

# **CITY OF HOLLY HILL, FLORIDA**

## ***COMPREHENSIVE ANNUAL FINANCIAL REPORT***

***FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008***



### **CITY COMMISSION**

HONORABLE ROLAND D. VIA, MAYOR

DISTRICT 1 – JOHN PENNY

DISTRICT 2 – RICK GLASS

DISTRICT 3 – MARK REED

DISTRICT 4 – LIZ TOWSLEY

### **CITY MANAGER**

TIM HARBUCK

### **CITY ATTORNEY**

EDWARD F. SIMPSON, JR., ESQ.

### **DIRECTOR OF FINANCE**

KURT D. SWARTZLANDER

Prepared by:  
Holly Hill Finance Department

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September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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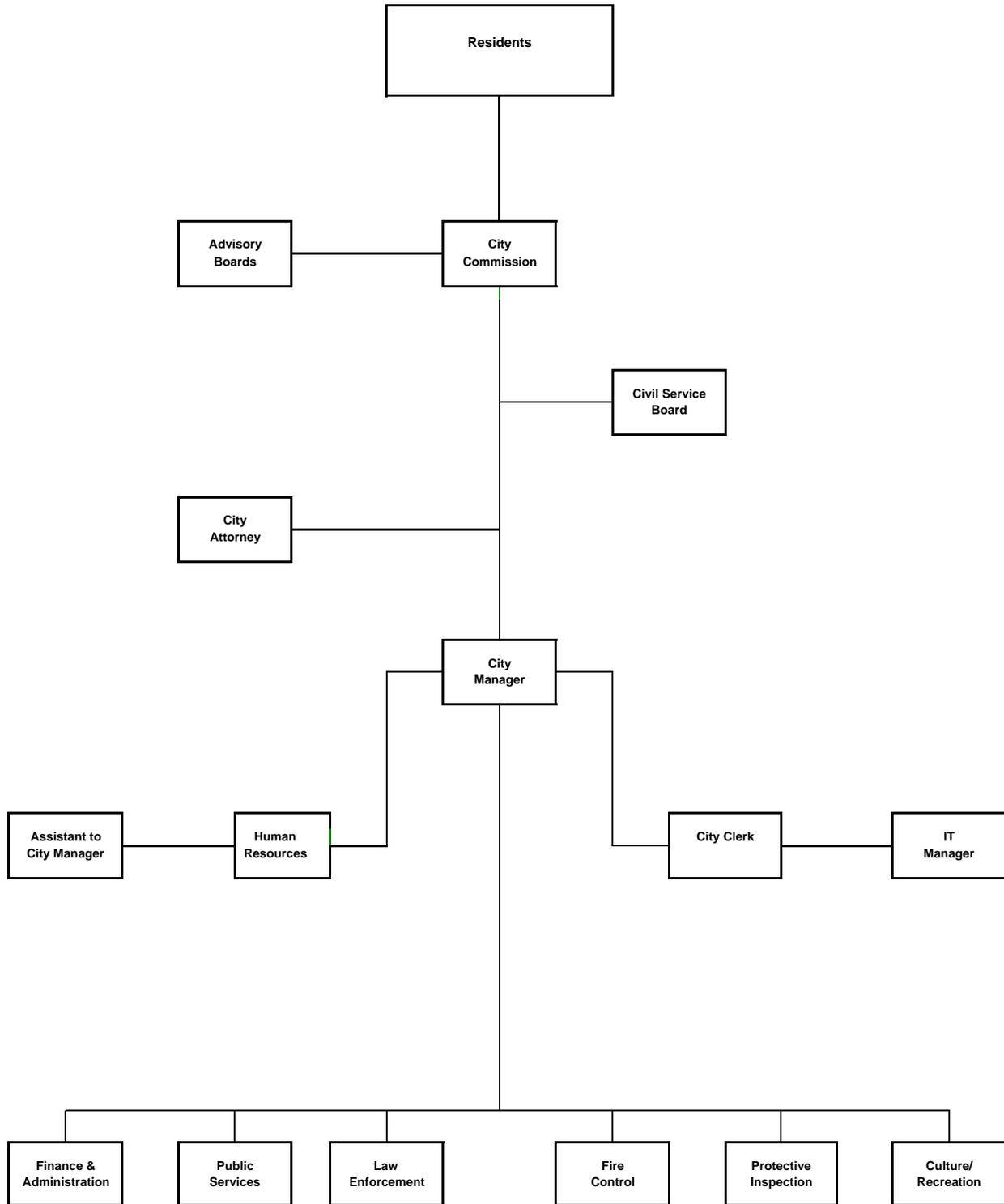
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***ORGANIZATION CHART***

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**ORGANIZATION CHART**  
 For The Year Ended September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA



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## ***CITY OF HOLLY HILL, FLORIDA***

### ***CERTIFICATE OF ACHIEVEMENT AWARDED***

*For the Year Ended September 30, 2007*

*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, 2007.*

*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, 2007  
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, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. Rut".

President

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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](http://www.hollyhillfl.org)

**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

May 19, 2008

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, 2008.

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, fraud, 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, 2008, 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, 2008, 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.

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, storm water 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 is currently experiencing a challenging economic environment along with the rest of the country. 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

**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, 2008, unrestricted cash was invested primarily 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 30, 2008. 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 30 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. However, as a phase 2 government for the purpose of implementing the provisions of GASB statement 34 (with annual revenues of \$10 million or more but less than \$100 million), it is the City's intention to implement the provisions of GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in its financial statements in the fiscal year ending September 30, 2009.

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.

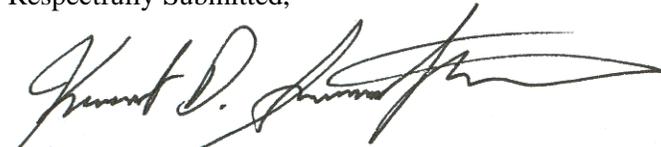
**Awards** - The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Holly Hill, for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2007. This was the thirty first consecutive year that the City of Holly Hill has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government 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 that our current comprehensive annual report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the 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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# BM&C

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

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Holly Hill, Florida, as of and for the year ended September 30, 2008, 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 \$5,587,516 of the total assets and \$5,570,784 of the net assets held in trust for pension benefits at September 30, 2008, and \$150,893 of contributions and investment loss 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 the 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, 2008 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 16, 2009, on our consideration of the 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 important for assessing 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 schedules of funding progress, and contributions of employer and other contributing entities on pages 3 through 12 and 64 through 65, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

  
April 16, 2009

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As financial management of the City of Holly Hill, Florida, (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, 2008. 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 has strengthened as a result of the current year's operations. Overall combined assets of the City totaled \$60.8 million at the close of the 2008 fiscal year compared to \$56.2 million last year. Total assets exceeded liabilities by approximately \$29.3 million (*combined net assets*) compared with \$28.2 million one year earlier. The unrestricted component of the City's combined net assets totaled \$5.9 million at year end. This represents the unrestricted amount available to be used to meet the City's ongoing obligations to its citizens and creditors.
- Net assets of the City's governmental activities totaled \$18.2 million, an increase of approximately \$1,310,000 over last year's \$16.9 million, or 7.8%. At the same time, net assets of its business-type activities totaled \$11.1 million, a decrease of approximately \$170,000 over last year's \$11.3 million, or -1.5%.
- During 2008, the City's combined governmental operating expenses were \$1,310,598 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 \$986,042 recognized in the prior year.
- The City's business-type activities produced net operating income of \$1.5 million for 2008 based on consumptive water/sewer/solid waste utility sales of \$6.6 million. The operating margins in these funds continue to be capable of providing direct financial support to the City's governmental funds. Net operating transfers out in 2008 totaled \$1,112,600, compared to \$838,900 last year.
- Total operating costs incurred by the City in providing its various programs decreased to \$15.0 million in 2008 compared to \$15.6 million in 2007. Operating expenses in 2008 totaled \$9.1 million and \$5.9 million for the City's governmental activities and business-type activities, respectively.
- Unreserved fund equity in the General Fund increased by approximately \$65,000 in 2008 and totaled \$1.49 million at year end.
- Resources earned and available for appropriation in the current year (\$6,442,281) were 2.14% less than the amounts anticipated in the General Fund's operating budget. General Fund expenditures (\$7,367,173) were less than the City's spending limits by \$241,327, or 3.2% less than the City's 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 thirteen 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 nine other governmental funds are combined into a single, aggregated presentation and include the remainder of the City's special revenue, capital projects and debt service funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The proprietary fund financial statements provide separate financial information for the

water and sewer utility and solid waste utility operations, both of which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 22 to 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.

***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 56 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 57 to 65 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 \$29,296,562 at the end of 2008 from \$28,158,617 at the end of 2007. 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 (7.8%) and experienced a slight decrease in its business-type activities (-1.5%).

Net assets of the City's governmental activities increased by \$1,310,598 for the year, and totaled \$18,162,197 at the end of the fiscal year. Of this amount, approximately 72% 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 \$5,171,318 at the end of 2008.

Net assets of the City's business-type activities decreased by \$172,653 for the year and totaled \$11,134,365,018 at the end of the fiscal year. Approximately 50% of its total net assets (\$5,540,666) 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 \$117,258,971 at the end of 2008. The following is a comparative summary of net assets at year end:

**Net Assets**  
September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Assets:</b>						
Current and other assets.....	\$ 11,011,975	11,575,394	7,661,065	7,668,658	18,673,040	19,244,052
Capital assets, net.....	<u>19,335,421</u>	<u>17,918,742</u>	<u>22,799,637</u>	<u>19,086,284</u>	<u>42,135,058</u>	<u>37,005,026</u>
Total assets .....	<u>30,347,396</u>	<u>29,494,136</u>	<u>30,460,702</u>	<u>26,754,942</u>	<u>60,808,098</u>	<u>56,249,078</u>
<b>Liabilities:</b>						
Long-term debt outstanding.....	10,943,551	11,723,154	17,258,971	14,552,050	28,202,522	26,275,204
Other liabilities.....	<u>1,241,648</u>	<u>919,383</u>	<u>2,067,366</u>	<u>895,874</u>	<u>3,309,014</u>	<u>1,815,257</u>
Total liabilities .....	<u>12,185,199</u>	<u>12,642,537</u>	<u>19,326,337</u>	<u>15,447,924</u>	<u>31,511,536</u>	<u>28,090,461</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt.....	9,127,455	7,105,203	5,540,666	4,882,961	14,668,121	11,988,164
Restricted.....	5,251,966	6,878,382	3,511,420	4,250,465	8,763,386	11,128,847
Unrestricted .....	<u>3,782,776</u>	<u>2,868,014</u>	<u>2,082,279</u>	<u>2,173,592</u>	<u>5,865,055</u>	<u>5,041,606</u>
Total net assets .....	<u>\$ 18,162,197</u>	<u>16,851,599</u>	<u>11,134,365</u>	<u>11,307,018</u>	<u>29,296,562</u>	<u>28,158,617</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 2008, the City's combined net assets increased \$1,137,945 while the City's gross revenues decreased \$939,251. Overall, approximately 15.8% of the City's total revenues come from property taxes, while almost 20.3% of every dollar raised comes from some source of tax collected by the City. Another 49.3% comes from fees charged for services, while the remaining 14.6% 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 years ended September 30, 2008 and 2007:

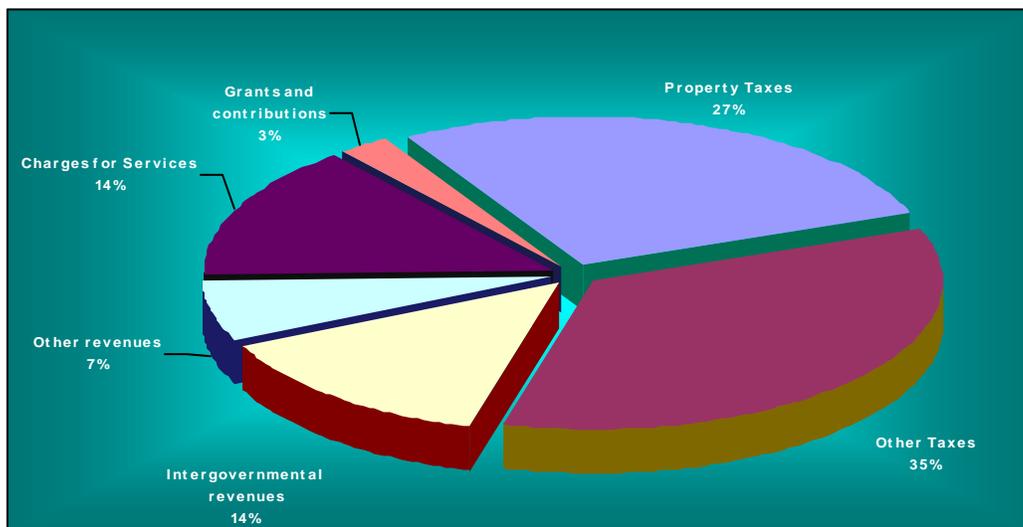
**Changes in Net Assets**  
For the Fiscal Years Ended September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services.....	\$ 1,338,662	1,257,947	6,599,395	6,417,151	7,938,057	7,675,098
Operating grants/other.....	131,255	57,101	-	-	131,255	57,101
Capital grants/other.....	106,711	941,912	26,640	140,052	133,351	1,081,964
<b>General revenues:</b>						
Property taxes.....	2,542,372	2,485,206	-	-	2,542,372	2,485,206
Other taxes.....	3,260,678	3,421,570	-	-	3,260,678	3,421,570
Intergovernmental.....	1,303,179	1,233,860	42,498	-	1,345,677	1,233,860
Other revenues.....	<u>605,283</u>	<u>705,439</u>	<u>134,061</u>	<u>369,747</u>	<u>739,344</u>	<u>1,075,186</u>
Total revenues.....	<u>9,288,140</u>	<u>10,103,035</u>	<u>6,802,594</u>	<u>6,926,950</u>	<u>16,090,734</u>	<u>17,029,985</u>
<b>Expenses:</b>						
General government.....	1,703,645	1,731,529	-	-	1,703,645	1,731,529
Public safety.....	3,792,083	4,313,294	-	-	3,792,083	4,313,294
Transportation.....	881,449	909,548	-	-	881,449	909,548
Economic environment.....	774,449	728,308	-	-	774,449	728,308
Physical environment.....	606,409	592,897	-	-	606,409	592,897
Culture/recreation.....	950,267	1,189,787	-	-	950,267	1,189,787
Interest on long-term debt.....	381,840	490,530	-	-	381,840	490,530
Water and sewer utilities.....	-	-	4,475,164	4,266,735	4,475,164	4,266,735
Solid waste utilities.....	-	-	<u>1,387,483</u>	<u>1,398,151</u>	<u>1,387,483</u>	<u>1,398,151</u>
Total expenses.....	<u>9,090,142</u>	<u>9,955,893</u>	<u>5,862,647</u>	<u>5,664,886</u>	<u>14,952,789</u>	<u>15,620,779</u>
Transfers in (out).....	<u>1,112,600</u>	<u>838,900</u>	<u>(1,112,600)</u>	<u>(838,900)</u>	-	-
Increase in net assets.....	<u>\$ 1,310,598</u>	<u>986,042</u>	<u>(172,653)</u>	<u>423,164</u>	<u>1,137,945</u>	<u>1,409,206</u>

## Governmental Activities

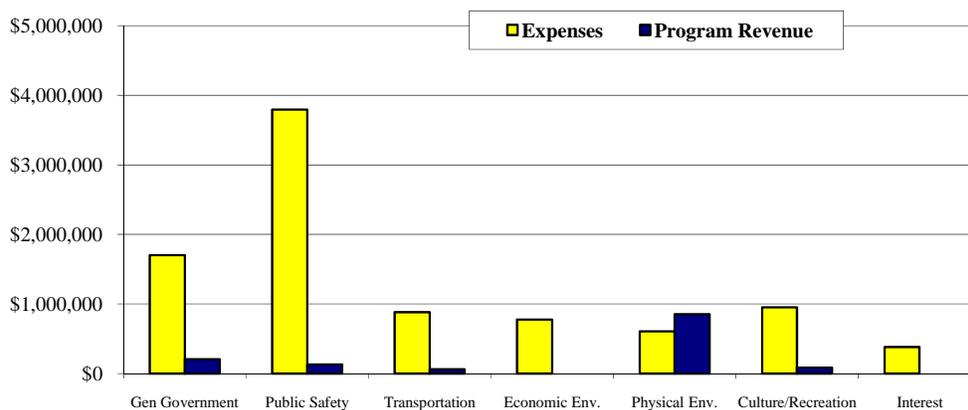
Total revenue for the City’s governmental activities declined in 2008. Overall, the City’s governmental revenue totaled \$9,288,140, which represents a decrease of \$814,895, or -8.1% below last year’s reported governmental revenues of \$10,103,035. This decrease was primarily attributable to a decrease in capital grants and other donations. 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 2008, the City experienced an overall 6.4% increase in its charges for services, which totaled \$1,338,662, compared to \$1,257,947 the prior year. While the revenue decline experienced for the year was approximately -8.1% overall, revenues earned from the assessment of ad valorem taxes increased approximately 2.3%, or \$57,166. Ad valorem taxes totaling \$2,542,372 were collected in 2008 compared with \$2,485,206 in the prior year. The ad valorem millage rate for operating purposes was reduced from 4.0800 mills with the 2006 tax levy (collected during fiscal 2007) to 3.68177 mills with the 2007 levy (collected during fiscal 2008). 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:

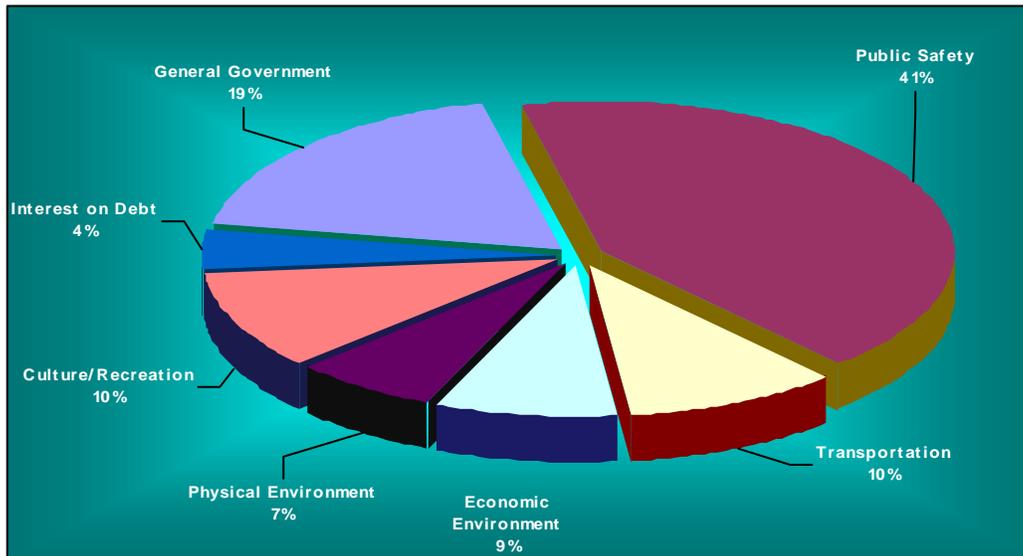
### Expenses –versus- Program Revenue



Expenses for the City's governmental activities shrunk at the same decreased pace in matching revenue reductions for the period. Combined governmental activities expenses totaled \$9,090,142, which represents a decrease of \$865,751 or -8.70% over last year's expenses of \$9,955,893. 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 shrunk to \$1.2 million, compared to \$1.8 million in the prior year.

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**Expenses by Function - Governmental Activities**



**Business-type Activities**

Business-type activities losses produced a decrease in the City's net assets of \$172,653 in 2008, compared to an increase of \$423,164 during 2007. Overall, net assets from the City's business-type activities (\$11,134,365) account for only 38.1% of the City's combined total net assets at September 30, 2008. The major sources of operating revenue for the City's business-type activities include charges for services for water and sewer utilities (\$4,916,507) and solid waste utilities (\$1,682,888). Combined operating revenues from these two activities remained relatively stable in 2008 and totaled \$6,599,395, compared to \$6,417,151 in the prior year. Water and sewer utility revenues increased by \$281,995 over last year's revenue, while charges for solid waste removal decreased by \$99,751. Investment earnings decreased from \$366,179 in 2007 to \$156,163 in 2008 as a result of decreased interest rates experienced on a national level. Capital contributions declined substantially in the water and sewer utility fund in 2008 and totaled \$26,640, compared to \$140,052 in 2007. As a cost control measure, the City has continued to contract its solid waste operations with an outside contractor since 1999.

Total expenses of the City's combined business-type activities totaled \$5,862,647 in 2008, compared to \$5,664,886 in 2007.

**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 \$9,692,792, which was down \$902,285 below the \$10,595,077 reported last year. Approximately 78.81% of this amount (\$7,639,128) 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 (\$1,393,201), 2) to pay debt service (\$309,405), 3) to finance specialized law enforcement investigations (\$97,830), and 4) as other restricted funds (\$253,228).

The general fund is the chief operating fund of the City. As of September 30, 2008, the unreserved fund balance in the general fund totaled \$1,493,861, while total fund balance increased from \$1,441,608 in 2007 to \$1,623,716 in 2008. 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 20.28% of total general fund expenditures (\$7,367,173), while total fund balance represents 22.04% 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 has continued to fall significantly below that target.

Fund balance in the general fund increased slightly by \$182,108 during the current fiscal year. The significant portion of this increase is attributable to a reserve for transportation expenses in the amount of \$117,643. Fund balance in the Stormwater Drainage Fund increased \$389,259 in 2008 as a result of continued operations. Fund balance in the Community Redevelopment Agency remained stable in 2008 with a net increase of \$70,354. Fund Balance in the Community Redevelopment Agency Capital Projects fund decreased in 2008 to \$4,622,419 from \$6,199,944 in 2007. All other funds remained relatively 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 \$1,645,441, compared to \$1,607,115 one year earlier.

Unrestricted net assets in the Solid Waste Fund totaled \$436,838, at the end of 2008, compared to \$566,477 at the end of the prior fiscal 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 decreased by \$86,000, which represents a 1.3% decrease in anticipated funding. Expenditure appropriations were similarly increased by \$165,100, or 2.1% near the end of the fiscal year in an effort to achieve the current year's operating results.

Actual earned revenues were \$140,819 less than the amounts anticipated to be received during the year, while actual expenditures incurred were \$241,327 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, 2008 and 2007, the City's investment in capital assets for its governmental and business type activities totaled \$42,135,058 and \$37,005,027, respectively. These amounts are stated net of accumulated depreciation of \$26,391,630 and \$24,803,246 for 2008 and 2007, respectfully. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

### Capital Assets September 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land.....	\$ 2,189,101	1,950,539	154,739	154,739	2,343,840	2,105,278
Construction work in progress.....	1,688,615	902,780	4,592,621	280,864	6,281,236	1,183,644
Buildings.....	3,619,713	3,558,151	5,308,811	5,533,296	8,928,524	9,091,447
Improvements other than buildings.....	1,543,402	1,439,948	9,884,066	10,001,996	11,427,468	11,441,944
Machinery and equipment.....	1,082,355	1,121,145	2,859,400	3,115,389	3,941,755	4,236,534
Infrastructure.....	<u>9,212,235</u>	<u>8,946,180</u>	<u>-</u>	<u>-</u>	<u>9,212,235</u>	<u>8,946,180</u>
Net total.....	<u>\$ 19,335,421</u>	<u>17,918,743</u>	<u>22,799,637</u>	<u>19,086,284</u>	<u>42,135,058</u>	<u>37,005,027</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 net carrying value of the City's bonds, notes and other long-term obligations outstanding (exclusive of compensated absences) totaled \$27,466,937, 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 \$10,870,000 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 carrying value of this obligation (\$10,072,680) is reported net of unamortized debt premium (\$2,524) and deferred amount on advance refunding (\$799,844) in the financial statements.

The City has two outstanding revenue note obligations totaling \$7,088,380 at year end. The proceeds from these obligations were used to finance community redevelopment projects (\$5,748,380), and to provide working capital to the water and sewer utility fund (\$1,340,000). The 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 \$10,305,877 in aggregate, at year end. The proceeds of the FDEP loan issued in 1998 (\$1,704,895), the FDEP loan issued in 2005 (\$621,222), and the FDEP loan issued in 2007 (\$3,520,174) were used to finance the construction of wastewater infiltration and inflow correction facilities. The second FDEP loan issued in 2001 (\$4,459,586) 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.

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 7.2% at the end of September 2008, which is significantly higher than the 4.3% rate experienced one year earlier. These estimates are consistent with the State of Florida 6.9% and 4.4% unemployment rates at September 2008 and 2007, respectively.

Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.

During the preceding year, new construction in the City totaled a record \$134.2 million. In the 2008 tax levy, new construction dropped to \$11.0 million, which is a combined net decrease of 91.8%. Even with the inclusion of this substantial peaking of new construction in 2007, the overall taxable value of real and personal property on the 2008 levy declined from \$690.2 million to \$683.8 million in 2008. Coupled with these conditions, the City is also facing many challenges in the fiscal year 2009 budget due to projected revenue decreases as a result of state legislated property tax reform, a declining economy, and decrease in real estate property tax values. At the same time, the City is experiencing rising prices for many of the basic operating expenses, such as utilities, gas and fuel, and insurance costs. To meet these challenges management has taken various measures to reduce spending and prioritize its capital needs.

In October 2008, the City Commission adopted an operating ad valorem millage rate of 4.8872 mills for fiscal year 2009, compared to a rate of 3.68177 mills approved for 2008. In developing its 2009 budget estimates, the City has anticipated appropriating \$1.06 million in prior year surplus reserve funds to balance the City's combined overall financing needs, which are estimated to approximate \$20.6 million for fiscal 2009.

## **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, 2008  
CITY OF HOLLY HILL, FLORIDA

**Statement 1**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 9,510,671	2,114,809	11,625,480
Receivables, net of allowance for uncollectible accounts.....	393,737	637,751	1,031,488
Internal balances.....	-	-	-
Due from other governments.....	893,397	1,385,622	2,279,019
Net pension asset.....	105,292	-	105,292
Inventories.....	27,194	-	27,194
Prepaid expenses.....	3,722	44	3,766
Unamortized debt issuance costs.....	77,962	150,571	228,533
<b>Temporarily restricted assets:</b>			
Cash and cash equivalents.....	-	3,372,268	3,372,268
<b>Capital assets:</b>			
Land and construction in progress.....	3,877,716	4,747,360	8,625,076
Other capital assets, net of depreciation.....	<u>15,457,705</u>	<u>18,052,277</u>	<u>33,509,982</u>
<b>Total assets .....</b>	<b><u>30,347,396</u></b>	<b><u>30,460,702</u></b>	<b><u>60,808,098</u></b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities.....	990,260	410,395	1,400,655
Customer deposits and unearned income.....	251,388	653,773	905,161
<b>Payable from Restricted Assets:</b>			
Current maturities of long-term debt.....	-	859,008	859,008
Accounts payable and accrued liabilities.....	-	865,367	865,367
<b>Bonds, notes, and other payables:</b>			
Due or payable within one year.....	464,473	-	464,473
Due or payable in more than one year.....	9,743,493	16,399,963	26,143,456
Compensated absences.....	<u>735,585</u>	<u>137,831</u>	<u>873,416</u>
<b>Total liabilities .....</b>	<b><u>12,185,199</u></b>	<b><u>19,326,337</u></b>	<b><u>31,511,536</u></b>
<b>Net assets:</b>			
Invested in capital assets net of related debt .....	9,127,455	5,540,666	14,668,121
<b>Restricted for:</b>			
Law enforcement.....	66,557	-	66,557
Community redevelopment projects.....	4,622,419	-	4,622,419
Transportation.....	117,643	-	117,643
Impact fees.....	135,942	-	135,942
Utility plant expansion.....	-	3,366,201	3,366,201
Debt service.....	309,405	145,219	454,624
Unrestricted .....	<u>3,782,776</u>	<u>2,082,279</u>	<u>5,865,055</u>
<b>Total net assets .....</b>	<b><u>\$ 18,162,197</u></b>	<b><u>11,134,365</u></b>	<b><u>29,296,562</u></b>

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

**STATEMENT OF ACTIVITIES**  
 For the Fiscal Year Ended September 30, 2008  
 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.....	\$ 1,703,645	205,206	5,560	-
Public safety.....	3,792,083	132,372	6,810	6,282
Transportation.....	881,449	62,422	116,201	4,965
Economic environment.....	774,449	-	-	-
Physical environment.....	606,409	853,801	-	-
Culture/recreation.....	950,267	84,861	2,684	95,464
Interest on long-term debt .....	<u>381,840</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>9,090,142</u>	<u>1,338,662</u>	<u>131,255</u>	<u>106,711</u>
Business-type activities:				
Water and Sewer.....	4,475,164	4,916,507	-	26,640
Solid Waste.....	<u>1,387,483</u>	<u>1,682,888</u>	<u>-</u>	<u>-</u>
Total business-type activities.....	<u>5,862,647</u>	<u>6,599,395</u>	<u>-</u>	<u>26,640</u>
Total primary government.....	<u>\$ 14,952,789</u>	<u>7,938,057</u>	<u>131,255</u>	<u>133,351</u>

General revenues:	
Property taxes, levied for general purposes.....	
Property taxes, levied for tax increment district.....	
Sales taxes.....	
Local option gas taxes.....	
Casualty and fire insurance premium taxes.....	
Franchise taxes.....	
Public service taxes.....	
State revenue sharing.....	
Other 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
(1,492,879)		(1,492,879)
(3,646,619)		(3,646,619)
(697,861)		(697,861)
(774,449)		(774,449)
247,392		247,392
(767,258)		(767,258)
(381,840)		(381,840)
(7,513,514)		(7,513,514)
	467,983	467,983
	295,405	295,405
	763,388	763,388
(7,513,514)	763,388	(6,750,126)
2,076,022	-	2,076,022
466,350	-	466,350
573,309	-	573,309
277,727	-	277,727
-	-	-
895,959	-	895,959
1,513,683	-	1,513,683
380,480	-	380,480
922,699	42,498	965,197
304,079	156,163	460,242
301,204	(22,102)	279,102
1,112,600	(1,112,600)	-
8,824,112	(936,041)	7,888,071
1,310,598	(172,653)	1,137,945
16,851,599	11,307,018	28,158,617
\$ 18,162,197	11,134,365	29,296,562

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 1,268,025	868,570	1,886,550
Receivables (net):			
Accounts receivable.....	293,809	-	75,405
Due from other funds.....	317,027	-	-
Due from other governments.....	432,290	-	-
Inventories.....	-	-	27,194
Prepays.....	<u>1,387</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>\$ 2,312,538</u>	<u>868,570</u>	<u>1,989,149</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and other current liabilities.....	\$ 458,541	19,282	29,711
Deposits/deferred revenues.....	230,281	-	-
Due to other funds.....	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities.....	<u>688,822</u>	<u>19,282</u>	<u>29,711</u>
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Encumbrances.....	2,485	-	-
Nonspendable prepaids/inventories.....	1,387	-	27,194
Law enforcement.....	8,340	-	-
Fire protection.....	-	-	-
Transportation.....	117,643	-	-
Recreation.....	-	-	-
Debt service.....	-	-	-
<b>Unreserved, reported in</b>			
General fund.....	1,493,861	-	-
Capital projects fund.....	-	-	-
Special revenue funds.....	<u>-</u>	<u>849,288</u>	<u>1,932,244</u>
Total fund balances.....	<u>1,623,716</u>	<u>849,288</u>	<u>1,959,438</u>
Total liabilities and fund balances .....	<u>\$ 2,312,538</u>	<u>868,570</u>	<u>1,989,149</u>

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

**Statement 3**

Community Redevelopment Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
4,946,717	540,809	9,510,671
-	-	369,214
-	-	317,027
-	461,107	893,397
-	-	27,194
<u>-</u>	<u>2,335</u>	<u>3,722</u>
<u>4,946,717</u>	<u>1,004,251</u>	<u>11,121,225</u>
324,298	28,186	860,018
-	21,107	251,388
<u>-</u>	<u>317,027</u>	<u>317,027</u>
<u>324,298</u>	<u>366,320</u>	<u>1,428,433</u>
1,388,542	2,174	1,393,201
-	2,335	30,916
-	89,490	97,830
-	21,736	21,736
-	40,791	158,434
-	42,142	42,142
-	309,405	309,405
-	-	1,493,861
3,233,877	127,199	3,361,076
<u>-</u>	<u>2,659</u>	<u>2,784,191</u>
<u>4,622,419</u>	<u>637,931</u>	<u>9,692,792</u>
<u>4,946,717</u>	<u>1,004,251</u>	<u>11,121,225</u>

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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS      Statement 3A**  
**TO THE STATEMENT OF NET ASSETS**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

Fund balances - total governmental funds .....	\$ 9,692,792
<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.....	19,335,421
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.....	24,523
Negative net pension obligation reported in the Municipal Firefighters' Pension Trust Fund.....	30,427
Negative net pension obligation reported in the Municipal Police Officers' Retirement Trust Fund.....	74,865
<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.....	(10,207,966)
Accrued interest payable.....	(130,242)
Unamortized debt costs.....	77,962
Compensated absences.....	<u>(735,585)</u>
	<u>(10,995,831)</u>
Net assets of governmental activities .....	<u>\$ 18,162,197</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, 2008  
CITY OF HOLLY HILL, FLORIDA

