | 4,099 | 9 | 0.79% |
| Metra Electronics Corp..... | 3,804 | 10 | 0.73% |
| John Hancock Mutual Life..... | - | | - |
| Holly Point Apartments..... | - | | - |
| Polyvers, Ltd..... | - | | - |
| Modernage Kitchens, Inc..... | - | | - |
| Publix Super Markets, Inc. | - | | - |
| Totals..... | <u>\$ 72,312</u> | | <u>13.96%</u> |

Source: Volusia County, Florida, Property Appraiser.

September 30, 1997

| Assessed Taxable Value (\$ in Thousands) | Rank | Percent to Total Assessed Taxable Value |
|---|-----------|---|
| \$ - | | - |
| 18,416 | 1 | 4.92% |
| 4,269 | 4 | 1.14% |
| - | | - |
| 5,720 | 3 | 1.53% |
| - | | - |
| 3,622 | 5 | 0.97% |
| - | | - |
| 5,763 | 2 | 1.54% |
| 3,622 | 5 | 0.97% |
| 3,281 | 6 | 0.88% |
| 2,724 | 7 | 0.73% |
| 2,552 | 8 | 0.69% |
| 2,300 | 9 | 0.62% |
| <u>2,173</u> | <u>10</u> | <u>0.58%</u> |
| <u>\$ 54,442</u> | | <u>14.57%</u> |

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PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

(\$ in thousands)

| Fiscal Year Ended September | Tax Year Ended December | Taxes Levied For Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years * | Total Collections to Date | |
|--------------------------------------|----------------------------------|--------------------------------|---|-----------------------|--|---------------------------|-----------------------|
| | | | Amount | Percent of Levy | | Amount | Percent of Levy |
| 1997 | 1996 | \$ 1,474 | \$ 1,371 | 93.0% | \$ 7 | \$ 1,378 | 93.49% |
| 1998 | 1997 | 1,505 | 1,385 | 92.0% | 20 | 1,405 | 93.36% |
| 1999 | 1998 | 1,498 | 1,315 | 87.8% | 105 | 1,420 | 94.79% |
| 2000 | 1999 | 1,517 | 1,430 | 94.3% | 43 | 1,473 | 97.10% |
| 2001 | 2000 | 1,675 | 1,618 | 96.6% | 45 | 1,663 | 99.28% |
| 2002 | 2001 | 1,631 | 1,569 | 96.2% | 3 | 1,572 | 96.38% |
| 2003 | 2002 | 1,615 | 1,550 | 96.0% | 24 | 1,574 | 97.46% |
| 2004 | 2003 | 1,655 | 1,592 | 96.2% | 7 | 1,599 | 96.62% |
| 2005 | 2004 | 1,836 | 1,765 | 96.1% | 17 | 1,782 | 97.06% |
| 2006 | 2005 | 2,113 | 2,040 | 96.5% | 5 | 2,045 | 96.78% |

* Total delinquent collections for the year regardless of year of origin.

Source: The City of Holly Hill Finance Department

Note: Tax collections are stated net of early payment discounts ranging from 1% to 4% based on the date of taxpayer payments. Actual tax collections received in each fiscal year are from the prior year's tax levy (i.e 2006 collections are from the 2005 tax levy).

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| Fiscal Year Ended September 30, | Governmental Activities | | | | Business-type | |
|--|-------------------------|----------------------------------|-----------------------|------------|-----------------------------|----------------------------------|
| | Redevelopment Notes | State Revolving Fund Loans | Long Term Notes | Total | Water and Sewer Bonds | State Revolving Fund Loans |
| 1997 | \$ - | \$ - | \$ 829,000 | \$ 829,000 | \$ 14,255,000 | \$ - |
| 1998 | - | 38,000 | 1,394,000 | 1,432,000 | 13,985,000 | - |
| 1999 | - | - | 1,284,822 | 1,284,822 | 13,705,000 | 39,325 |
| 2000 | - | - | 1,117,069 | 1,117,069 | 13,410,000 | 1,415,479 |
| 2001 | - | 254,562 | 1,116,677 | 1,371,239 | 13,100,000 | 2,416,728 |
| 2002 | - | 907,507 | 899,705 | 1,807,212 | 14,030,000 | 2,288,733 |
| 2003 | - | 2,688,507 | 724,651 | 3,413,158 | 13,535,000 | 2,198,777 |
| 2004 | - | 5,182,243 | 547,845 | 5,730,088 | 13,030,000 | 2,106,001 |
| 2005 | 6,331,000 | 5,182,141 | 397,886 | 11,911,027 | 12,515,000 | 2,010,318 |
| 2006 | 6,145,761 | 4,946,745 | 256,760 | 11,349,266 | 11,985,000 | 2,217,678 |

Source: City of Holly Hill Finance Department
Per capita income - Florida Research and Economic Database
Population - U.S. Census Bureau for 2005 and 2000 (all other years are estimates)

Note: Details concerning the City's outstanding debt can be found in the notes to the financial statements.
Principal amounts are stated at par and do not include unamortized premiums, discounts or issue costs.