	General	Community Redevelopment	Stormwater Drainage
<b>Revenue:</b>			
Taxes.....	\$ 4,034,447	466,350	-
Permits and fees .....	974,290	-	-
Intergovernmental.....	1,000,137	876,756	-
Charges for services .....	169,465	-	853,801
Fines and forfeitures.....	36,509	-	-
Miscellaneous .....	<u>227,433</u>	<u>35,461</u>	<u>203,871</u>
Total revenue.....	<u>6,442,281</u>	<u>1,378,567</u>	<u>1,057,672</u>
<b>Expenditures:</b>			
Current:			
General government.....	1,749,913	-	-
Public safety .....	3,854,001	-	-
Transportation.....	818,689	-	-
Economic environment .....	-	554,760	-
Physical environment.....	-	-	322,913
Culture/recreation .....	833,474	-	-
Capital Outlay:			
Transportation.....	-	-	-
Economic environment .....	-	282,953	-
Culture/recreation.....	-	-	-
Debt Service:			
Principal retirement .....	108,624	-	-
Interest and fiscal charges.....	<u>2,472</u>	<u>-</u>	<u>-</u>
Total expenditures.....	<u>7,367,173</u>	<u>837,713</u>	<u>322,913</u>
Excess of revenue over (under) expenditures.....	<u>(924,892)</u>	<u>540,854</u>	<u>734,759</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in .....	1,107,000	-	42,000
Transfers out.....	<u>-</u>	<u>(470,500)</u>	<u>(387,500)</u>
Total other financing sources (uses).....	<u>1,107,000</u>	<u>(470,500)</u>	<u>(345,500)</u>
Net changes in fund balances.....	182,108	70,354	389,259
Fund balances, beginning of year .....	<u>1,441,608</u>	<u>778,934</u>	<u>1,570,179</u>
Fund balances, end of year .....	<u>\$ 1,623,716</u>	<u>849,288</u>	<u>1,959,438</u>

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

**Statement 4**

Community Redevelopment Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
-	-	4,500,797
-	-	974,290
-	205,862	2,082,755
-	1,899	1,025,165
-	25,058	61,567
<u>152,827</u>	<u>37,889</u>	<u>657,481</u>
<u>152,827</u>	<u>270,708</u>	<u>9,302,055</u>
-	-	1,749,913
-	36,330	3,890,331
-	-	818,689
-	-	554,760
-	-	322,913
-	3,143	836,617
-	131,476	131,476
1,730,352	-	2,013,305
-	63,803	63,803
-	449,491	558,115
<u>-</u>	<u>374,546</u>	<u>377,018</u>
<u>1,730,352</u>	<u>1,058,789</u>	<u>11,316,940</u>
<u>(1,577,525)</u>	<u>(788,081)</u>	<u>(2,014,885)</u>
-	832,934	1,981,934
<u>-</u>	<u>(11,334)</u>	<u>(869,334)</u>
<u>-</u>	<u>821,600</u>	<u>1,112,600</u>
(1,577,525)	33,519	(902,285)
<u>6,199,944</u>	<u>604,412</u>	<u>10,595,077</u>
<u>4,622,419</u>	<u>637,931</u>	<u>9,692,792</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, 2008  
CITY OF HOLLY HILL, FLORIDA

Net change in fund balances - total governmental funds ..... \$ (902,285)

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.....	2,314,959	
Depreciation expense.....	<u>(877,780)</u>	1,437,179

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of nets assets. Principal repayment in the current period ..... 558,115

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:

(Increase) decrease in delinquent taxes.....	6,584	
Gains (losses) on asset sales.....	<u>(20,500)</u>	(13,916)

Increase in negative net pension obligations reported in the:

Police Officers' Retirement Trust Fund.....	1,018	
Municipal Firemen's Pension Trust Fund.....	<u>13,821</u>	14,839

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.....	221,488	
Amortization of debt issuance costs.....	(9,554)	
Change in accrued interest on bonds and notes payable .....	<u>4,732</u>	<u>216,666</u>

Change in net assets of governmental activities ..... \$ 1,310,598

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

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2008  
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.....	\$ 1,904,620	210,189	2,114,809
Accounts receivable (net).....	471,494	166,257	637,751
Due from other governments.....	1,047,016	338,606	1,385,622
Prepaid expenses.....	44	-	44
Restricted-cash and cash equivalents.....	<u>3,372,268</u>	<u>-</u>	<u>3,372,268</u>
Total current assets.....	<u>6,795,442</u>	<u>715,052</u>	<u>7,510,494</u>
Noncurrent Assets:			
Property and Equipment:			
Land.....	154,739	-	154,739
Buildings and improvements.....	26,883,767	54,651	26,938,418
Machinery and equipment.....	6,995,689	644,662	7,640,351
Construction in progress.....	<u>4,592,621</u>	<u>-</u>	<u>4,592,621</u>
	38,626,816	699,313	39,326,129
Less: accumulated depreciation.....	<u>(15,845,507)</u>	<u>(680,985)</u>	<u>(16,526,492)</u>
Total property and equipment (net of accumulated depreciation).....	<u>22,781,309</u>	<u>18,328</u>	<u>22,799,637</u>
Unamortized debt issuance costs.....	<u>150,571</u>	<u>-</u>	<u>150,571</u>
Total noncurrent assets.....	<u>22,931,880</u>	<u>18,328</u>	<u>22,950,208</u>
Total assets.....	<u>\$ 29,727,322</u>	<u>733,380</u>	<u>30,460,702</u>

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

**Statement 5**

	<u>Business-Type Activities - Enterprise Funds</u>		
	Water and Sewer	Solid Waste	Total
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued liabilities.....	\$ 132,181	278,214	410,395
Due to other funds.....	-	-	-
Deposits.....	<u>653,773</u>	<u>-</u>	<u>653,773</u>
Total current liabilities unrestricted.....	<u>785,954</u>	<u>278,214</u>	<u>1,064,168</u>
<b>Current Liabilities Payable From Restricted Assets:</b>			
Current maturities of long-term debt.....	859,008	-	859,008
Accounts payable and accrued liabilities.....	<u>865,367</u>	<u>-</u>	<u>865,367</u>
Total current liabilities payable from restricted funds.....	<u>1,724,375</u>	<u>-</u>	<u>1,724,375</u>
Total current liabilities.....	<u>2,510,329</u>	<u>278,214</u>	<u>2,788,543</u>
<b>Noncurrent Liabilities:</b>			
Revenue bonds payable (net).....	10,767,680	-	10,767,680
Notes payable (net).....	5,632,283	-	5,632,283
Compensated absences.....	<u>137,831</u>	<u>-</u>	<u>137,831</u>
Total noncurrent liabilities.....	<u>16,537,794</u>	<u>-</u>	<u>16,537,794</u>
Total liabilities.....	<u>19,048,123</u>	<u>278,214</u>	<u>19,326,337</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt.....	5,522,338	18,328	5,540,666
Restricted for debt service.....	145,219	-	145,219
Restricted for utility plant expansion.....	3,366,201	-	3,366,201
Unrestricted.....	<u>1,645,441</u>	<u>436,838</u>	<u>2,082,279</u>
Total net assets.....	<u>\$ 10,679,199</u>	<u>455,166</u>	<u>11,134,365</u>

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

**Statement 6**

For the Fiscal Year Ended September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA

	<u>Business-Type Activities - Enterprise Funds</u>		
	Water and Sewer	Solid Waste	Total
<b>Operating Revenue:</b>			
Charges for Services:			
Water sales.....	\$ 2,292,817	-	2,292,817
Sewer treatment charges.....	2,314,171	-	2,314,171
Waste disposal fees.....	-	1,681,738	1,681,738
Connections, service and cut-off charges.....	54,771	-	54,771
Other revenues.....	<u>254,748</u>	<u>1,150</u>	<u>255,898</u>
Total operating revenue.....	<u>4,916,507</u>	<u>1,682,888</u>	<u>6,599,395</u>
<b>Operating Expenses:</b>			
Personal services.....	1,480,469	-	1,480,469
Depreciation and amortization .....	1,031,463	3,031	1,034,494
Utilities.....	385,445	209	385,654
Materials and supplies.....	306,931	-	306,931
Contractual services .....	210,345	1,374,038	1,584,383
Maintenance and repairs.....	178,300	108	178,408
Other charges .....	41,244	2,062	43,306
Bad debt expense.....	<u>67,992</u>	<u>8,035</u>	<u>76,027</u>
Total operating expenses .....	<u>3,702,189</u>	<u>1,387,483</u>	<u>5,089,672</u>
Operating income.....	<u>1,214,318</u>	<u>295,405</u>	<u>1,509,723</u>
<b>Nonoperating Revenue (Expenses):</b>			
Interest earnings .....	154,738	1,425	156,163
Intergovernmental grants .....	42,498	-	42,498
Gain (loss) on disposal of property and equipment.....	(22,102)	-	(22,102)
Interest and debt expense.....	<u>(772,975)</u>	<u>-</u>	<u>(772,975)</u>
Net nonoperating revenue (expenses).....	<u>(597,841)</u>	<u>1,425</u>	<u>(596,416)</u>
Income before contributions and transfers.....	616,477	296,830	913,307
Capital contributions.....	26,640	-	26,640
Transfers (out).....	<u>(683,100)</u>	<u>(429,500)</u>	<u>(1,112,600)</u>
Net increase (decrease) in net assets.....	(39,983)	(132,670)	(172,653)
Net assets, beginning of year.....	<u>10,719,182</u>	<u>587,836</u>	<u>11,307,018</u>
Net assets, end of year.....	<u>\$ 10,679,199</u>	<u>455,166</u>	<u>11,134,365</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, 2008  
CITY OF NEW HOLLY HILL, FLORIDA

	<u>Business-type Activities - Enterprise Funds</u>		
	Water and Sewer	Solid Waste	Total
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers.....	\$ 4,923,977	1,685,501	6,609,478
Cash paid for personal services.....	(1,521,557)	-	(1,521,557)
Cash paid to suppliers.....	<u>(1,080,069)</u>	<u>(1,212,144)</u>	<u>(2,292,213)</u>
Net cash provided by (used in) operating activities.....	<u>2,322,351</u>	<u>473,357</u>	<u>2,795,708</u>
<b>Cash Flows From Noncapital and Related Financing Activities:</b>			
Loan payments to (from) other funds.....	-	28,066	28,066
Transfers (out).....	<u>(683,100)</u>	<u>(429,500)</u>	<u>(1,112,600)</u>
Net cash provided by (used in) noncapital and related financing activities.....	<u>(683,100)</u>	<u>(401,434)</u>	<u>(1,084,534)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Capital contributions.....	26,640	-	26,640
Acquisition and construction of capital assets.....	(4,021,878)	-	(4,021,878)
Proceeds from sale of property and equipment.....	59,332	-	59,332
Proceeds from long-term debt.....	2,516,089	-	2,516,089
Debt reduction outlays.....	(739,849)	-	(739,849)
Interest paid on capital debt obligations.....	<u>(648,223)</u>	<u>-</u>	<u>(648,223)</u>
Net cash provided by (used in) capital and related financing activities.....	<u>(2,807,889)</u>	<u>-</u>	<u>(2,807,889)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest received.....	<u>154,738</u>	<u>1,425</u>	<u>156,163</u>
Net increase (decrease) in cash and cash equivalents.....	(1,013,900)	73,348	(940,552)
Cash and cash equivalents, beginning of year.....	<u>6,290,788</u>	<u>136,922</u>	<u>6,427,710</u>
Cash and cash equivalents, end of year.....	<u>\$ 5,276,888</u>	<u>210,270</u>	<u>5,487,158</u>
<b>Cash and Cash Equivalents:</b>			
Unrestricted cash and cash equivalents.....	\$ 1,904,620	210,189	2,114,809
Restricted cash and cash equivalents.....	<u>3,372,268</u>	<u>-</u>	<u>3,372,268</u>
Total cash and cash equivalents.....	<u>\$ 5,276,888</u>	<u>210,189</u>	<u>5,487,077</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, 2008  
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).....	\$ 1,214,318	295,405	1,509,723
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation.....	1,031,463	3,031	1,034,494
Provision for bad debts.....	67,992	8,035	76,027
Changes in assets and liabilities:			
Accounts receivable.....	(12,500)	2,613	(9,887)
Prepaid expenses.....	181	-	181
Accounts payable and accrued liabilities.....	4,016	164,273	168,289
Customer deposits.....	<u>16,881</u>	<u>-</u>	<u>16,881</u>
Net cash provided by operating activities.....	<u>\$ 2,322,351</u>	<u>473,357</u>	<u>2,795,708</u>

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

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Statement 8**

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Assets:	
Cash and cash equivalents.....	\$ 643,394
Receivables:	
Employer contributions receivable.....	144,515
Employee contributions receivable.....	1,742
Prepaid withholding taxes.....	3,356
Interest and dividends receivable.....	<u>39,741</u>
Total accounts receivable.....	189,354
Investments, at fair value	
U.S. government obligations.....	304,849
Mortgage backed securities.....	859,533
Domestic corporate debt obligations .....	1,420,538
Domestic corporate equity securities.....	4,290,265
International equity securities.....	<u>446,352</u>
Total investments.....	<u>7,321,537</u>
Total assets.....	8,154,285
Liabilities:	
Accounts payable.....	<u>20,886</u>
Net assets:	
Held in trust for pension benefits.....	<u>\$ 8,133,399</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, 2008  
CITY OF HOLLY HILL, FLORIDA

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Additions:	
Contributions from:	
Employer .....	\$ 731,958
Plan members .....	<u>159,909</u>
Total contributions.....	891,867
Investment income:	
Net realized and unrealized appreciation (depreciation) in fair value of investments.....	(1,375,015)
Interest and dividend earnings .....	<u>286,334</u>
	(1,088,681)
Less: investment management fees .....	<u>79,541</u>
Total investment income .....	<u>(1,168,222)</u>
Total additions .....	(276,355)
Deductions:	
Benefit payments and refunds .....	511,923
Administrative expenses .....	<u>36,261</u>
Total deductions.....	<u>548,184</u>
Net increase.....	(824,539)
Net assets held in trust for pension benefits:	
Beginning of year .....	<u>8,957,938</u>
End of year .....	<u>\$ 8,133,399</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, 2008

CITY OF HOLLY HILL, FLORIDA

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### 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 Incorporation, 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, 2008

CITY OF HOLLY HILL, FLORIDA

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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. 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 when 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

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.

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

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

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

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

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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

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

*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.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing activities. For the City, operating revenues come from 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, 2008

CITY OF HOLLY HILL, FLORIDA

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### ***3. Inventories and Prepaid Items***

The cost of inventories are 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, 2008

CITY OF HOLLY HILL, FLORIDA

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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 premium and discount are presented in aggregate on the financial

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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statements as a increases and/or reductions of the carrying cost of the related long-term debt, as applicable. Unamortized debt issuance costs are presented as other assets. In the fund financial statements, governmental fund types recognize premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### ***9. Fund Equity***

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

### ***10. Use of Estimates***

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

## **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:

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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- 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, 2008, expenditures exceeded budgetary appropriations in the following funds:

Law Enforcement Trust Fund (Nonmajor) – actual expenditures (\$15,531) exceeded budgetary appropriations (\$12,000) by \$3,531 during 2008. This amount was funded in its entirety from prior years' surplus funds, all of which are statutorily restricted for these purposes.

Law Enforcement Block Grant (Nonmajor) Special Revenue Fund - actual expenditures (\$20,799) exceeded budgetary appropriations (\$20,400) by \$399 during 2008. This shortfall was attributed to a carryover of \$603 in grant program expenditures originally appropriated in 2007. This amount was funded in its entirety from accumulated prior years' surplus funds which are restricted for these purposes.

Community Redevelopment Agency (Major) Capital Projects Fund - actual construction expenditures (\$1,730,352) exceeded budgetary appropriations (\$1,694,000) by \$36,352 during 2008. This difference represents amounts withheld in contract retention at year end, all of which will be funded from debt proceeds received in the prior year which are restricted for these purposes.

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
 September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA

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**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 3.68177 mills for the (20078 tax year) fiscal year ended September 30, 2008. 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 through March, 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, 2008  
CITY OF HOLLY HILL, FLORIDA

**NOTE 5 - DEPOSITS AND INVESTMENTS**

At September 30, 2008, the City had the following investments and maturities:

	Fair Value	Less Than 1	Investment Maturities (Years)		
			From 1 to 5	From 6 to 10	Over 10
Repurchase agreements.....	\$ 1,115,000	1,115,000	-	-	-
SunTrust money market funds.....	13,776,038	13,776,038	-	-	-
Pension Trust:					
Money market funds.....	643,394	643,394	-	-	-
U.S. Treasury obligations.....	304,849	-	213,438	70,764	20,647
Mortgage-backed securities.....	859,533	-	473,365	166,375	219,793
Domestic corporate debt.....	1,420,538	153,644	915,899	331,218	19,777
Domestic corporate equities.....	4,290,265	4,290,265	-	-	-
International equities.....	446,352	446,352	-	-	-
Totals.....	<u>\$ 22,855,969</u>	<u>20,424,693</u>	<u>1,602,702</u>	<u>568,357</u>	<u>260,217</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 custodial money market funds which are invested in U.S. government securities. The remainder is invested in overnight repurchase agreements. Investments held in the City’s Police and Fire pension trust funds (the “Plans”) 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 ten years. The fair value of these 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 or in federal savings and loan associations located in this state and organized under federal law and federal

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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

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

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

At September 30, 2008, the carrying amount of the City's deposits in demand deposit accounts totaled \$104,608, all of which is covered by depository insurance and/or collateral securities in accordance with the Act. Amounts do not include \$2,102 in cash funds on hand at the end of the fiscal year. The carrying amount of the City's \$1,115,000 investment in repurchase agreements is collateralized with securities held by the Trust Department of the City's depository bank in their name. The carrying amount of the City's \$13,776,038 investment in institutional money market accounts is uninsured and uncollateralized, all of which is invested in a RidgeWorth Investments U.S. Government Securities Money Market Fund (CUSIP 76628T49) which is backed by the full faith and credit of the United States of America.

All investments held by the City's police and fire pension trust Plans were uninsured, unregistered and held by the Plans' brokerage firms, who are also the counterparty for these particular securities. At September 30, 2008, the Plans fixed income corporate bonds were rated between A and AAA by Standard & Poors.

*Concentrations of Credit Risk* – No individual fixed income notes and obligations, except for United States Treasury and Agency obligations, can be held by the police and fire trust Plans that represent more than 10%

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

of the Plan's total investments. Similarly, the police Plan limits investments in all equity investments to 5% of the Plan's total assets.

At September 30, 2008, the Fire Plan had no other individual investments (other than those issued or guaranteed by the U.S. government) made in any one organization that represent 5 percent or more of plan net assets, except as follows:

<u>Investment</u>	<u>Investment Amount</u>	<u>Percent of Portfolio</u>
Janus Advisor Risk Management Growth Fund I.....	\$451,353	17.6%
iShares Lehman Treas Inf (1,775 shares).....	179,808	7.0%
iShares MSCI EAFE Index Fund (3,050 shares) .....	171,715	6.7%
iShares Russell Midcap Index Fund (2,550 shares).....	209,508	8.2%

**NOTE 6 – RECEIVABLES (NET)**

The City's accounts receivable at September 30, 2008, consist of the following:

**Governmental Activities:**

General Fund:

Delinquent taxes receivable .....	\$ 24,523	
Accounts receivable-franchise/utility service payments .....	255,474	
Lien collections receivable .....	53,854	
Utility service tax.....	13,138	
Employees purchase program .....	14,914	
Other miscellaneous receivables .....	<u>25,422</u>	
	387,325	
Less allowance for doubtful accounts .....	<u>(68,993)</u>	
 Total General Fund accounts receivable, net.....		 318,332

Special Revenue Fund:

Stormwater Drainage Fund:

Accounts receivable .....	71,081	
Unbilled accounts receivable.....	22,366	
Less allowance for doubtful accounts .....	<u>(18,042)</u>	
 Total special revenue fund accounts receivable, net.....		 <u>75,405</u>
 Total governmental activities accounts receivable, net.....		 <u>\$ 393,737</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
 September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA

**Business-Type Activities:**

Water and Sewer Fund:		
Billed accounts receivable .....	\$ 487,842	
Unbilled accounts receivable .....	141,600	
Less allowance for doubtful accounts .....	<u>(157,948)</u>	
Total Water and Sewer Fund accounts receivable, net.....		471,494
Solid Waste Fund:		
Billed accounts receivable .....	189,421	
Unbilled accounts receivable .....	44,661	
Less allowance for doubtful accounts .....	<u>(67,825)</u>	
Total Solid Waste Fund accounts receivable, net .....		<u>166,257</u>
Total business-type activities accounts receivable, net.....		<u>\$ 637,751</u>

**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, 2008, are as follows:

Fund	Due From	Due To
<b>Governmental Activities:</b>		
General:		
Community Development Block Grant.....	\$ 6,400	-
Capital Projects.....	310,627	-
Community Development Block Grant:		
General .....	-	6,400
Capital Projects:		
General .....	<u>-</u>	<u>310,627</u>
Totals .....	<u>\$ 317,027</u>	<u>317,027</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, 2008

CITY OF HOLLY HILL, FLORIDA

Interfund transfers between the City's governmental and business-type funds during the fiscal year ended September 30, 2008, are as follows:

Fund	Transfer To	Transfer From
<b>Governmental Activities:</b>		
General:		
Stormwater Drainage.....	\$ -	33,900
Water and Sewer .....	-	641,100
Solid Waste .....	-	429,500
Law Enforcement Trust.....	-	2,500
Community Redevelopment Trust:		
CRA Debt Service .....	470,500	-
Stormwater Drainage:		
General .....	33,900	-
Water and Sewer .....	-	42,000
Debt Service .....	353,600	-
Law Enforcement Trust:		
General .....	2,500	-
Local Law Enforcement Block Grant.....	8,834	-
Local Law Enforcement Block Grant:		
Law Enforcement Trust.....	-	8,834
Debt Service:		
Stormwater Drainage.....	-	353,600
CRA Debt Service:		
Community Redevelopment Trust .....	-	<u>470,500</u>
Totals - governmental activities .....	<u>\$ 869,334</u>	<u>1,981,934</u>
<b>Business-type Activities:</b>		
Water and Sewer:		
General .....	\$ 641,100	-
Stormwater Drainage.....	42,000	-
Solid Waste:		
General .....	<u>429,500</u>	-
Totals - business-type activities .....	<u>1,112,600</u>	-
Totals - all activities .....	<u>\$ 1,981,934</u>	<u>1,981,934</u>

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

**NOTE 8 - CAPITAL ASSETS**

A summary of the capital assets activity for the year ended September 30, 2008, is as follows:

	Balance 09/30/07	Addition	Deletions	Balance 09/30/08
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land.....	\$ 1,950,539	282,953	(44,391)	2,189,101
Construction work in progress.....	902,780	1,425,882	(640,047)	1,688,615
Total capital assets not being depreciated.....	<u>2,853,319</u>	<u>1,708,835</u>	<u>(684,438)</u>	<u>3,877,716</u>
Capital assets being depreciated:				
Buildings.....	4,612,787	154,199	-	4,766,986
Improvements other than buildings.....	2,424,815	210,800	(14,047)	2,621,568
Machinery and equipment.....	3,444,864	219,155	(226,406)	3,437,613
Infrastructure.....	13,790,988	756,227	(50,539)	14,496,676
Total capital assets being depreciated.....	<u>24,273,454</u>	<u>1,340,381</u>	<u>(290,992)</u>	<u>25,322,843</u>
Less accumulated depreciation for:				
Buildings.....	(1,054,636)	(92,637)	-	(1,147,273)
Improvements other than buildings.....	(984,867)	(93,566)	267	(1,078,166)
Machinery and equipment.....	(2,323,719)	(251,944)	220,405	(2,355,258)
Infrastructure.....	(4,844,808)	(439,633)	-	(5,284,441)
Total accumulated depreciation.....	<u>(9,208,030)</u>	<u>(877,780)</u>	<u>220,672</u>	<u>(9,865,138)</u>
Total capital assets being depreciated, net.....	<u>15,065,424</u>	<u>462,601</u>	<u>(70,320)</u>	<u>15,457,705</u>
Governmental activities capital assets, net.....	<u>\$17,918,743</u>	<u>2,171,436</u>	<u>(754,758)</u>	<u>19,335,421</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land.....	\$ 154,739	-	-	154,739
Construction work in progress.....	280,864	4,311,757	-	4,592,621
Total capital assets not being depreciated.....	<u>435,603</u>	<u>4,311,757</u>	<u>-</u>	<u>4,747,360</u>
Capital assets being depreciated:				
Buildings.....	10,913,943	-	-	10,913,943
Improvements other than buildings.....	15,650,835	472,957	(99,317)	16,024,475
Machinery and equipment.....	7,681,119	44,567	(85,335)	7,640,351
Total capital assets being depreciated.....	<u>34,245,897</u>	<u>517,524</u>	<u>(184,652)</u>	<u>34,578,769</u>
Less accumulated depreciation for:				
Buildings.....	(5,380,647)	(224,485)	-	(5,605,132)
Improvements other than buildings.....	(5,648,839)	(539,885)	48,315	(6,140,409)
Machinery and equipment.....	(4,565,730)	(270,124)	54,903	(4,780,951)
Total accumulated depreciation.....	<u>(15,595,216)</u>	<u>(1,034,494)</u>	<u>103,218</u>	<u>(16,526,492)</u>
Total capital assets being depreciated, net.....	<u>18,650,681</u>	<u>(516,970)</u>	<u>(81,434)</u>	<u>18,052,277</u>
Business-type capital assets, net.....	<u>\$19,086,284</u>	<u>3,794,787</u>	<u>(81,434)</u>	<u>22,799,637</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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

Governmental activities:	
General government .....	\$ 64,566
Public safety .....	136,482
Transportation .....	206,413
Economic environment.....	5,194
Physical environment .....	308,768
Culture/recreation .....	<u>156,357</u>
 Total depreciation expense - governmental activities .....	 <u>\$ 877,780</u>
Business-type activities:	
Water and Sewer Fund .....	\$ 1,031,463
Solid Waste Fund .....	<u>3,031</u>
 Total depreciation expense - business-type activities.....	 <u>\$ 1,034,494</u>

**NOTE 9 - LONG-TERM DEBT**

The City's long-term debt outstanding at September 30, 2008, is as follows:

<b>Governmental Activities:</b>	Balance Due	Current Maturities
<hr/>		
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.....	\$ 4,459,586	252,027
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; for constructing improvements in the City's designated redevelopment areas; \$235,234 due semi-annually through 2026; secured by tax increment revenues.....	<u>5,748,380</u>	<u>212,446</u>
 Total revenue notes payable .....	 \$ 10,207,966	 464,473
Compensated absences (current portion estimated) .....	<u>735,585</u>	<u>169,185</u>
Total governmental activities long-term debt.....	<u>\$10,943,551</u>	<u>633,658</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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

	Balances 09/30/07	Additions	Deletions	Balances 09/30/08
Notes payable:				
Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans .....	\$ 4,705,937	0	246,351	4,459,586
Sun Bank of Volusia County:				
4.84% Utility Service Tax Revenue Note, Series 1998A .....	108,624	0	108,624	0
4.53% CRA Redevelopment Revenue Note, Series 2005 .....	5,951,520	0	203,140	5,748,380
Compensated absences .....	<u>957,073</u>	<u>1,121,902</u>	<u>1,343,390</u>	<u>735,585</u>
Totals .....	<u>\$11,723,154</u>	<u>1,121,902</u>	<u>1,901,505</u>	<u>10,943,551</u>

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

Fiscal Year	FDEP SRF Loan	SunTrust 4.53%	Total
September 30, 2009 .....	\$ 353,616	470,469	824,085
September 30, 2010 .....	353,617	470,469	824,086
September 30, 2011 .....	353,616	470,468	824,084
September 30, 2012 .....	353,617	470,469	824,086
September 30, 2013 .....	353,616	470,468	824,084
September 30, 2014 to maturity .....	<u>3,536,164</u>	<u>6,116,092</u>	<u>9,652,256</u>
Total requirements .....	5,304,246	8,468,435	13,772,681
Less: interest .....	<u>(844,660)</u>	<u>(2,720,055)</u>	<u>(3,564,715)</u>
Net amount.....	<u>\$ 4,459,586</u>	<u>5,748,380</u>	<u>10,207,966</u>

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

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

<b>Business-Type Activities:</b>	Balance Due	Current Maturities
Water and Sewer System Refunding Revenue Bond, Series 2002B 2.00% to 5.00%, due serially to 2022 .....	\$ 10,870,000	585,000
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.....	1,340,000	60,000
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.....	1,704,895	108,255
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.....	621,222	13,024
State of Florida, Department of Environmental Protection-Clean Water State Revolving Fund Loan Agreement-2.17% construction loan dated October 17, 2007, in the amount of \$5,261,318 (amount drawn to date \$3,520,174), due semi-annually beginning September 2009 through September 2029 .....	<u>3,520,174</u>	<u>92,729</u>
Total bonds and notes payable.....	18,056,291	859,008
Plus: unamortized debt premium .....	2,524	-
Less: deferred amount on advance refunding .....	<u>(799,844)</u>	<u>-</u>
Net long-term bonded debt .....	17,258,971	859,008
Compensated absences (current portion estimated).....	<u>137,831</u>	<u>37,214</u>
Total business-type activities long-term debt .....	<u>\$17,396,802</u>	<u>896,222</u>

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

	Balances 09/30/07	Additions	Deletions	Balances 09/30/08
Water and Sewer System Refunding Revenue Bond, Series 2002 .....	\$ 11,435,000	0	565,000	10,870,000
Water and Sewer System Improvement Revenue Bond, Series 2005 .....	1,395,000	0	55,000	1,340,000
Notes Payable - Florida Department of Environmental Protection-Clean Water State Revolving Fund Loans.....	2,445,966	3,520,174	119,849	5,846,291
Compensated absences .....	<u>178,919</u>	<u>301,828</u>	<u>342,916</u>	<u>137,831</u>
Totals .....	<u>\$ 15,454,885</u>	<u>3,822,002</u>	<u>1,082,765</u>	<u>18,194,122</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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

Fiscal Year	Bonds	Notes	Total
September 30, 2009 .....	\$ 1,188,069	367,252	1,555,321
September 30, 2010 .....	1,184,717	533,293	1,718,010
September 30, 2011 .....	1,179,435	533,293	1,712,728
September 30, 2012 .....	1,187,925	533,293	1,721,218
September 30, 2013 .....	1,184,242	533,293	1,717,535
September 30, 2014 to maturity .....	<u>10,994,387</u>	<u>4,406,263</u>	<u>15,400,650</u>
Total requirements .....	16,918,775	6,906,687	23,825,462
Less: interest .....	<u>(4,708,775)</u>	<u>(1,060,396)</u>	<u>(5,769,171)</u>
Net amount.....	<u>\$ 12,210,000</u>	<u>5,846,291</u>	<u>18,056,291</u>

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

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

The notes payable to the State of Florida, Department of Environmental Protection, State Revolving Fund Loan are 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 – Florida Retirement System**

*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. This defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, 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 112, 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 Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, 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 made the required contributions to the plan for the fiscal years ended September 30, 2008, 2007, and 2006, which were \$290,848, \$288,828, and \$215,747, 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/SMSC participants/DROP participants in effect during each of the past three fiscal years ended September 30, 2008, 2007, and 2006 by retirement plan periods:

	<u>Regular</u> <u>Employees</u>	<u>SMSC</u> <u>Employees</u>	<u>DROP</u> <u>Employees</u>
Plan year beginning July 1, 2008.....	9.85%	13.12%	10.91%
Plan year beginning July 1, 2007.....	9.85%	13.12%	10.91%
Plan year beginning July 1, 2006.....	9.85%	-	10.91%
Plan year beginning July 1, 2005.....	7.83%	-	9.33%

**General Employees – Florida Municipal Pension Trust Fund**

The City contributes to the Florida Municipal Pension Trust Fund which provides for an IRC Section 401(a) defined contribution plan for employer contributions and an IRC Section 457(b) deferred compensation plan for employee contributions. Both plans are 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 these plans 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

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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such employees. On October 1, 2005, the City's employees participating in the IRC Section 401(a) plan were provided the option to return to the Florida Retirement System. At September 30, 2008, no employees remained in the 401(a) plan, and 28 employees continued to participate in the 457(b) plan,

The City, as the sponsoring employer, is responsible for amending pension provisions and contribution requirements for the plans. The plans were amended during the year to include recent income tax law provisions applicable to employee benefit plans that were applicable to the plans. 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 plans 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 401(a) Plan for the fiscal years ended September 30, 2008, 2007 and 2006 were \$5,365 (through forfeitures), \$8,569, and \$26,252, respectively. Employee contributions to the 457(b) Plan for the fiscal years ended September 30, 2008, 2007, and 2006 were \$70,386, \$74,584, and \$81,842, 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 Police Officers' Retirement Trust Fund (the "Police Plan") and Firefighters' Retirement System (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, 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 plans after employment. Benefits vest with eligible employees after ten years of participation. The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which created the funds, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Police Plan and the Fire Plan can be found in Chapters 185 and 175, Florida Statutes, respectively. These statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, State appropriations and income from investments from accumulated funds. The act also provides that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the funds by an appropriation from current funds or from any revenues which may be lawfully used for said purposes in an amount sufficient to

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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. Firefighters are eligible for early retirement after attaining age 48 with 10 years of service. 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, 2008, the date of the most recent actuarial valuation:		
Retirees and beneficiaries currently		
receiving benefits .....	8	6
Beneficiaries receiving death benefits .....	2	0
Beneficiaries receiving disability benefits ....	2	0
Vested terminated employees .....	1	2
DROP employees.....	3	
Active employees:		
Fully vested... ..	0	0
Nonvested .....	<u>25</u>	<u>13</u>
Total participants .....	<u>41</u>	<u>21</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 5% [Police Plan] and 5.0% [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. During the most recent year, the City's pension contributions did not include the City's share of Fire Insurance Premium Taxes (\$-0-) and

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

Casualty Insurance Premium Taxes (\$-0-) received annually from the State of Florida on behalf of each plan's covered employees. These funding sources were not received prior to year end and were temporarily suspended by the Florida Department of Management Services pending formal acceptance of the Plans' actuarial valuations and reports.