| Activities | | | | Percent | |
|--------------------------|---------------|--------------------------------|--------------------------|---------------|-------|
| Term Loans Payable | Total | Total Primary Government | of Personal Income | Per Capita | |
| \$ - | \$ 14,255,000 | \$ 15,084,000 | 6.27% | \$ | 1,334 |
| - | 13,985,000 | 15,417,000 | 6.21% | \$ | 1,361 |
| - | 13,744,325 | 15,029,147 | 5.85% | \$ | 1,320 |
| - | 14,825,479 | 15,942,548 | 6.93% | \$ | 1,316 |
| - | 15,516,728 | 16,887,967 | 6.92% | \$ | 1,387 |
| - | 16,318,733 | 18,125,945 | 7.19% | \$ | 1,450 |
| - | 15,733,777 | 19,146,935 | 7.44% | \$ | 1,531 |
| - | 15,136,001 | 20,866,089 | 6.46% | \$ | 1,654 |
| - | 14,525,318 | 26,436,345 | 6.58% | \$ | 2,095 |
| 1,450,000 | 15,652,678 | 27,001,944 | 5.34% | \$ | 2,116 |

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

The City of Holly Hill has had no General Bonded Debt Outstanding during each of the past 10 fiscal years.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| Governmental Unit | Principal Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Overlapping Debt |
|--|----------------------------------|---------------------------------------|--|
| Debt Repaid with Property Taxes: | | | |
| District School Board of Volusia County, Florida: | | | |
| General Obligation Refunding Bonds, Series 2001..... | \$ 9,780,000 | 1.6700% | 163,326 |
| Other Debt: | | | |
| District School Board of Volusia County, Florida: | | | |
| State school bonds..... | 18,640,000 | 1.6700% | 311,288 |
| Sales tax revenue bonds..... | 174,325,000 | 1.6700% | 2,911,228 |
| Obligations under capital leases..... | 324,122 | 1.6700% | 5,413 |
| Certificates of Participation..... | 162,255,000 | 1.6700% | 2,709,659 |
| County of Volusia, Florida: | | | |
| Revenue bonds..... | 230,130,000 | 1.6700% | 3,843,171 |
| Notes payable..... | 13,155,191 | 1.6700% | <u>219,692</u> |
| Total overlapping debt..... | | | 10,163,777 |
| City direct debt..... | | | <u>11,349,266</u> |
| Total direct and overlapping debt..... | | | <u>\$ 21,513,043</u> |

Source: Assessed valuation data used to estimate applicable percentage provided by Volusia County Property Appraiser. Debt outstanding data provided by each governmental unit.

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LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA

The Constitution of the State of Florida, section 200.181, Florida Statutes, and the City of Holly Hill, Florida have set no legal debt limit

PLEGGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA
(\$000's)

| | 2006 | 2005 | 2004 | 2003 |
|---|--------------|--------------|--------------|--------------|
| CRA Redevelopment Revenue Note, Series 2005: | | | | |
| (Defined) revenues..... | \$ 938 | | | |
| Less: operating expenses | <u>-</u> | | | |
| Net revenue available for debt service..... | 938 | | | |
| Debt Service payments: | | | | |
| Principal..... | 185 | | | |
| Interest..... | <u>284</u> | | | |
| Total debt service payments..... | <u>469</u> | | | |
| Coverage ratio (times)..... | <u>2.00</u> | | | |
| Utility Service Tax Revenue Note, Series 1998: | | | | |
| (Defined) revenues..... | \$ 825 | \$ 790 | \$ 744 | \$ 708 |
| Less: operating expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net revenue available for debt service..... | 825 | 790 | 744 | 708 |
| Debt Service payments: | | | | |
| Principal..... | 141 | 134 | 128 | 122 |
| Interest..... | <u>16</u> | <u>23</u> | <u>29</u> | <u>35</u> |
| Total debt service payments..... | <u>157</u> | <u>157</u> | <u>157</u> | <u>157</u> |
| Coverage ratio (times)..... | <u>5.25</u> | <u>5.03</u> | <u>4.74</u> | <u>4.51</u> |
| Water and Sewer System Refunding Revenue Bonds, Series 2002: | | | | |
| (Defined) revenues..... | \$ 5,016 | \$ 4,537 | \$ 4,263 | \$ 4,245 |
| Less: operating expenses | <u>2,476</u> | <u>2,148</u> | <u>1,874</u> | <u>1,778</u> |
| Net revenue available for debt service..... | 2,540 | 2,389 | 2,389 | 2,467 |
| Debt Service payments: | | | | |
| Principal..... | 530 | 515 | 505 | - |
| Interest..... | <u>546</u> | <u>557</u> | <u>568</u> | <u>578</u> |
| Total debt service payments..... | <u>1,076</u> | <u>1,072</u> | <u>1,073</u> | <u>578</u> |
| Coverage ratio (times)..... | <u>2.36</u> | <u>2.23</u> | <u>2.23</u> | <u>4.27</u> |

Notes: Details concerning the City's outstanding debt obligations are found in the notes to financial statements. CRA Redevelopment Bonds are secured by tax increment revenues. Utility Service Tax Revenue Note is secured with the City's utility service taxes. Water and Sewer Bonds are secured by all revenues of the water and sewer system. Operating expenses are stated net of depreciation expense.

Fiscal Year

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 730 | \$ 1,094 | \$ 1,032 | \$ 939 | \$ 963 | |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| 730 | 1,094 | 1,032 | 939 | 963 | |
| 116 | 110 | 105 | 101 | 50 | |
| <u>41</u> | <u>47</u> | <u>52</u> | <u>57</u> | <u>28</u> | |
| <u>157</u> | <u>157</u> | <u>157</u> | <u>158</u> | <u>78</u> | |
| <u>4.65</u> | <u>6.97</u> | <u>6.57</u> | <u>5.94</u> | <u>12.35</u> | |
| \$ 4,492 | \$ 4,130 | \$ 4,039 | \$ 3,712 | \$ 3,553 | \$ 3,461 |
| <u>1,677</u> | <u>1,506</u> | <u>1,448</u> | <u>1,513</u> | <u>1,350</u> | <u>1,363</u> |
| 2,815 | 2,624 | 2,591 | 2,199 | 2,203 | 2,098 |
| 330 | 310 | 295 | 280 | 270 | 255 |
| <u>551</u> | <u>812</u> | <u>827</u> | <u>841</u> | <u>853</u> | <u>865</u> |
| <u>881</u> | <u>1,122</u> | <u>1,122</u> | <u>1,121</u> | <u>1,123</u> | <u>1,120</u> |
| <u>3.20</u> | <u>2.34</u> | <u>2.31</u> | <u>1.96</u> | <u>1.96</u> | <u>1.87</u> |

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**DEMOGRAPHIC AND ECONOMIC STATISTICS,
LAST TEN FISCAL YEARS**

Year Ending September 30,
CITY OF HOLLY HILL, FLORIDA

| Fiscal Year Ended September 30, | Population ¹ | Personal Income ² | Per Capita Personal Income ³ | Median Household Income ³ | Median HUD Income ³ | County Unemployment Rate ³ |
|---------------------------------|-------------------------|------------------------------|---|--------------------------------------|--------------------------------|---------------------------------------|
| 1997 | 11,310 | \$ 377,220,661 | \$ 20,387 | \$ 29,843 | \$ n/a | 4.00% |
| 1998 | 11,325 | 396,113,679 | 21,293 | 31,269 | n/a | 3.30% |
| 1999 | 11,383 | 417,266,276 | 21,988 | 33,016 | 41,767 | 3.20% |
| 2000 | 12,119 | 467,659,696 | 23,327 | 35,278 | n/a | 3.50% |
| 2001 | 12,180 | 489,158,757 | 24,253 | 34,740 | n/a | 4.00% |
| 2002 | 12,503 | 509,314,350 | 24,730 | 35,010 | n/a | 5.20% |
| 2003 | 12,504 | 534,672,708 | 25,062 | 36,038 | n/a | 5.10% |
| 2004 | 12,612 | 575,248,950 | 26,118 | n/a | n/a | 4.60% |
| 2005 | 12,620 | 608,496,676 | 27,218 | n/a | n/a | 3.40% |
| 2006 | 12,759 | 648,715,785 | 28,365 | n/a | 50,300 | 3.10% |

Source:

¹ U.S. Department of Commerce, Bureau of Census, for 2000 and 2005. All other periods are estimated.

² Amount computed from population and per capita personal income statistics for Volusia County, Florida.

³ Florida Research and Economic Database. Amounts indicated are for Volusia County, Florida.

**PRINCIPAL EMPLOYERS
CURRENT AND NINE YEARS AGO**
September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| Employer | September 30, 2006 | | |
|---|--------------------|------|----------------------------------|
| | Total Employees | Rank | Percent to Total City Employment |
| Evac Ambulance Svc(Emergency Medical Foundation)..... | 250 | 1 | 2.53% |
| Bishop's Glen..... | 200 | 2 | 2.02% |
| Florida Health Care..... | 200 | 3 | 2.02% |
| Angelica Textiles..... | 200 | 4 | 2.02% |
| Holly Hill Elementary/Middle School..... | 196 | 5 | 1.98% |
| Publix Supermarkets..... | 155 | 6 | 1.57% |
| City of Holly Hill..... | 132 | 7 | 1.34% |
| Product Quest..... | 100 | 8 | 1.01% |
| Olson Electric Company, Inc..... | 100 | 9 | 1.01% |
| Winn Dixie..... | <u>98</u> | 10 | <u>0.99%</u> |
| Total..... | <u>1,631</u> | | <u>16.50%</u> |
| Estimated Civilian Labor Force (2000) Census..... | <u>9,883</u> | | |

Source: InfoUSA(ReferenceUSA Database)/City of Holly Hill Fiance Dept/City of Holly Hill Chamber of Comr

N/A - No known source for employment data for prior periods exists.