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 2008.

The City's annual pension cost and net pension obligations to the Police and Fire Plans (based on the most current valuations available-October 1, 2008) were as follows:

Municipal Police Officers' Retirement Trust Fund

<u>Fiscal Year Ending</u> .....	<u>Actuarial Determined Contribution</u>	<u>Percentage of ADC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2006.....	\$ 194,214	100%	\$ (29,409)
09/30/2007.....	273,503	102%	(30,047)
09/30/2008.....	396,940	100%	(30,427)

Municipal Firefighters' Pension Trust Fund

<u>Fiscal Year Ending</u> .....	<u>Actuarial Determined Contribution</u>	<u>Percentage of ADC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2006.....	\$ 99,546	100%	\$ (61,044)
09/30/2007.....	145,840	107%	(72,757)
09/30/2008.....	223,749	100%	(74,865)

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>09/30/06</u>	<u>09/30/07</u>	<u>09/30/08</u>
Actuarially determined contribution.	\$	273,503	396,940
Interest on NPO .....		(2,353)	(2,254)
Adjustment .....		<u>1,715</u>	<u>1,874</u>
Annual Pension Cost .....		272,865	396,560
Contributions made .....		<u>273,503</u>	<u>396,940</u>
Increase (decrease) in NPO .....		(638)	(380)
NPO - beginning of year .....		<u>(29,409)</u>	<u>(30,047)</u>
NPO - end of year.....	<u>(29,409)</u>	<u>(30,047)</u>	<u>(30,427)</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
 September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA

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

	<u>09/30/06</u>	<u>09/30/07</u>	<u>09/30/08</u>
Actuarially determined contribution.	\$ 99,546	145,840	223,749
Interest on NPO .....	(4,449)	(4,578)	(5,457)
Adjustment .....	<u>2,731</u>	<u>2,810</u>	<u>3,349</u>
Annual Pension Cost .....	97,828	144,072	221,641
Contributions made .....	<u>99,546</u>	<u>155,785</u>	<u>223,749</u>
Increase in NPO.....	(1,718)	(11,713)	(2,108)
NPO - beginning of year .....	<u>(59,326)</u>	<u>(61,044)</u>	<u>(72,757)</u>
NPO - end of year.....	<u>\$ (61,044)</u>	<u>(72,757)</u>	<u>(74,865)</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</u> <u>Plan</u>	<u>Fire</u> <u>Plan</u>
Contribution rates as of 09/30/08:		
City .....	25.7%	18.7%
Plan Members.....	5.0%	5.0%
Annual pension cost .....	\$396,940	\$223,749
Contributions made .....	\$396,940	\$223,749
Actuarial valuation dates .....	10/01/06	10/01/06
Actuarial cost method.....	Entry Age Normal	Entry Age Normal
Amortization method.....	Level % of Pay, Closed	Level % of Pay, Closed
Remaining amortization period .....	29 Years (as of 10/1/08)	30 Years
Asset valuation method .....	4yr. Smooth	4yr. Smooth
Actuarial assumptions:		
Investment rate of return .....	7.5%	7.5%
Projected salary increases *.....	6.0%	6.0%
*Includes inflation at.....	3.0%	3.0%
Post retirement cost of living adjustment.	0.0%	0.0%

*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, 2008  
CITY OF HOLLY HILL, FLORIDA

**NOTE 11 - FIDUCIARY FUND FINANCIAL STATEMENTS - POLICE AND FIRE PENSION TRUST FUNDS**

The City does not issue separate financial statements for the Police Officers' Retirement Trust Fund and Firefighters' Retirement System. The basic financial statements of the City include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets that presents a single column presented by fund type for both pension trust funds.

Presented below are the financial statements for each pension trust fund for the year ended September 30, 2008.

**Statements of Fiduciary Plan Net Assets**  
September 30, 2008

	<u>Police</u>	<u>Fire</u>
Assets:		
Cash and cash equivalents.....	\$ 455,009	188,385
Receivables:		
Employer contributions receivable.....	74,699	-
Employee contributions receivable.....	1,742	69,816
Prepaid withholding taxes.....	3,356	-
Interest and dividends receivable.....	<u>28,614</u>	<u>11,127</u>
Total accounts receivable.....	<u>108,411</u>	<u>80,943</u>
Investments, at fair value		
U.S. government and agencies.....	284,202	20,647
Mortgage backed securities.....	512,455	347,078
Domestic corporate debt obligations .....	1,131,943	288,595
Domestic corporate equity securities.....	2,649,144	1,641,121
International equity securities.....	<u>446,352</u>	<u>-</u>
Total investments.....	<u>5,024,096</u>	<u>2,297,441</u>
 Total assets.....	 5,587,516	 2,566,769
Liabilities:		
Accounts payable.....	<u>16,732</u>	<u>4,154</u>
Net assets:		
Held in trust for pension benefits.....	<u>\$ 5,570,784</u>	<u>2,562,615</u>

**NOTES TO THE FINANCIAL STATEMENTS - (Continued)**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Statement of Changes in Fiduciary Plan Net Assets**  
For the Fiscal Year Ended September 30, 2008

	<u>Police</u>	<u>Fire</u>
Additions:		
Contributions from:		
Employer.....	\$ 508,209	223,749
State.....	-	-
Plan members .....	<u>127,707</u>	<u>32,202</u>
Total contributions.....	<u>635,916</u>	<u>255,951</u>
Investment income:		
Net realized and unrealized appreciation (depreciation) in fair value of investments.....	(896,309)	(478,706)
Interest and dividend earnings.....	<u>167,670</u>	<u>118,664</u>
Investment income .....	(728,639)	(360,042)
Less: investment management fees .....	<u>(58,170)</u>	<u>(21,371)</u>
Net investment income .....	<u>(786,809)</u>	<u>(381,413)</u>
Total additions .....	<u>(150,893)</u>	<u>(125,462)</u>
Deductions:		
Benefit payments and refunds .....	341,101	170,822
Administrative expenses .....	<u>18,204</u>	<u>18,057</u>
Total deductions.....	<u>359,305</u>	<u>188,879</u>
Net increase.....	(510,198)	(314,341)
Net assets held in trust for pension benefits:		
Beginning of year .....	<u>6,080,982</u>	<u>2,876,956</u>
End of year.....	<u>\$ 5,570,784</u>	<u>2,562,615</u>

**NOTE 12 - DEFERRED EMPLOYEE BENEFITS**

The City offers its City Manager and Public Works Director 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 participants 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 contributed 18% of the City Manager's salary to the Plan through February 28, 2008, and 10% of the Public Works Director's salary commencing on January 31, 2008. For the year ended September 30, 2008, the City's covered payroll was \$190,177 and contributions were \$29,151.

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, 2008 totaled \$98,609.

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

September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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**NOTE 13 - 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 14 - COMMITMENTS**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of 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 also 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, 2008  
CITY OF HOLLY HILL, FLORIDA

	Original	Final	Actual Amounts	Variance
<b>Revenue:</b>				
<b>Taxes:</b>				
General property taxes:				
Current ad valorem taxes.....	\$ 2,051,000	2,047,000	2,047,164	164
Delinquent ad valorem taxes.....	10,000	20,100	22,274	2,174
Local option gas tax.....	171,300	166,300	160,084	(6,216)
2nd Local option gas tax.....	123,000	118,000	117,643	(357)
Fire insurance premium tax.....	53,700	47,800	-	(47,800)
Casualty insurance premium tax.....	74,700	75,400	-	(75,400)
Utility service taxes.....	985,000	985,000	1,002,526	17,526
Communications service taxes.....	561,800	521,800	511,157	(10,643)
Local business taxes.....	<u>182,000</u>	<u>110,000</u>	<u>173,599</u>	<u>63,599</u>
Total taxes.....	<u>4,212,500</u>	<u>4,091,400</u>	<u>4,034,447</u>	<u>(56,953)</u>
<b>Permits and fees:</b>				
Building permits .....	92,300	76,300	54,835	(21,465)
Franchise fees .....	873,300	887,400	895,959	8,559
Other permits and fees.....	<u>11,800</u>	<u>14,800</u>	<u>23,496</u>	<u>8,696</u>
Total permits and fees .....	<u>977,400</u>	<u>978,500</u>	<u>974,290</u>	<u>(4,210)</u>
<b>Intergovernmental Revenue:</b>				
Federal Grants:				
Department of Homeland Security.....	-	106,200	405	(105,795)
State Shared Revenues:				
State revenue sharing proceeds.....	410,600	340,600	380,480	39,880
Mobile home licenses .....	15,000	1,700	15,386	13,686
Alcoholic beverage licenses.....	7,700	6,900	7,382	482
Local government half-cent sales tax.....	650,200	604,200	573,309	(30,891)
Motor fuel tax rebate.....	300	200	173	(27)
Firefighters' supplemental revenue.....	600	600	600	-
Other Shared Revenues:				
County shared revenues .....	<u>18,300</u>	<u>14,700</u>	<u>22,402</u>	<u>7,702</u>
Total intergovernmental revenue.....	<u>1,102,700</u>	<u>1,075,100</u>	<u>1,000,137</u>	<u>(74,963)</u>
<b>Charges for services:</b>				
General government.....	12,300	7,700	8,111	411
Public safety.....	14,000	15,100	15,970	870
Transportation.....	59,500	77,100	62,422	(14,678)
Culture/recreation.....	<u>94,000</u>	<u>78,800</u>	<u>82,962</u>	<u>4,162</u>
Total charges for services .....	<u>179,800</u>	<u>178,700</u>	<u>169,465</u>	<u>(9,235)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - (Continued)**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 1**

	Original	Final	Actual Amounts	Variance
<b>Fines and forfeitures:</b>				
Court cases.....	\$ 32,200	21,000	30,588	9,588
Local ordinance violations .....	3,200	5,800	5,921	121
Total fines and forfeitures.....	35,400	26,800	36,509	9,709
<b>Miscellaneous Revenues:</b>				
Interest earnings .....	101,400	69,500	71,712	2,212
Sale of property and equipment .....	20,400	35,800	35,274	(526)
Contributions and donations.....	4,500	5,200	5,155	(45)
Miscellaneous revenues .....	35,000	122,100	115,292	(6,808)
Total miscellaneous revenue .....	161,300	232,600	227,433	(5,167)
Total revenue .....	6,669,100	6,583,100	6,442,281	(140,819)
<b>Expenditures:</b>				
<b>General Government:</b>				
<b>Legislative:</b>				
Personal services .....	30,000	37,900	31,657	6,243
Operating expenditures.....	56,000	48,900	48,558	342
	86,000	86,800	80,215	6,585
<b>Executive:</b>				
Personal services .....	389,400	452,300	454,262	(1,962)
Operating expenditures.....	38,600	42,900	43,466	(566)
	428,000	495,200	497,728	(2,528)
<b>Financial and Administrative:</b>				
Personal services.....	649,300	632,300	612,539	19,761
Operating expenditures.....	300,800	318,100	285,348	32,752
	950,100	950,400	897,887	52,513
<b>Other General Government:</b>				
Personal services.....	58,700	13,700	9,612	4,088
Operating expenditures .....	220,500	159,800	186,410	(26,610)
Capital outlay.....	65,000	66,900	68,061	(1,161)
Grants and aids.....	10,000	10,000	10,000	-
	354,200	250,400	274,083	(23,683)
Total general government .....	1,818,300	1,782,800	1,749,913	32,887

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - (Continued)**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 1**

	Original	Final	Actual Amounts	Variance
<b>Public Safety:</b>				
<b>Law Enforcement:</b>				
Personal services.....	\$ 1,963,100	1,969,800	1,933,520	36,280
Operating expenditures.....	335,600	321,700	310,898	10,802
Capital outlay.....	-	7,300	7,401	(101)
	<u>2,298,700</u>	<u>2,298,800</u>	<u>2,251,819</u>	<u>46,981</u>
<b>Fire Protection:</b>				
Personal services .....	1,195,600	1,129,400	1,119,197	10,203
Operating expenditures .....	131,700	112,800	107,708	5,092
Capital outlay .....	-	8,900	8,888	12
	<u>1,327,300</u>	<u>1,251,100</u>	<u>1,235,793</u>	<u>15,307</u>
<b>Building Inspection:</b>				
Personal services .....	350,100	303,800	288,521	15,279
Operating expenditures .....	112,200	82,700	77,868	4,832
Capital outlay.....	-	-	-	-
	<u>462,300</u>	<u>386,500</u>	<u>366,389</u>	<u>20,111</u>
<b>Total public safety.....</b>	<u>4,088,300</u>	<u>3,936,400</u>	<u>3,854,001</u>	<u>82,399</u>
<b>Transportation:</b>				
<b>Road and Street Facilities:</b>				
Personal services.....	437,500	422,100	418,527	3,573
Operating expenditures .....	277,300	257,900	253,909	3,991
Capital outlay .....	184,300	236,300	146,253	90,047
	<u>899,100</u>	<u>916,300</u>	<u>818,689</u>	<u>97,611</u>
<b>Total transportation.....</b>	<u>899,100</u>	<u>916,300</u>	<u>818,689</u>	<u>97,611</u>
<b>Culture/Recreation:</b>				
<b>Parks:</b>				
Personal services.....	306,700	295,900	290,525	5,375
Operating expenditures .....	156,600	144,800	133,113	11,687
Capital outlay .....	-	41,800	41,729	71
	<u>463,300</u>	<u>482,500</u>	<u>465,367</u>	<u>17,133</u>
<b>Recreation:</b>				
Personal services.....	269,200	262,500	255,733	6,767
Operating expenditures .....	123,700	109,200	104,834	4,366
Capital outlay .....	-	7,600	7,540	60
	<u>392,900</u>	<u>379,300</u>	<u>368,107</u>	<u>11,193</u>
<b>Total culture/recreation.....</b>	<u>856,200</u>	<u>861,800</u>	<u>833,474</u>	<u>28,326</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - (Continued)**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 1**

	Original	Final	Actual Amounts	Variance
<b>Debt Service:</b>				
<b>Principal retirement:</b>				
General government .....	\$ 108,700	108,700	108,624	76
<b>Interest and fiscal charges:</b>				
General government .....	3,000	2,500	2,472	28
Total debt service .....	111,700	111,200	111,096	104
Total expenditures.....	7,773,600	7,608,500	7,367,173	241,327
Excess of revenue over (under) expenditures.....	(1,104,500)	(1,025,400)	(924,892)	100,508
<b>Other Financing Sources (Uses):</b>				
Transfers in.....	1,104,500	1,143,400	1,107,000	(36,400)
Transfers (out).....	-	(118,000)	-	118,000
Appropriated fund balance.....	-	-	-	-
Total financing sources (uses).....	1,104,500	1,025,400	1,107,000	81,600
Net change in fund balance.....	-	-	182,108	182,108
Fund balance, beginning of year.....	1,441,608	1,441,608	1,441,608	-
Fund balance, end of year.....	\$ 1,441,608	1,441,608	1,623,716	182,108

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**COMMUNITY REDEVELOPMENT AGENCY**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 2**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenue:</b>				
Taxes:				
Current Ad Valorem Taxes (§163.387(1)(a), F.S.):				
City of Holly Hill (increment).....	\$ 467,300	466,400	466,350	(50)
Intergovernmental Revenue:				
Tax Increment Shared Revenues (§163.387(1)(a), F.S.):				
Volusia County.....	890,200	876,800	528,927	(347,873)
Halifax Hospital District.....	-	-	316,662	316,662
Port Authority District.....	-	-	8,550	8,550
Mosquito Control District.....	-	-	22,617	22,617
	<u>890,200</u>	<u>876,800</u>	<u>876,756</u>	<u>(44)</u>
Miscellaneous Revenue:				
Miscellaneous.....	1,000	4,900	2,867	(2,033)
Interest Earnings.....	<u>30,000</u>	<u>24,400</u>	<u>32,594</u>	<u>8,194</u>
	<u>31,000</u>	<u>29,300</u>	<u>35,461</u>	<u>6,161</u>
Total revenue.....	<u>1,388,500</u>	<u>1,372,500</u>	<u>1,378,567</u>	<u>6,067</u>
<b>Expenditures:</b>				
Economic Environment:				
Administrative and overhead (§163.387(6)(a), F.S.):				
Personal services.....	104,600	122,800	109,407	13,393
Operating expenditures.....	80,900	32,200	24,629	7,571
Capital outlay (equipment).....	4,500	4,500	5,892	(1,392)
Capital outlay (land) (§163.387(6)(c), F.S.).....	-	290,900	282,953	7,947
Public Safety:				
Law Enforcement ( §163.387(6)(h), F.S.):				
Personal services.....	330,100	322,500	319,136	3,364
Operating expenditures.....	15,400	27,300	28,518	(1,218)
Capital outlay.....	25,100	36,100	20,845	15,255
Code Enforcement ( §163.387(6)(a), F.S.):				
Personal services.....	39,200	40,500	39,748	752
Operating expenditures.....	3,200	3,600	1,622	1,978
Grants and Aid ( §163.387(6)(d), F.S.):				
Facade improvements.....	<u>867,000</u>	<u>573,600</u>	<u>4,963</u>	<u>568,637</u>
Total expenditures.....	<u>1,470,000</u>	<u>1,454,000</u>	<u>837,713</u>	<u>616,287</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**COMMUNITY REDEVELOPMENT AGENCY**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 2**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Excess of revenue over (under) expenditures.....	\$ (81,500)	(81,500)	540,854	622,354
Other Financing Sources (Uses):				
Transfer to Debt Service Fund				
(\$163.387(6)(e), F.S.): .....	(470,500)	(470,500)	(470,500)	-
Appropriated fund balance.....	552,000	552,000	-	(552,000)
Total other financing sources (uses).	81,500	81,500	(470,500)	(552,000)
Excess of revenue and other sources over (under) expenditures and other uses.....	-	-	70,354	70,354
Fund balances, beginning of year.....	778,934	778,934	778,934	-
Fund balances, end of year.....	\$ 778,934	778,934	849,288	70,354