September 30, 1997

| Total Employees | Rank | Percent to Total City Employment |
|--------------------|------|--|
| - | 1 | - |
| - | 2 | - |
| - | 3 | - |
| - | 4 | - |
| - | 5 | - |
| - | 6 | - |
| - | 7 | - |
| - | 8 | - |
| - | 9 | - |
| - | 10 | - |
| - | | - |

nerce/U.S. Census Bureau

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Year Ending September 30, 2006
CITY OF HOLLY HILL

| | Full-Time | | | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | 2006 | 2005 | 2004 | 2003 |
| General Government: | | | | |
| City Manager..... | 5.0 | 6.0 | 5.0 | 5.0 |
| Finance/Administration..... | 9.0 | 9.0 | 9.0 | 9.0 |
| Human Relations..... | 1.0 | 1.0 | 1.0 | 1.0 |
| Protective Inspection | 6.0 | 5.0 | 5.0 | 5.0 |
| Public Safety: | | | | |
| Police: | | | | |
| Officers..... | 36.0 | 34.0 | 35.0 | 32.0 |
| Civilians..... | - | - | - | - |
| Fire: | | | | |
| Firefighters and officers..... | 16.5 | 16.5 | 16.5 | 13.5 |
| Civilians..... | - | - | - | - |
| Physical Environment: | | | | |
| Transportation..... | 8.0 | 8.0 | 8.0 | 8.0 |
| Buildings & Grounds..... | 11.0 | 11.0 | 9.0 | 10.0 |
| Culture/Recreation: | | | | |
| Recreation..... | 7.5 | 7.5 | 7.5 | 7.5 |
| Economic Environment: | | | | |
| Community Redevelopment..... | 1.0 | 1.0 | 0.5 | 0.5 |
| Public Works: | | | | |
| Administration..... | 5.0 | 5.0 | 4.0 | 4.0 |
| Stormwater..... | 4.0 | 4.0 | 4.0 | 4.0 |
| Solid Waste..... | - | - | - | 1.0 |
| Public Utilities: | | | | |
| Water..... | 12.5 | 12.0 | 11.0 | 11.0 |
| Sewer..... | <u>10.0</u> | <u>10.0</u> | <u>10.0</u> | <u>10.0</u> |
| Total..... | <u>132.5</u> | <u>130.0</u> | <u>125.5</u> | <u>121.5</u> |

Source: City of Holly Hill Department of Human Resources

Note: Part-time and seasonal employees for all departments are assumed to be 0.5 FTE's for all reporting categories.

Waste Management took over Solid Waste collection in Fiscal Year '97-'98

Equivalent Employees at September 30,

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 5.0 | 5.0 | 5.5 | 5.0 | 6.0 | 5.0 |
| 9.0 | 9.0 | 8.0 | 8.0 | 10.0 | 10.0 |
| 1.0 | 1.0 | 1.0 | 1.0 | - | - |
| 5.0 | 4.5 | 4.5 | 4.0 | 4.0 | 4.0 |
| 34.0 | 34.0 | 34.0 | 34.0 | 34.0 | 31.0 |
| - | - | - | - | - | - |
| 13.5 | 11.5 | 11.0 | 11.0 | 11.0 | 10.0 |
| - | - | - | - | - | - |
| 8.0 | 8.0 | 8.0 | 8.0 | 6.0 | 10.0 |
| 10.0 | 9.0 | 8.0 | 7.0 | 7.0 | 9.0 |
| 7.5 | 7.5 | 7.0 | 6.0 | 4.5 | 7.0 |
| - | - | - | - | - | - |
| 4.0 | 4.0 | 5.0 | 5.0 | 4.0 | 5.2 |
| 4.0 | 4.0 | 3.0 | 2.0 | 2.0 | 2.0 |
| 1.0 | 1.0 | 1.0 | 1.0 | 12.0 | 13.0 |
| 11.0 | 11.0 | 10.0 | 9.0 | 9.0 | 10.0 |
| <u>10.0</u> | <u>9.0</u> | <u>9.0</u> | <u>9.0</u> | <u>9.0</u> | <u>10.5</u> |
| <u>123.0</u> | <u>118.5</u> | <u>115.0</u> | <u>110.0</u> | <u>118.5</u> | <u>126.6</u> |

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Year Ending September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| | 2006 | 2005 | 2004 | 2003 |
|---|-----------|-----------|-----------|-----------|
| Police: | | | | |
| Physical arrests..... | 1,619 | 1,414 | 1,144 | 943 |
| Parking violations..... | 38 | 14 | - | 5 |
| Traffic violations..... | 2,355 | 2,207 | 1,807 | 1,465 |
| Fire: | | | | |
| Emergency responses..... | 2,704 | 2,970 | 2,660 | 2,301 |
| Inspections..... | 610 | 764 | 624 | 622 |
| Solid Waste: | | | | |
| Refuse collected (tons per day)..... | N/A | N/A | N/A | N/A |
| Recyclables collected (tons per day)..... | N/A | N/A | N/A | N/A |
| Public Works-Transportation | | | | |
| Street resurfacing (miles)..... | 1 | 1 | 1 | 2 |
| Water | | | | |
| New connections..... | 45 | 19 | 49 | 50 |
| Water main breaks..... | 7 | 6 | 6 | 5 |
| Average daily consumption (thousands of gallons)... | 1,237,536 | 1,204,830 | 1,206,354 | 1,080,352 |
| Peak daily consumption (thousands of gallons)..... | 1,556,000 | 1,402,000 | 1,506,000 | 1,837,000 |
| Sewer | | | | |
| Average daily treatment (thousands of gallons)..... | 1,718,905 | 2,215,096 | 2,037,877 | 2,244,658 |

Solid Waste and recycling is collected by an outside agency.

Fiscal Year

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|-----------|-----------|-----------|-----------|-----------|-----------|
| 1,058 | 1,202 | 1,113 | 1,061 | 1,017 | 936 |
| - | - | 64 | - | 16 | 96 |
| 442 | 2,105 | 2,516 | 2,890 | 2,845 | 2,624 |
| 2,172 | 2,098 | 1,985 | 1,884 | 1,792 | 1,771 |
| 706 | 1,349 | 459 | 512 | 590 | 622 |
| N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A |
| 1 | 1 | - | - | - | - |
| 35 | 36 | 43 | 24 | 36 | 22 |
| 9 | 6 | 5 | 8 | 10 | 6 |
| 1,244,230 | 1,164,819 | 1,180,805 | 1,320,035 | 1,303,035 | 1,216,257 |
| 1,523,000 | 1,489,000 | 1,489,000 | 1,547,000 | 1,626,000 | 1,448,000 |
| 1,899,529 | 1,816,274 | 1,516,219 | 1,648,131 | 1,415,260 | 1,288,273 |

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
Year Ending September 30, 2006
CITY OF HOLLY HILL, FLORIDA

| | 2006 | 2005 | 2004 | 2003 |
|---|------|------|------|------|
| Police: | | | | |
| Stations..... | 1 | 1 | 1 | 1 |
| Patrol units*..... | 4 | 4 | 4 | 4 |
| Fire stations..... | 1 | 1 | 1 | 1 |
| Public Works-Transportation | | | | |
| Streets (miles)..... | 62 | 62 | 62 | 62 |
| Streetlights..... | 963 | 963 | 941 | 940 |
| Parks and recreation | | | | |
| Acreage..... | 84 | 84 | 84 | 84 |
| Dog Park..... | 1 | 1 | 1 | 1 |
| Playgrounds..... | 4 | 4 | 4 | 4 |
| Tennis Courts..... | 1 | 1 | 1 | 1 |
| Shuffleboard courts..... | 9 | 9 | 9 | 9 |
| Fishing Piers..... | 3 | 3 | 3 | 3 |
| Boat Ramps..... | 1 | 1 | 1 | 1 |
| Swimming Pools..... | 1 | 1 | 1 | 1 |
| Baseball/softball diamonds..... | 5 | 5 | 5 | 5 |
| Community centers..... | 2 | 2 | 2 | 2 |
| Water | | | | |
| Water mains (miles)..... | 69.5 | 68.9 | 67.6 | 67.6 |
| Fire hydrants..... | 298 | 298 | 298 | 298 |
| Storage capacity (millions of gallons)..... | 2.3 | 2.3 | 2.3 | 2.3 |
| Sewer | | | | |
| Sanitary sewers (miles)..... | 76 | 75.5 | 75 | 75 |
| Storm sewers (miles)..... | 42 | 42 | 42 | 37 |
| Treatment capacity (millions of gallons)..... | 2.4 | 2.4 | 2.4 | 2.4 |

* Does not include special patrols i.e. CRA SRT

Fiscal Year

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|------|------|------|------|------|------|
| 1 | 1 | 1 | 1 | 1 | 1 |
| 4 | 4 | 4 | 4 | 4 | 4 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 60 | 60 | 58 | 57 | 55 | 53 |
| 938 | 937 | 929 | 921 | 915 | 877 |
| 84 | 81 | 51 | 51 | 44 | 44 |
| 1 | - | | | | |
| 4 | 4 | 3 | 3 | 2 | 2 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 9 | 9 | 9 | 9 | 9 | 9 |
| 3 | 3 | 3 | 3 | 3 | 2 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | - | - | - |
| 5 | 5 | 5 | 5 | 4 | 4 |
| 2 | 2 | 2 | 2 | 1 | 1 |
| 67.1 | 67.1 | 66.8 | 66.3 | 63.4 | 61.0 |
| 293 | 289 | 272 | 277 | 276 | 273 |
| 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| 74 | 74 | 73 | 72 | 68 | 66 |
| 35 | 35 | 34 | 31 | 30 | 30 |
| 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |

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COMPLIANCE SECTION

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2006

CITY OF HOLLY HILL, FLORIDA

| Federal Agency Pass-through Entity Federal Program | CFDA No. | Contract Grant No. | Expenditures |
|--|-------------|-----------------------|-------------------|
| U.S. Department of Housing and Urban Development | | | |
| Indirect Programs: | | | |
| Passed through County of Volusia, Florida | | | |
| Community Development Block Grant..... | 14.218 | N/A | \$ <u>62,250</u> |
| Total U.S. Department of Housing and Urban Development..... | | | <u>62,250</u> |
| U.S. Department of Justice | | | |
| Direct Programs: | | | |
| Justice Assistance Grant..... | 16.738 | 2005DJBX1103 | <u>11,607</u> |
| Total U.S. Department of Justice..... | | | <u>11,607</u> |
| U.S. Department of Environmental Protection | | | |
| Indirect Programs: | | | |
| Passed through Florida Department of Environmental Protection | | | |
| State Revolving Loan Fund..... | 66.458 | WW709070 | * <u>303,682</u> |
| Total U.S. Department of Environmental Protection..... | | | <u>303,682</u> |
| U.S. Department of Homeland Security: | | | |
| Federal Emergency Management Administration: | | | |
| Indirect Programs: | | | |
| Passed through Florida Department of Community Affairs | | | |
| Public Assistance Grants..... | 97.036 | 127-31350-00 | * <u>446,664</u> |
| Total U.S. Department of Homeland Security | | | <u>446,664</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 824,203</u> |