**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**STORMWATER DRAINAGE FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 3**

	Original	Final	Actual Amounts	Variance
<b>Revenues:</b>				
Intergovernmental				
Local shared revenues:				
St. John's River Water				
Management District.....	\$ 95,000	95,000	-	(95,000)
<b>Charges for Services:</b>				
Physical Environment:				
Stormwater management fees .....	846,600	851,600	853,801	2,201
<b>Miscellaneous Revenue:</b>				
Sale of surplus equipment.....	-	5,600	168,270	162,670
Interest earnings.....	45,000	33,600	35,601	2,001
	45,000	39,200	203,871	164,671
Total revenue.....	986,600	985,800	1,057,672	71,872
<b>Expenditures:</b>				
Physical Environment:				
Personal services.....	231,000	221,900	217,000	4,900
Operating expenditures.....	184,900	170,200	101,213	68,987
Capital outlay .....	181,000	136,000	4,700	131,300
Total physical environment.....	596,900	528,100	322,913	205,187
Excess of revenue over (under)				
expenditures.....	389,700	457,700	734,759	277,059
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance.....	(44,200)	(112,100)	-	112,100
Transfers in.....	42,000	42,000	42,000	-
Transfers (out).....	(387,500)	(387,600)	(387,500)	100
Total other financing sources.....	(389,700)	(457,700)	(345,500)	112,200
Net change in fund balance.....	-	-	389,259	389,259
Fund balance, beginning of year .....	1,570,179	1,570,179	1,570,179	-
Fund balance, end of year.....	\$ 1,570,179	1,570,179	1,959,438	389,259

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF FUNDING PROGRESS**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 4**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded (Assets in Excess of) AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b - a)/c)
<u>Municipal Firefighters' Retirement System</u>						
10/01/2008	\$ 2,961,367	\$ 4,398,489	\$ 1,437,122	67.33%	\$ 628,094	228.81%
10/01/2007	\$ 2,811,291	\$ 4,449,389	\$ 1,638,098	63.18%	\$ 748,437	218.87%
10/01/2006	\$ 2,540,064	\$ 4,206,459	\$ 1,666,395	60.38%	\$ 765,112	217.80%
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	\$ 800,736	72.90%	\$ 590,000	135.72%
<u>Municipal Police Officers' Retirement Trust Fund</u>						
10/01/2008	\$ 6,275,725	\$ 10,041,424	\$ 3,765,699	62.50%	\$ 1,141,987	329.75%
10/01/2007	\$ 6,342,395	\$ 9,123,817	\$ 2,781,422	69.51%	\$ 1,118,612	248.65%
10/01/2006	\$ 5,831,687	\$ 7,680,476	\$ 1,848,789	75.93%	\$ 1,192,362	155.05%
10/01/2005	\$ 5,355,209	\$ 7,073,310	\$ 1,718,101	75.71%	\$ 1,075,136	159.80%
10/01/2004	\$ 5,164,093	\$ 6,201,477	\$ 1,037,384	83.27%	\$ 956,694	108.43%

Source: Foster & Foster, Inc., Actuaries  
Valuations dated 10/01/2008

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF CONTRIBUTIONS OF EMPLOYER AND OTHER**  
**CONTRIBUTING ENTITIES**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Schedule 5**

<u>Year Ended September 30,</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' Retirement System</u>					
2008	\$ 223,749	\$ 223,749	\$ - *	\$ 223,749	100.00%
2007	\$ 225,601	\$ 155,785	\$ 79,761 *	\$ 235,546	104.41%
2006	\$ 135,419	\$ 99,546	\$ 35,873 *	\$ 135,419	100.00%
2005	\$ 158,624	\$ 122,751	\$ 35,873 *	\$ 158,624	100.00%
2004	\$ 125,005	\$ 96,928	\$ 35,873 *	\$ 132,801	106.24%

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

<u>Municipal Police Officers' Retirement Trust Fund</u>					
2008	\$ 396,940	\$ 396,940	\$ -	\$ 396,940	100.00%
2007	\$ 348,202	\$ 273,503	\$ 74,699	\$ 348,202	100.00%
2006	\$ 268,913	\$ 197,266	\$ 74,699	\$ 271,965	101.13%
2005	\$ 154,263	\$ 79,564	\$ 74,699	\$ 154,263	100.00%
2004	\$ 197,098	\$ 151,516	\$ 71,625	\$ 223,141	113.21%

Source: Foster & Foster, Inc., Actuaries  
Valuations dated 10/01/2008

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

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## **NONMAJOR GOVERNMENTAL FUNDS**

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

**Impact Fees Trust Funds** - to account for the receipt and expenditure of law enforcement, fire protection, transportation, and recreation impact fees which are restricted for such 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, 2008  
CITY OF HOLLY HILL, FLORIDA

Nonmajor Special Revenue

	Impact Fees Trust	Law Enforcement Trust	Holly Hill Police Explorers	Recreation Activity PAL	Community Development Block Grant
<b>Assets:</b>					
Cash and cash equivalents.....	\$ 135,942	62,856	6,859	16,913	-
Due from other funds.....	-	-	-	-	-
Due from other governments.....	-	3,155	-	-	6,400
Prepaid expenses.....	-	-	-	2,335	-
<b>Total assets.....</b>	<b><u>\$ 135,942</u></b>	<b><u>66,011</u></b>	<b><u>6,859</u></b>	<b><u>19,248</u></b>	<b><u>6,400</u></b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable .....	\$ -	4,639	233	3,118	-
Due to other funds.....	-	-	-	-	6,400
Deferred revenue.....	-	3,155	-	-	6,400
<b>Total liabilities.....</b>	<b><u>-</u></b>	<b><u>7,794</u></b>	<b><u>233</u></b>	<b><u>3,118</u></b>	<b><u>12,800</u></b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Encumbrances .....	-	-	-	-	-
Prepaid expenses.....	-	-	-	2,335	-
Law enforcement .....	31,273	58,217	-	-	-
Fire protection .....	21,736	-	-	-	-
Transportation .....	40,791	-	-	-	-
Recreation .....	42,142	-	-	-	-
Debt service .....	-	-	-	-	-
Unreserved (deficit).....	-	-	6,626	13,795	(6,400)
<b>Total fund balances .....</b>	<b><u>135,942</u></b>	<b><u>58,217</u></b>	<b><u>6,626</u></b>	<b><u>16,130</u></b>	<b><u>(6,400)</u></b>
<b>Total liabilities and fund balances .....</b>	<b><u>\$ 135,942</u></b>	<b><u>66,011</u></b>	<b><u>6,859</u></b>	<b><u>19,248</u></b>	<b><u>6,400</u></b>

**Exhibit 1**

Funds		Nonmajor Debt Service Funds			Nonmajor Capital Projects Fund	Total
Local Law Enforcement Block Grant	Total Nonmajor Special Revenue Funds	Stormwater Debt Service Fund	CRA Debt Service Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	All Nonmajor Governmental Funds
8,834	231,404	80,655	228,750	309,405	-	540,809
-	-	-	-	-	-	-
11,552	21,107	-	-	-	440,000	461,107
-	2,335	-	-	-	-	2,335
<u>20,386</u>	<u>254,846</u>	<u>80,655</u>	<u>228,750</u>	<u>309,405</u>	<u>440,000</u>	<u>1,004,251</u>
20,196	28,186	-	-	-	-	28,186
-	6,400	-	-	-	310,627	317,027
11,552	21,107	-	-	-	-	21,107
<u>31,748</u>	<u>55,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,627</u>	<u>366,320</u>
-	-	-	-	-	2,174	2,174
-	2,335	-	-	-	-	2,335
-	89,490	-	-	-	-	89,490
-	21,736	-	-	-	-	21,736
-	40,791	-	-	-	-	40,791
-	42,142	-	-	-	-	42,142
-	-	80,655	228,750	309,405	-	309,405
<u>(11,362)</u>	<u>2,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,199</u>	<u>129,858</u>
<u>(11,362)</u>	<u>199,153</u>	<u>80,655</u>	<u>228,750</u>	<u>309,405</u>	<u>129,373</u>	<u>637,931</u>
<u>20,386</u>	<u>254,846</u>	<u>80,655</u>	<u>228,750</u>	<u>309,405</u>	<u>440,000</u>	<u>1,004,251</u>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	Nonmajor Special Revenue Funds				
	Impact Fees Trust	Law Enforcement Trust	Holly Hill Police Explorers	Recreation Activity PAL	Community Development Block Grant
<b>Revenue:</b>					
Charges for services.....	\$ -	-	-	1,899	-
Intergovernmental .....	-	-	-	-	-
Fines and forfeitures .....	-	25,058	-	-	-
Miscellaneous .....	<u>20,359</u>	<u>859</u>	<u>6,810</u>	<u>2,684</u>	<u>-</u>
Total revenue.....	<u>20,359</u>	<u>25,917</u>	<u>6,810</u>	<u>4,583</u>	<u>-</u>
<b>Expenditures:</b>					
Current:					
Public safety.....	-	15,531	-	-	-
Culture/recreation.....	-	-	-	3,143	-
Capital Outlay:					
Transportation.....	-	-	-	-	6,400
Culture/recreation.....	-	-	974	-	-
Debt Service:					
Principal retirements.....	-	-	-	-	-
Interest payments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures.....	<u>-</u>	<u>15,531</u>	<u>974</u>	<u>3,143</u>	<u>6,400</u>
Excess of revenue over (under) expenditures .....	20,359	10,386	5,836	1,440	(6,400)
<b>Other Financing Sources (Uses):</b>					
Transfers in.....	-	-	-	-	-
Transfers (out).....	<u>-</u>	<u>(11,334)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>-</u>	<u>(11,334)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances....	20,359	(948)	5,836	1,440	(6,400)
Fund balances, beginning of year.....	<u>115,583</u>	<u>59,165</u>	<u>790</u>	<u>14,690</u>	<u>-</u>
Fund balances, end of year.....	<u>\$ 135,942</u>	<u>58,217</u>	<u>6,626</u>	<u>16,130</u>	<u>(6,400)</u>

**Exhibit 2**

Local Law Enforcement Block Grant	Total Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds			Nonmajor Capital Projects Fund	Total
		Debt Service Fund	CRA Debt Service Fund	Total Nonmajor Debt Service Funds	Capital Projects Fund	All Nonmajor Governmental Funds
-	1,899	-	-	-	-	1,899
603	603	-	-	-	205,259	205,862
-	25,058	-	-	-	-	25,058
-	<u>30,712</u>	<u>2,194</u>	<u>4,956</u>	<u>7,150</u>	<u>27</u>	<u>37,889</u>
<u>603</u>	<u>58,272</u>	<u>2,194</u>	<u>4,956</u>	<u>7,150</u>	<u>205,286</u>	<u>270,708</u>
20,799	36,330	-	-	-	-	36,330
-	3,143	-	-	-	-	3,143
-	6,400	-	-	-	125,076	131,476
-	974	-	-	-	62,829	63,803
-	-	246,351	203,140	449,491	-	449,491
-	-	<u>107,266</u>	<u>267,280</u>	<u>374,546</u>	-	<u>374,546</u>
<u>20,799</u>	<u>46,847</u>	<u>353,617</u>	<u>470,420</u>	<u>824,037</u>	<u>187,905</u>	<u>1,058,789</u>
(20,196)	11,425	(351,423)	(465,464)	(816,887)	17,381	(788,081)
8,834	8,834	353,600	470,500	824,100	-	832,934
-	<u>(11,334)</u>	-	-	-	-	<u>(11,334)</u>
<u>8,834</u>	<u>(2,500)</u>	<u>353,600</u>	<u>470,500</u>	<u>824,100</u>	-	<u>821,600</u>
(11,362)	8,925	2,177	5,036	7,213	17,381	33,519
-	<u>190,228</u>	<u>78,478</u>	<u>223,714</u>	<u>302,192</u>	<u>111,992</u>	<u>604,412</u>
<u>(11,362)</u>	<u>199,153</u>	<u>80,655</u>	<u>228,750</u>	<u>309,405</u>	<u>129,373</u>	<u>637,931</u>

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR IMPACT FEES TRUST FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 3**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Law enforcement impact fees..... \$	-	2,700	2,955	255
Fire protection impact fees.....	-	2,400	2,724	324
Roads and streets impact fees.....	-	4,600	4,965	365
Recreation and parks impact fees.....	-	5,600	6,406	806
Interest earnings.....	-	<u>2,800</u>	<u>3,309</u>	<u>509</u>
Total revenue.....	-	18,100	20,359	2,259
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures.....	-	18,100	20,359	2,259
Other Financing Sources (Uses):				
Appropriated fund balance.....	-	<u>(18,100)</u>	-	<u>18,100</u>
Net change in fund balance.....	-	-	20,359	20,359
Fund balances, beginning of year .....	<u>115,583</u>	<u>115,583</u>	<u>115,583</u>	-
Fund balances, end of year.....	<u>\$ 115,583</u>	<u>115,583</u>	<u>135,942</u>	<u>20,359</u>

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR LAW ENFORCEMENT TRUST FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 4**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Intergovernmental:				
Federal grants:				
U.S. Department of Justice.....	\$ -	6,300	-	(6,300)
Fines and Forfeitures:				
Confiscated property.....	-	24,700	25,058	358
Miscellaneous:				
Interest earnings.....	-	900	859	(41)
Total revenue.....	-	31,900	25,917	(5,983)
<b>Expenditures:</b>				
Current:				
Public Safety:				
Operating expenditures.....	-	12,000	12,336	(336)
Capital outlay.....	-	-	3,195	(3,195)
Total expenditures .....	-	12,000	15,531	(3,531)
Excess of revenue over (under) expenditures .....	-	19,900	10,386	(9,514)
<b>Other Financing Sources (Uses):</b>				
Transfers (out).....	-	(19,900)	(11,334)	8,566
Net change in fund balance.....	-	-	(948)	(948)
Fund balances, beginning of year.....	59,165	59,165	59,165	-
Fund balances, end of year.....	\$ 59,165	59,165	58,217	(948)

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR HOLLY HILL POLICE EXPLORERS FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 5**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Contributions.....	\$ -	6,800	6,810	10
Total revenue.....	-	6,800	6,810	10
Expenditures:				
Current:				
Culture/recreation:				
Operating expenditures.....	-	1,000	974	26
Excess of revenue over (under) expenditures.....	-	5,800	5,836	36
Other Financing Sources (Uses):				
Appropriated fund balance.....	-	(5,800)	-	5,800
Net change in fund balance.....	-	-	5,836	5,836
Fund balances, beginning of year.....	790	790	790	-
Fund balances, end of year.....	\$ 790	790	6,626	5,836

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR RECREATION ACTIVITY (PAL) FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 6**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Charges for services:				
Special events.....	\$ -	1,900	1,899	(1)
Miscellaneous:				
Contributions.....	-	2,400	2,684	284
Total revenue .....	-	4,300	4,583	283
<b>Expenditures:</b>				
Current:				
Culture/recreation:				
Operating expenditures.....	-	7,100	3,143	3,957
Excess of revenue over (under) expenditures.....	-	(2,800)	1,440	4,240
Other Financing Sources (Uses):				
Appropriated fund balance.....	-	2,800	-	(2,800)
Net change in fund balance.....	-	-	1,440	1,440
Fund balances, beginning of year .....	14,690	14,690	14,690	-
Fund balances, end of year .....	<u>\$ 14,690</u>	<u>\$ 14,690</u>	<u>\$ 16,130</u>	<u>\$ 1,440</u>

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR COMMUNITY DEVELOPMENT BLOCK GRANT FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 7**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Intergovernmental Revenue:				
Federal Grants:				
Department of Housing and Urban				
Development.....	\$ 87,500	87,500	-	(87,500)
Total revenue.....	87,500	87,500	-	(87,500)
Expenditures:				
Current:				
Transportation:				
Capital outlay.....	87,500	87,500	6,400	81,100
Total expenditures.....	87,500	87,500	6,400	81,100
Excess of revenue over (under)				
expenditures.....	-	-	(6,400)	(6,400)
Fund balances, beginning of year.....	-	-	-	-
Fund balances, end of year.....	\$ -	-	(6,400)	(6,400)