* Denotes a major program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

1. BASIS OF PRESENTATION

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

2. LOANS OUTSTANDING

The City of Holly Hill, Florida had the following loan balances outstanding at September 30, 2006. The expenditures incurred during the year ended September 30, 2006 are included in the schedule of expenditures of federal awards.

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures Incurred for the Year Ended September 30, 2006</u> | <u>Loan Amounts</u> |
|---|------------------------------------|--|-------------------------|
| U.S. Department of Environmental Protection: Passed-through the Florida Department of Environmental Protection: | | | |
| Local Drainage Improvements (SW12070906P) | 66.458 | \$ 0 | \$ 4,946,745 |
| Inflow/Infiltration Correction (CS12070905P) | 66.458 | 0 | 1,911,636 |
| Inflow/Infiltration Correction (WW709070) | 66.458 | 303,682 | <u>306,042</u> |
| | | | <u>\$ 7,164,423</u> |

3. SUBRECIPIENTS

The City of Holly Hill, Florida, provided no federal or state awards to subrecipients for the fiscal year ended September 30, 2006.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
 FEDERAL PROGRAMS**
 Year Ended September 30, 2006
 CITY OF HOLLY HILL, FLORIDA

A. Summary of Auditor’s Results

1. The auditor’s report expresses an unqualified opinion on the basic financial statements of the City of Holly Hill, Florida.
2. No reportable conditions were disclosed during the audit of the basic financial statements or reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the City of Holly Hill, Florida, were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal programs which are required to be reported in the Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor’s report on compliance for the major federal programs for the City of Holly Hill, Florida, expresses an unqualified opinion.
6. The audit disclosed no audit findings relative to the major federal programs for the City of Holly Hill, Florida which are required to be reported.
7. The programs/projects tested as major programs/projects included the following:

| <u>Federal Programs:</u> | <u>Federal CFDA No.</u> |
|---|-------------------------|
| U.S. Department of Environmental Protection: Inflow/Infiltration Correction (WW709070) | 66.458 |
| U.S. Department of Homeland Security: Federal Emergency Management Administration | 97.036 |

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

- | | |
|---|------|
| B. Findings - Financial Statements - OMB Circular A-133, Subpart E, Section 505(d) (2): | None |
| C. Findings and Questioned Costs - Major Federal Programs - OMB Circular A-133, Subpart E, Section 505(d) (3): | None |
| D. Other Issues | None |

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND
CORRECTIVE ACTION PLAN**
Year Ended September 30, 2006
CITY OF HOLLY HILL, FLORIDA

Prior Audit Findings:

There were no audit findings for the year ended September 30, 2005 that required corrective action taken.

Corrective Action Plan:

There were no audit findings for the year ended September 30, 2006, relative to federal awards requiring action on the part of the auditee for that fiscal year.

BM&C

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

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

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

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holly Hill, Florida as of and for the year ended September 30, 2006, which collectively comprise City of Holly Hill, Florida's basic financial statements and have issued our report thereon dated April 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Holly Hill, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of City of Holly Hill, Florida, in a separate letter dated April 24, 2007.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Commission, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

April 24, 2007

BM&C

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

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

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

Compliance

We have audited the compliance of City of Holly Hill, Florida with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. City of Holly Hill, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Holly Hill, Florida's management. Our responsibility is to express an opinion on City of Holly Hill, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Holly Hill, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Holly Hill, Florida's compliance with those requirements.

In our opinion, City of Holly Hill, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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

Internal Control over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Hill, Florida, as of and for the year ended September 30, 2006, and have issued our report thereon dated April 24, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Holly Hill, Florida's, basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Brent Milliken & Co., P.A.

April 24, 2007

BM&C

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

MANAGEMENT LETTER

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

We have audited the financial statements of City of Holly Hill, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated April 24, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 24, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have except as noted in Exhibit under the heading *Prior Year Matters*.