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR LOCAL LAW ENFORCEMENT BLOCK GRANT FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 8**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Intergovernmental Revenue:				
Federal Grants:				
Department of Justice.....	\$ -	11,500	603	(10,897)
Total revenue.....	-	11,500	603	(10,897)
<b>Expenditures:</b>				
Current:				
Public Safety:				
Operating expenditures.....	-	-	603	(603)
Capital outlay.....	-	20,400	20,196	204
Total expenditures.....	-	20,400	20,799	(399)
Excess of revenue over (under) expenditures.....	-	(8,900)	(20,196)	(11,296)
<b>Other Financing Sources (Uses):</b>				
Transfers in.....	-	8,900	8,834	(66)
Net change in fund balance.....	-	-	(11,362)	(11,362)
Fund balances, beginning of year.....	-	-	-	-
Fund balances, end of year.....	\$ -	-	(11,362)	(11,362)

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR DEBT SERVICE FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 9**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Miscellaneous:				
Interest earnings.....	\$ -	-	2,194	2,194
<b>Expenditures:</b>				
Debt Service:				
Principal retirement.....	246,300	246,400	246,351	49
Interest payments.....	<u>107,300</u>	<u>107,300</u>	<u>107,266</u>	<u>34</u>
Total expenditures.....	<u>353,600</u>	<u>353,700</u>	<u>353,617</u>	<u>83</u>
Excess of revenue over (under) expenditures.....	(353,600)	(353,700)	(351,423)	2,277
<b>Other Financing Sources (Uses):</b>				
Transfers in.....	<u>353,600</u>	<u>353,700</u>	<u>353,600</u>	<u>(100)</u>
Net change in fund balance.....	-	-	2,177	2,177
Fund balances, beginning of year .....	<u>78,478</u>	<u>78,478</u>	<u>78,478</u>	<u>-</u>
Fund balances, end of year.....	<u>\$ 78,478</u>	<u>78,478</u>	<u>80,655</u>	<u>2,177</u>

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

**Exhibit 10**

For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenue:				
Miscellaneous:				
Interest earnings.....	\$ -	-	4,956	4,956
Expenditures:				
Debt Service:				
Principal retirement.....	203,200	203,200	203,140	60
Interest payments.....	267,300	267,300	267,280	20
Total expenditures.....	470,500	470,500	470,420	80
Excess of revenue over (under) expenditures.....	(470,500)	(470,500)	(465,464)	4,876
Other Financing Sources (Uses):				
Transfers in.....	470,500	470,500	470,500	-
Net change in fund balance.....	-	-	5,036	4,876
Fund balances, beginning of year .....	223,714	223,714	223,714	-
Fund balances, end of year.....	\$ 223,714	223,714	228,750	4,876

**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR COMMUNITY REDEVELOPMENT**  
**AGENCY CAPITAL PROJECTS FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 11**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Miscellaneous:				
Interest earnings.....	\$ -	99,400	152,827	53,427
Total revenue.....	-	99,400	152,827	53,427
<b>Expenditures:</b>				
Current:				
Economic Environment:				
Capital outlay.....	-	1,694,000	1,730,352	(36,352)
Total expenditures.....	-	1,694,000	1,730,352	(36,352)
Excess of revenue over (under) expenditures.....	-	(1,594,600)	(1,577,525)	17,075
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance.....	-	1,594,600	-	(1,594,600)
Net change in fund balance.....	-	-	(1,577,525)	(1,577,525)
Fund balances, beginning of year.....	6,199,944	6,199,944	6,199,944	-
Fund balances, end of year.....	\$ 6,199,944	6,199,944	4,622,419	(1,577,525)

**BUDGETARY COMPARISON SCHEDULE**  
**NONMAJOR CAPITAL PROJECTS FUND**  
For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 12**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
<b>Revenue:</b>				
Intergovernmental:				
State shared revenue:				
Florida Department of Environmental Protection.....	\$ 200,000	27,000	106,959	79,959
Florida Department of Transportation.	600,000	9,200	9,242	42
Local grant:				
Ponce Inlet Port Authority.....	195,000	30,400	73,009	42,609
Florida Inland Navigation District.....	45,000	3,400	16,049	12,649
	<u>1,040,000</u>	<u>70,000</u>	<u>205,259</u>	<u>135,259</u>
Miscellaneous:				
Interest earnings.....	-	-	27	27
Total revenue.....	<u>1,040,000</u>	<u>70,000</u>	<u>205,286</u>	<u>135,286</u>
<b>Expenditures:</b>				
Capital Outlay:				
Transportation.....	600,000	125,100	125,076	24
Culture/recreation.....	-	62,900	62,829	71
Total expenditures.....	<u>600,000</u>	<u>188,000</u>	<u>187,905</u>	<u>95</u>
Excess of revenue over (under) expenditures.....	<u>440,000</u>	<u>(118,000)</u>	<u>17,381</u>	<u>135,381</u>
Fund balances, beginning of year .....	<u>111,992</u>	<u>111,992</u>	<u>111,992</u>	<u>-</u>
Fund balances, end of year .....	<u>\$ 551,992</u>	<u>(6,008)</u>	<u>129,373</u>	<u>135,381</u>

**COMBINING STATEMENTS OF PLAN NET ASSETS**  
**FIDUCIARY FUNDS**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Exhibit 13**

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Retirement System	Total- Fiduciary Funds
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 455,009	188,385	643,394
<b>Receivables:</b>			
Employer contributions receivable.....	74,699	69,816	144,515
Employee contributions receivable.....	1,742	-	1,742
Prepaid withholding taxes.....	3,356	-	3,356
Interest and dividends receivable.....	28,614	11,127	39,741
Total accounts receivable.....	108,411	80,943	189,354
<b>Investments, at fair value</b>			
U.S. government obligations.....	284,202	20,647	304,849
Mortgage backed securities.....	512,455	347,078	859,533
Domestic corporate debt obligations .....	1,131,943	288,595	1,420,538
Domestic corporate equity securities.....	2,649,144	1,641,121	4,290,265
International equity securities.....	446,352	-	446,352
Total investments.....	5,024,096	2,297,441	7,321,537
Total assets.....	5,587,516	2,566,769	8,154,285
<b>Liabilities:</b>			
Accounts payable.....	16,732	4,154	20,886
<b>Net assets:</b>			
Held in trust for pension benefits.....	\$ 5,570,784	2,562,615	8,133,399

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

**Exhibit 14**

For the Fiscal Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	Police Officers' Retirement Trust Fund	Municipal Firefighters' Retirement System	Total- Fiduciary Funds
<b>Additions:</b>			
Contributions from:			
Employer.....	\$ 508,209	223,749	731,958
Plan members .....	<u>127,707</u>	<u>32,202</u>	<u>159,909</u>
Total contributions.....	<u>635,916</u>	<u>255,951</u>	<u>891,867</u>
<b>Investment income:</b>			
Net realized and unrealized appreciation (depreciation) in fair value of investments.....			
	(896,309)	(478,706)	(1,375,015)
Interest and dividend earnings.....	<u>167,670</u>	<u>118,664</u>	<u>286,334</u>
	(728,639)	(360,042)	(1,088,681)
Less: investment management fees .....	<u>58,170</u>	<u>21,371</u>	<u>79,541</u>
Total investment income .....	<u>(786,809)</u>	<u>(381,413)</u>	<u>(1,168,222)</u>
Total additions .....	<u>(150,893)</u>	<u>(125,462)</u>	<u>(276,355)</u>
<b>Deductions:</b>			
Benefit payments and refunds .....	341,101	170,822	511,923
Administrative expenses .....	<u>18,204</u>	<u>18,057</u>	<u>36,261</u>
Total deductions.....	<u>359,305</u>	<u>188,879</u>	<u>548,184</u>
Net increase.....	(510,198)	(314,341)	(824,539)
<b>Net assets held in trust for pension benefits:</b>			
Beginning of year .....	<u>6,080,982</u>	<u>2,876,956</u>	<u>8,957,938</u>
End of year.....	<u>\$ 5,570,784</u>	<u>2,562,615</u>	<u>8,133,399</u>

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## **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.*

<b><u>Contents</u></b>	<b><u>Pages</u></b>
<b>Financial Trends</b> ..... <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>	82-91
<b>Revenue Capacity</b> ..... <i>These tables contain information to help the reader assess the City’s most significant revenue sources, property taxes and water/ sewer utility charges.</i>	92-102
<b>Debt Capacity</b> ..... <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>	103-109
<b>Demographic and Economic Information</b> ..... <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>	110-112
<b>Operating Information</b> ..... <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>	113-118

**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.*

**NET ASSETS BY COMPONENT**  
**LAST SIX FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA  
*(Accrual basis of accounting)*

	Fiscal		
	2008	2007	2006
<b>Governmental Activities:</b>			
Invested in capital assets, net of related debt.....	\$ 9,127,455	\$ 7,105,203	12,446,679
Restricted.....	3,863,424	6,878,382	2,431,487
Unrestricted.....	<u>5,171,318</u>	<u>2,868,014</u>	<u>987,391</u>
Total governmental activities net assets.....	<u>18,162,197</u>	<u>16,851,599</u>	<u>15,865,557</u>
<b>Business-type Activities:</b>			
Invested in capital assets, net of related debt.....	5,540,666	4,882,961	4,065,661
Restricted.....	3,511,420	4,250,465	4,335,610
Unrestricted.....	<u>2,082,279</u>	<u>2,173,592</u>	<u>2,482,583</u>
Total business-type activities net assets.....	<u>11,134,365</u>	<u>11,307,018</u>	<u>10,883,854</u>
<b>Primary Government:</b>			
Invested in capital assets, net of related debt.....	14,668,121	11,988,164	16,512,340
Restricted.....	7,374,844	11,128,847	6,767,097
Unrestricted.....	<u>7,253,597</u>	<u>5,041,606</u>	<u>3,469,974</u>
Total primary government net assets.....	<u>\$ 29,296,562</u>	<u>\$ 28,158,617</u>	<u>26,749,411</u>

**Table 1**

Year		
2005	2004	2003
5,352,066	11,024,444	10,344,199
8,610,689	1,459,262	1,199,398
<u>1,174,051</u>	<u>1,777,068</u>	<u>2,447,696</u>
<u>15,136,806</u>	<u>14,260,774</u>	<u>13,991,293</u>
4,469,861	3,924,901	4,528,390
2,337,539	2,190,356	1,603,691
<u>2,899,688</u>	<u>3,129,737</u>	<u>2,842,229</u>
<u>9,707,088</u>	<u>9,244,994</u>	<u>8,974,310</u>
9,821,927	14,949,345	14,872,589
10,948,228	3,649,618	2,803,089
<u>4,073,739</u>	<u>4,906,805</u>	<u>5,289,925</u>
<u>24,843,894</u>	<u>23,505,768</u>	<u>22,965,603</u>

**CHANGES IN NET ASSETS**  
**LAST SIX FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA  
*(Accrual basis of accounting)*

	Fiscal		
	2008	2007	2006
Expenses:			
Governmental Activities:			
General government.....	\$ 1,703,645	\$ 1,731,529	1,635,694
Public safety.....	3,792,083	4,313,294	3,880,653
Transportation.....	881,449	909,548	505,509
Economic environment.....	774,449	728,308	810,374
Physical environment.....	606,409	592,897	329,480
Culture/recreation.....	950,267	1,189,787	2,086,894
Interest on long-term debt.....	<u>381,840</u>	<u>490,530</u>	<u>448,914</u>
Total governmental activities expenses.....	<u>9,090,142</u>	<u>9,955,893</u>	<u>9,697,518</u>
Business-Type Activities:			
Water and sewer.....	4,475,164	4,266,735	4,238,066
Solid Waste.....	<u>1,387,483</u>	<u>1,398,151</u>	<u>1,662,639</u>
Total business-type activities expenses.....	<u>5,862,647</u>	<u>5,664,886</u>	<u>5,900,705</u>
Total primary government expenses.....	<u>14,952,789</u>	<u>15,620,779</u>	<u>15,598,223</u>
Program Revenues:			
Governmental Activities:			
Charges for Services:			
General government.....	205,206	181,712	190,163
Public safety.....	132,372	210,715	410,324
Transportation.....	62,422	72,015	63,390
Physical environment.....	853,801	692,574	681,386
Culture/recreation.....	84,861	100,931	104,153
Operating grants and contributions.....	131,255	57,101	75,394
Capital grants and contributions.....	<u>106,711</u>	<u>941,912</u>	<u>426,699</u>
Total governmental activities program revenues.....	<u>1,576,628</u>	<u>2,256,960</u>	<u>1,951,509</u>
Business-Type Activities:			
Charges for Services:			
Water/Sewer.....	4,916,507	4,634,512	4,646,385
Solid Waste.....	1,682,888	1,782,639	1,751,147
Operating grants and contributions.....	-	-	-
Capital grants and contributions.....	<u>26,640</u>	<u>140,052</u>	<u>1,434,318</u>
Total business-type activities program revenues.....	<u>6,626,035</u>	<u>6,557,203</u>	<u>7,831,850</u>
Total primary government program revenues.....	<u>8,202,663</u>	<u>8,814,163</u>	<u>9,783,359</u>

**Table 2**

Year		
2005	2004	2003
1,537,736	1,426,332	1,266,274
3,556,976	3,270,335	3,024,156
537,269	886,017	809,073
420,463	334,097	114,213
226,225	457,326	311,713
1,193,577	909,289	922,641
<u>144,761</u>	<u>123,804</u>	<u>41,186</u>
<u>7,617,007</u>	<u>7,407,200</u>	<u>6,489,256</u>
3,842,182	3,569,542	3,420,186
<u>1,591,794</u>	<u>2,735,571</u>	<u>1,107,784</u>
<u>5,433,976</u>	<u>6,305,113</u>	<u>4,527,970</u>
<u>13,050,983</u>	<u>13,712,313</u>	<u>11,017,226</u>
296,630	288,931	6,342
72,895	61,738	334,807
54,779	55,473	45,858
674,491	531,867	423,109
81,047	77,385	79,083
47,815	58,959	186,284
<u>336,710</u>	<u>536,974</u>	<u>-</u>
<u>1,564,367</u>	<u>1,611,327</u>	<u>1,075,483</u>
4,307,737	4,084,770	4,046,227
1,685,183	1,532,145	1,543,664
465,949	1,479,833	-
<u>98,700</u>	<u>118,956</u>	<u>105,235</u>
<u>6,557,569</u>	<u>7,215,704</u>	<u>5,695,126</u>
<u>8,121,936</u>	<u>8,827,031</u>	<u>6,770,609</u>

**CHANGES IN NET ASSETS**  
**LAST SIX FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA  
*(Accrual basis of accounting)*

	Fiscal		
	2008	2007	2006
<b>Net (Expense)/Revenue:</b>			
Governmental activities.....	\$ (7,513,514)	\$ (7,698,933)	(7,746,009)
Business-type activities.....	<u>763,388</u>	<u>892,317</u>	<u>1,931,145</u>
Total primary government net expense.....	<u>(6,750,126)</u>	<u>(6,806,616)</u>	<u>(5,814,864)</u>
<b>General Revenues and Other Changes in Net Assets:</b>			
<b>Governmental Activities:</b>			
<b>Taxes:</b>			
Property taxes.....	2,542,372	2,485,206	2,039,394
Sales taxes.....	573,309	690,349	691,925
Local option gas tax.....	277,727	292,854	294,645
Casualty and fire insurance premium taxes	-	144,515	-
Franchise taxes.....	895,959	880,008	857,609
Public service taxes.....	1,513,683	1,413,844	1,411,069
Intergovernmental revenues.....	1,303,179	1,233,860	1,265,659
Investment earnings.....	304,079	615,882	509,477
Miscellaneous revenue.....	301,204	89,557	276,832
Transfers.....	<u>1,112,600</u>	<u>838,900</u>	<u>1,128,150</u>
Total governmental activities.....	<u>8,824,112</u>	<u>8,684,975</u>	<u>8,474,760</u>
<b>Business-Type Activities:</b>			
Investment earnings.....	156,163	366,179	373,771
Transfers.....	(1,112,600)	(838,900)	(1,128,150)
Other.....	<u>20,396</u>	<u>3,568</u>	<u>-</u>
Total business-type activities.....	<u>(936,041)</u>	<u>(469,153)</u>	<u>(754,379)</u>
Total primary government.....	<u>\$ 7,888,071</u>	<u>\$ 8,215,822</u>	<u>7,720,381</u>
<b>Changes in Net Assets:</b>			
Governmental activities.....	\$ 1,310,598	\$ 986,042	728,751
Business-type activities.....	<u>(172,653)</u>	<u>423,164</u>	<u>1,176,766</u>
Total primary government.....	<u>\$ 1,137,945</u>	<u>\$ 1,409,206</u>	<u>1,905,517</u>