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

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

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

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

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

As required by the Rules of the Auditor General (Section 10.554(1)(h)6a.), a statement must be included as to whether or not the local government has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that City of Holly Hill, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6b.), we determined that the annual financial report for the City of Holly Hill, Florida for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

As required by the Rules of the Auditor General (Sections 10.554(h)(6)c. and 10.557(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of City of Holly Hill, Florida, its management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



April 24, 2007

As required by Section 10.554(1) (h), rules of the Auditor General of the State of Florida, we make the following disclosures for City of Holly Hill, Florida:

PRIOR YEAR MATTERS

Section 10.554(1)(h)1., Rules of the Auditor General, require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. Section 10.558(1) requires the auditee to provide a written statement of explanation or rebuttal concerning all matters reported herein. The following is a summary of the status of the Prior Year Findings and Recommendations and the required communication of the Auditee's Response:

2005-1 Destruction/Disposal of Confidential Information

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

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

Current Year Status – This comment is still applicable

Auditee Response: The City is aware of the importance of proper disposal and/or destruction of office materials and paper generated during regular business activity and will be exploring contract pricing through our regular procurements procedures to satisfy the City's destruction/disposal needs. Currently most departments utilize small, individual shredders as a means of avoiding accidental dissemination of personnel, private and confidential information.

2005-2 Municipal Governance

Monitoring for fraud

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

Year Ended September 30, 2006

CITY OF HOLLY HILL, FLORIDA

measures an organization should consider taking to prevent, deter, and detect fraud. It maintains that the City should establish three fundamental practices:

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

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

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

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

Best Practices for Municipalities

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

- Senior financial managers should adopt a code of ethics and consider methods to ensure compliance with this code.
- A confidential complaint (whistle-blower) mechanism should be made available to employees to communicate concerns about accounting, auditing, or internal control processes.
- Consideration should be given to implementing Section 302 of the Act. Section 302 requires the CEO and CFO to assert that the financial statements have no material

misstatements or omissions and that they have evaluated disclosure controls and procedures.

- Section 404 of the Act addresses internal controls which are fundamental to sound financial reporting and safeguarding of assets. A recommended practice is to document and evaluate internal controls over a planned period of time.

Current Year Status – This comment is still applicable.

Auditee Response: The Finance Director and City Manager will continue to work with the City Commission and Department Heads to address the recommendations made by the auditors to develop an active oversight process for the monitoring of fraud within the City's internal systems and controls. The City will also review the best practices arising from the Sarbanes-Oxley Act and attempt to implement them as they apply to the municipality.

2005-3 Reconcile Detail Property Records Monthly

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

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

Current Year Status – This comment is still applicable.

Auditee Response: The Finance Director and staff are aware of the need to reconcile detail property records on a monthly basis. Controls as stated by the auditors are being implemented, including proper review by a responsible person.

2005-4 Accounts Receivable Reconciliation for FEMA

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

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

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

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

During 2006, we noted that the City was informed that previously recorded FEMA disaster relief charges totaling \$225,570 did not qualify for reimbursement under the program. As a result of these disallowed charges, deferred FEMA revenues were correspondingly reduced.

Current Year Status – This comment will be rectified in the current period.

Auditee Response: This comment will be rectified in the current period.

2005-5 Conditions Causing Financial Condition Deterioration

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

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

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

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

Current Year Status – This comment is still applicable.

Auditee Response: The City will review the recommendations of developing both short and long term goals of strengthening the City's financial condition and will work with the commission and staff on implementing policies and procedures to reach both the short and long term goals for the improvement of the City's financial condition.

CURRENT YEAR MATTERS

Section 10.554(1)(h)4., Rules of the Auditor General, requires disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Section 10.558(1) requires the auditee to provide a written statement of explanation or rebuttal concerning all matters reported herein. The following is a summary of the status of the Current Year Findings and Recommendations and the required communication of the Auditee's Response:

2006-1 Inventory of Tangible Personal Property

Inventory System. Over the years, the City has accumulated a significant investment in its personal property and equipment. While asset capitalization thresholds have changed substantially over the years, many governmental units have implemented policies that specifically place emphasis on monitoring their investments in assets that are susceptible to misappropriation or theft. Typically, these investments are composed of electronic equipment and other personal property that are small in size relative to their cost (i.e., desktop/laptop computers, printers, audio/visual equipment, firearms, etc.). The asset types in question are (1) used more frequently, (2) capable of being shared by more than one employee, (3) readily usable by virtually everyone in, or outside, of their work environment, and (4) more susceptible to theft for these reasons. While your current capitalization policies require the inventorying of these asset types, we noted that no steps were taken during the year to document the performing of an annual physical inventory of tangible personal property. Although Section 41, Chapter 2006-122, Florida Laws, repealed the Auditor General of Florida's rulemaking authority as it relates to governing the management and inventorying of tangible personal property, we noted that no similar authoritative procedures have been developed by the City that require these procedures.

Our review of your formal fixed asset records also reveals that there may be assets that have not been correctly recorded in the City records and/or there may be assets recorded on the City's records that are no longer in use. We believe that these conditions supplement the need for a complete physical inventory of fixed assets, which will be the best and most efficient method for developing an accurate listing of all fixed assets. Additionally, this will allow the City to develop procedures whereby the fixed asset listing is reconciled to the general ledger, which will ensure an accurate accounting for assets. Specifically, the listing should include the following data:

- Description of the asset
- Cost, voucher number, and vendor name

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- Date placed in service
- Estimated useful life
- Depreciation method
- Depreciation expense and accumulated depreciation for the year
- Date asset was retired and selling price if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are a significant cost. A better assessment and evaluation could also be made regarding the reliability of certain fixed assets, and the timing and need for their essential replacement.

Recommendation: We firmly believe that performing annual physical inventory counts of tangible personal property delegated to the City's department heads for custody and control is a good accounting practice, a strong deterrent to theft, and the best means possible to adequately control your government's more prevalent fraud risks over property and equipment. We recommend that you should consider adopting the Rules of the Auditor General, Chapter 10.400, as they currently exist and are amended in the future, until such time as the Florida Department of Financial Services issues revised rulings over the custodial maintenance of these assets.

Capitalization Policy. We also noted during our audit of the machinery and equipment areas that the City's depreciation method and capitalization policy were not consistently followed during the year.

Recommendation: Consistently applied policies assist in the establishment of a strong overall control system within any organization. We recommend that the City consistently follow the capitalization and depreciation procedures that are currently established.

Auditee Response: *The Finance Director and staff understand the importance of properly and timely recording of tangible personal property. The Finance Department with the assistance of the IT Department is currently undertaking a complete physical inventory of all fixed assets. In addition, the Finance Director is reviewing the Rules of the Auditor General and will plan to implement a City policy relating to fixed assets and our capitalization/depreciation policy.*

2006-2 Convert to Computerized Asset System

Currently, computerized spreadsheets are used to document the City's fixed assets inventories. These records are not integrated into the City's automated financial accounting systems. Instead, the records are updated annually on a manual, batch entry basis.

Recommendation: We strongly recommend the City consider converting this important process to a computerized system designed to accumulate asset cost and calculate depreciation expense. These types of fixed asset accounting systems have been refined over the years and now can be purchased at a very reasonable cost. This will eliminate a significant amount of manual record keeping duties, make operations more efficient and provide more accurate information with which to make business decisions regarding fixed assets.

Auditee Response: The Finance Director and IT Director will review current software capabilities relative to computerizing the asset listing as it pertains to capitalization and depreciation procedures. If current software is not sufficient staff will research additional software vendors which can cost effectively provide a fixed asset software package to meet the needs of the City.

2006-3 New Accounting Pronouncements

As we have discussed with management during the past year, the provisions of Governmental Accounting Standards Board (GASB) Statements No. 43, 45 and 47, relating to accounting and reporting by employers for post-employment benefits other than pensions, known as "OPEB," became effective for the fiscal year beginning October 1, 2006. Implementing the provisions of these new accounting pronouncements may be more difficult to comply with, since the financial data required may need to be compiled by non-finance personnel from other departments of the City and will also require consultation with your current insurance providers and underwriters.

These new standards have the potential for tremendous increases in the expenses and liabilities reported in the financial statements of many governmental entities even when an employer that provides no postretirement benefits, such as medical, dental, long-term care or life insurance, but permits retired employees to continue health insurance by paying 100% of the premium, may have an employer expense under the new GASB rules. This stems from an implicit rate subsidy for retirees, which the GASB considers to be an OPEB.

Recommendation: We recommend that management should consider taking immediate steps to consult with an actuary to identify the data that will need to be compiled for determining the extent the financial information for inclusion in the City's financial reporting for the next fiscal year.

Auditee Response: The Finance Director and staff are reviewing the new accounting pronouncements and their requirements for implementation during the fiscal year required by each new GASB rule.

2006-4 Materials Inventories

During our audit, we noted that the City does not utilize a formal system of taking periodic inventory counts in its proprietary business-type activities. A proper cutoff for the acquisition, storage and use of materials inventories is essential to ensure accurate inventory information is received for financial reporting purposes. The lack of such actions poses a serious potential weakness in the system of controls and further has the potential for allowing abuse, including fraud and other defalcation, to exist and not be detected.

Recommendation: We recommend that you should consider developing a formal perpetual inventory control system for the City's proprietary business-type operating funds. Physical counts of materials inventory should be performed at least quarterly. The results should be reviewed and reconciled to the perpetual system by the City's Accounting Department. The perpetual inventory listing should be reconciled to the general ledger with any large discrepancies investigated and explained. Any adjustments, along with the cost of goods sold entries should be made and a

procedure should be implemented to allow for these adjustments to occur on a monthly basis.

Auditee Response: The Finance Director will review the auditor's recommendations to implement a perpetual inventory control system for the proprietary business type activities.

2006-5 Perform a Fraud Risk Assessment

Due to the proliferation of automated information systems technology, the overall risk associated with fraudulent financial activities is much greater than it was in past years. In light of the spate of notorious frauds involving large companies in the last few years, there may be a misperception that fraud affects only large business organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. For governmental organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements and unauthorized use of City equipment. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud.

Recommendation: To address this risk, we recommend that the City conduct a formal risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

Such a fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. Consideration should also be made to perform the assessment city-wide and include all departmental areas. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets. When conducting the self-assessment, the following matters should be considered:

- What individuals in the City have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, you should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

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- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored for those purposes
- What factors might indicate that the City has a culture or environment that would enable management or employees to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the City's operational systems, procedures, and existing controls relating to the identified areas should be conducted. The City should also consider what additional controls need to be implemented to reduce the risk of fraud at all departmental levels.

Auditee Response: The City Manager and Finance Director will review the auditor's recommendation to perform a fraud risk assessment.