**Table 2**

Year		
2005	2004	2003
(6,052,640)	(5,795,873)	(5,413,773)
<u>1,123,593</u>	<u>910,591</u>	<u>1,167,156</u>
<u>(4,929,047)</u>	<u>(4,885,282)</u>	<u>(4,246,617)</u>
1,584,639	1,459,486	1,489,626
700,190	652,814	667,245
296,820	278,442	266,516
-	-	-
737,798	640,107	633,659
1,366,428	1,319,858	1,258,522
510,067	397,475	42,058
205,338	59,977	74,046
732,392	547,195	678,070
<u>795,000</u>	<u>710,000</u>	<u>935,000</u>
<u>6,928,672</u>	<u>6,065,354</u>	<u>6,044,742</u>
137,691	77,712	83,148
(795,000)	(710,000)	(935,000)
<u>(4,190)</u>	<u>(7,619)</u>	<u>26,194</u>
<u>(661,499)</u>	<u>(639,907)</u>	<u>(825,658)</u>
<u>6,267,173</u>	<u>5,425,447</u>	<u>5,219,084</u>
876,032	269,481	630,969
<u>462,094</u>	<u>270,684</u>	<u>341,498</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, 2008  
CITY OF HOLLY HILL, FLORIDA  
*(Modified accrual basis of accounting)*

	2008	2007	2006	2005
<b>General Fund:</b>				
Reserved.....	\$ 129,855	\$ 15,242	\$ 44,055	\$ 131,412
Unreserved.....	<u>1,493,861</u>	<u>1,426,366</u>	<u>1,668,286</u>	<u>1,592,141</u>
Total general fund.....	<u>\$ 1,623,716</u>	<u>\$ 1,441,608</u>	<u>\$ 1,712,341</u>	<u>\$ 1,723,553</u>
<b>All Other Governmental Funds:</b>				
Reserved.....	\$ 1,614,404	\$ 417,604	\$ 604,332	\$ 730,107
Unreserved, reported in:				
Special revenue funds.....	2,784,191	2,364,593	1,869,937	1,788,136
Capital projects funds.....	3,361,076	6,030,789	6,214,531	6,119,488
Debt service funds.....	<u>309,405</u>	<u>302,192</u>	-	-
Total all other governmental funds....	<u>\$ 8,069,076</u>	<u>\$ 9,115,178</u>	<u>\$ 8,688,800</u>	<u>\$ 8,637,731</u>

**Table 3**

Fiscal Year					
2004	2003	2002	2001	2000	1999
\$ 333,999	\$ 123,686	\$ 287,751	\$ 265,166	\$ 146,658	\$ 91,815
<u>1,746,494</u>	<u>2,552,300</u>	<u>2,578,006</u>	<u>2,412,481</u>	<u>2,028,084</u>	<u>1,574,270</u>
<u>\$ 2,080,493</u>	<u>\$ 2,675,986</u>	<u>\$ 2,865,757</u>	<u>\$ 2,677,647</u>	<u>\$ 2,174,742</u>	<u>\$ 1,666,085</u>
\$ 545,791	\$ 633,844	\$ 1,370,806	\$ 1,197,282	\$ 1,144,466	\$ 987,768
1,177,858	912,893	200,550	121,093	4,770	(18,597)
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,723,649</u>	<u>\$ 1,546,737</u>	<u>\$ 1,571,356</u>	<u>\$ 1,318,375</u>	<u>\$ 1,149,236</u>	<u>\$ 969,171</u>

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA  
*(Modified accrual basis of accounting)*

	2008	2007	2006	2005
<b>Revenue:</b>				
Taxes .....	\$ 4,500,797	\$ 5,240,974	\$ 4,607,799	\$ 4,183,610
Licenses and permits .....	974,290	319,913	518,996	284,989
Intergovernmental .....	2,082,755	2,781,349	2,434,916	2,010,954
Charges for services .....	1,025,165	897,816	877,539	827,162
Fines and forfeitures .....	61,567	40,218	52,881	67,693
Miscellaneous .....	<u>657,481</u>	<u>847,312</u>	<u>811,069</u>	<u>319,427</u>
Total revenue .....	<u>9,302,055</u>	<u>10,127,582</u>	<u>9,303,200</u>	<u>7,693,835</u>
<b>Expenditures:</b>				
General government .....	1,749,913	1,655,728	1,571,903	1,466,599
Public safety .....	3,890,331	4,093,737	3,829,127	3,433,086
Transportation .....	818,689	680,808	890,927	634,688
Economic environment .....	554,760	718,528	452,553	419,060
Physical environment .....	322,913	264,820	303,840	259,554
Culture/recreation .....	836,617	1,023,783	1,788,802	1,099,406
Capital outlay.....	2,208,584	1,352,216	572,661	645,976
<b>Debt Service:</b>				
Principal retirement .....	558,115	583,185	561,761	402,756
Interest and fiscal charges .....	<u>377,018</u>	<u>399,741</u>	<u>419,920</u>	<u>144,761</u>
Total expenditures .....	<u>11,316,940</u>	<u>10,772,546</u>	<u>10,391,494</u>	<u>8,505,886</u>
Excess of revenue over (under) expenditures .....	<u>(2,014,885)</u>	<u>(644,964)</u>	<u>(1,088,294)</u>	<u>(812,051)</u>
<b>Other Financing Sources (Uses):</b>				
Debt Proceeds .....	-	-	-	6,574,194
Transfers in .....	1,981,934	1,543,084	2,084,469	1,479,489
Transfers out .....	(869,334)	(704,184)	(956,319)	(684,490)
Capital-related debt issued .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses) ....	<u>1,112,600</u>	<u>838,900</u>	<u>1,128,150</u>	<u>7,369,193</u>
Net change in fund balances.....	<u>\$ (902,285)</u>	<u>\$ 193,936</u>	<u>\$ 39,856</u>	<u>\$ 6,557,142</u>
Debt service as a percentage of noncapital expenditures.....	<u>10.3%</u>	<u>10.4%</u>	<u>10.0%</u>	<u>7.0%</u>

**Table 4**

Fiscal Year						
2004	2003	2002	2001	2000	1999	
\$ 3,837,119	\$ 3,732,196	\$ 3,669,565	\$ 3,677,333	\$ 3,312,574	\$ 3,233,237	
277,733	264,819	247,330	241,509	179,580	245,185	
2,011,268	1,374,521	1,243,035	1,219,994	1,712,567	1,570,406	
681,770	562,248	549,750	516,804	504,637	474,983	
55,891	55,487	86,939	115,398	86,718	107,245	
<u>131,818</u>	<u>191,315</u>	<u>310,472</u>	<u>340,929</u>	<u>270,214</u>	<u>245,444</u>	
<u>6,995,599</u>	<u>6,180,586</u>	<u>6,107,091</u>	<u>6,111,967</u>	<u>6,066,290</u>	<u>5,876,500</u>	
1,428,653	1,225,562	1,644,990	1,327,157	1,026,223	1,166,662	
3,325,049	3,018,765	2,691,816	2,748,113	2,464,014	2,333,607	
1,079,104	1,100,742	847,439	690,707	750,579	537,572	
327,646	193,493	130,539	82,715	82,565	-	
3,144,603	2,394,921	936,195	610,272	307,016	93,778	
853,709	875,904	772,047	847,733	701,624	585,187	
148,142	-	344,297	-	561,102	2,380,050	
463,599	175,054	216,973	204,596	169,034	161,610	
<u>123,854</u>	<u>41,186</u>	<u>51,921</u>	<u>58,997</u>	<u>60,849</u>	<u>65,719</u>	
<u>10,894,359</u>	<u>9,025,627</u>	<u>7,636,217</u>	<u>6,570,290</u>	<u>6,123,006</u>	<u>7,324,185</u>	
<u>(3,898,760)</u>	<u>(2,845,041)</u>	<u>(1,529,126)</u>	<u>(458,323)</u>	<u>(56,716)</u>	<u>(1,447,685)</u>	
-	-	-	-	-	-	
1,451,958	1,193,004	883,147	692,191	1,086,517	1,658,117	
(741,958)	(258,005)	(183,147)	(2,191)	(331,217)	(367,817)	
<u>2,770,179</u>	<u>1,695,651</u>	<u>652,945</u>	<u>458,766</u>	<u>-</u>	<u>-</u>	
<u>3,480,179</u>	<u>2,630,650</u>	<u>1,352,945</u>	<u>1,148,766</u>	<u>755,300</u>	<u>1,290,300</u>	
<u>\$ (418,581)</u>	<u>\$ (214,391)</u>	<u>\$ (176,181)</u>	<u>\$ 690,443</u>	<u>\$ 698,584</u>	<u>\$ (157,385)</u>	
<u>5.5%</u>	<u>2.4%</u>	<u>3.7%</u>	<u>4.0%</u>	<u>4.1%</u>	<u>4.6%</u>	

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 Year Ending September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA**

Fiscal Year Ended September 30,	Tax Year Ended December 31,	Residential Property	Commercial Property	Industrial Property	Agricultural Property <sup>2</sup>	Institutional Property
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
2007	2006	558,731,053	126,193,025	62,399,173	351,206	57,392,092
2008	2007	594,245,403	153,440,271	69,065,375	408,784	51,647,387

Source: Volusia County, Florida, Property Appraiser.

Note: <sup>1</sup>Property 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.

<sup>2</sup> 649 6th St. rezoned in 2003

Complete pre-2000 valuation data was not available.

**Table 5**

Government Property	Vacant Land and Other	Tangible Personal Property	Total Just Value	Less: Tax-Exempt Property	Total Taxable Assessed Value <sup>1</sup>	Total Direct Tax Rate <sup>1</sup>
\$ 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
36,316,170	46,388,301	60,113,251	947,884,271	311,619,341	636,264,930	20.41090
32,988,027	49,264,014	67,157,881	1,018,217,142	303,984,163	714,232,979	19.04847

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
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
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
2007	2006	4.08000	4.73330	0.40000	7.68500	0.46200
2008	2007	3.68177	4.33262	0.37072	7.46700	0.41580

Source: County of Volusia Financial and Administrative Services

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

<sup>1</sup>All property valuations for the specified fiscal year ends are obtained from the previous year's tax roll (i.e. all fiscal 2008 data was obtained from the 2007 calendar year tax roll).

<sup>2</sup>Includes voted debt service millage rates, as applicable.

**Table 6**

Florida Inland Navigation District	Hospital District	Ponce DeLeon Inlet and Port Authority	East Volusia Mosquito Control District	Total- All Taxing Districts
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
0.03850	2.75000	0.07190	0.19020	20.41090
0.03450	2.50000	0.06750	0.17856	19.04847

**PRINCIPAL PROPERTY TAXPAYERS**  
**CURRENT AND NINE YEARS AGO**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

Taxpayer	September 30, 2008		
	Assessed Taxable Value (\$ in Thousands)	Rank	Percent to Total Assessed Taxable Value
MGH Condo Associates, Inc.....	\$ 150,137	1	14.75%
Holly Hill RHF Housing, Inc.....	15,492	2	1.52%
Sun Communities, (Holly Forest Mobile Home Park).....	10,207	3	1.00%
Holly Hill Holdings LTD	9,931	4	0.98%
Highlander Corp.....	8,334	5	0.82%
Florida Power & Light.....	8,312	6	0.82%
Charleston Place Ltd., Partnership.....	7,962	7	0.78%
Riviera Senior Living	7,859	8	0.77%
Holly Station, Inc.....	6,686	9	0.66%
Holly Hill (E&A) LLC.....	6,189	10	0.61%
Bellsouth Telecommunications.....	-	-	
Metra Electronics Inc.....	-	-	
Winn Dixie.....	-	-	
Holly Point Apartments.....	-	-	
Polyvers, Ltd.....	-	-	
Publix Super Markets, Inc. ....	-	-	
United Rentals.....	-	-	
Totals.....	<u>\$ 231,109</u>		22.70%

Source: Volusia County, Florida, Property Appraiser.

**Table 7**

September 30, 1999		
Assessed Taxable Value (\$ in Thousands)	Rank	Percent to Total Assessed Taxable Value
\$ -		
6,968	1	1.75%
4,269	5	1.07%
-		
-		
5,816	2	1.46%
-		
-		
-		
-		
4,938	3	1.24%
4,287	4	1.07%
3,267	6	0.82%
2,724	7	0.68%
2,552	8	0.64%
2,209	9	0.55%
<u>1,954</u>	10	0.49%
<u>\$ 38,984</u>		9.77%

**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 8**

*(\$ 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
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%
2007	2006	2,133	2,080	97.5%	16	2,096	98.27%
2008	2007	2,603	2,514	96.6%	28	2,542	97.66%

\* 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 2008 collections are from the 2007 tax levy).

**WATER PRODUCED AND CONSUMED/WASTEWATER TREATED  
LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 9**

Fiscal Year Ended September	Gallons of Water Production	Gallons of Water Consumed	Gallons of Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated
1999	478,443,000	399,408,000	79,035,000	16.52%	497,398,000
2000	470,156,000	410,869,000	59,287,000	12.61%	645,590,000
2001 (1)	368,335,000	368,335,000	n/a	n/a	427,710,000
2002	455,494,000	433,689,000	21,805,000	4.79%	510,050,000
2003	439,141,000	401,743,000	37,398,000	8.52%	805,684,000
2004	440,373,000	401,719,000	38,654,000	8.78%	840,960,000
2005	428,451,000	408,074,000	20,377,000	4.76%	773,960,000
2006	460,083,000	417,238,000	42,845,000	9.31%	675,550,000
2007	442,506,000	422,452,000	20,054,000	4.53%	623,450,000
2008	450,407,000	425,985,000	24,422,000	5.42%	433,993,400

Source: The City of Holly Hill Finance Department

Note (1): In 2001, the Utility Department experienced problems with the finished water meters, thus the actual total finished water production was underreported.

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**WATER AND SEWER UTILITY RATES**  
**LAST TEN FISCAL YEARS**  
 Year Ending September 30, 2008  
 CITY OF HOLLY HILL, FLORIDA

**Table 10**

Fiscal Year Ended September		<u>Monthly Water Service Fees</u>			<u>Monthly Sewer Service Fees</u>	
		0 to 2,999 Gallons	3000 to 14,999 Gallons	Over 15,000 Gallons	0 to 2,999 Gallons	Over 3,000 Gallons
1999	\$	8.12	3.82	4.58	9.34	4.38
2000		8.40	3.95	4.74	9.66	4.54
2001		8.67	4.08	4.89	9.97	4.69
2002		8.91	4.19	5.02	10.25	4.82
2003		9.04	4.25	5.10	10.40	4.89
2004		9.22	4.34	5.20	10.60	4.99
2005		9.50	4.47	5.35	10.93	5.14
2006		9.93	4.67	5.59	11.42	5.37
2007		10.33	4.86	5.83	11.88	5.59
2008		11.43	5.38	6.46	13.15	6.19

Source: The City of Holly Hill Finance Department

**TEN LARGEST WATER AND SEWER CUSTOMERS  
CURRENT AND NINE YEARS AGO**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

Customer Account Name	September 30, 2008		
	Annual Water/ Sewer Sales	Rank	Percent to Total Combined Water/Sewer Sales
Angelica Health Services, Inc.....	\$ 426,438	1	9.73%
Hollypoint Apartments Limited.....	71,284	2	1.63%
Blue Tide Apartments.....	45,426	3	1.04%
Mapleleaf Gardens Condo Association.....	36,926	4	0.84%
Bishops Glenn.....	35,540	5	0.81%
Tar Eagle, LLC.....	26,413	6	0.60%
Riviera Senior Living, Inc.....	21,282	7	0.49%
Florida Health Care Inc.....	18,746	8	0.43%
Sun Communities Operating LMT.....	14,759	9	0.34%
Holly Station, Inc.....	10,886	10	0.25%
Cottage Row Plaza Condominiums.....			
News Journal Corporation.....			
Volusia County School Board.....			
Denny's Inc.....			
Holly Square Association.....			
Totals.....	<u>707,700</u>		

Source: The City of Holly Hill Finance Department

**Table 11**

September 30, 1999			
Annual Water/ Sewer Sales	Rank	Percent to Total Combined Water/Sewer Sales	
\$ 251,806	1	7.63%	
44,448	6	1.35%	
43,868	7	1.33%	
58,786	3	1.78%	
41,482	8	1.26%	
82,386	2	2.50%	
52,349	4	1.59%	
47,682	5	1.45%	
38,149	9	1.16%	
<u>33,253</u>	10	1.01%	
<u><u>694,209</u></u>			

**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
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
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
2007	5,951,520	4,705,937	108,624	10,766,081	11,435,000	2,445,966
2008	5,748,380	4,459,586	-	10,207,966	10,810,000	2,326,117

Source: City of Holly Hill Finance Department  
Per capita income - Florida Research and Economic Database (not revised since 2005)  
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.

**Table 12**

Activities			Total Primary Government	Percent of Personal Income	Per Capita
Term Loans Payable	Total				
\$ -	\$ 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	7.39%	\$ 2,095
1,450,000	15,652,678		27,001,944	7.47%	\$ 2,116
1,395,000	15,275,966		26,042,047	7.11%	\$ 2,016
1,340,000	14,476,117		24,684,083	6.25%	\$ 1,899

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**RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 13**

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

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 14**

Governmental Unit	Principal Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes:			
County of Volusia, Florida			
General Obligation Bonds.....	\$ 34,230,000	2.2498%	770,103
Other Debt:			
District School Board of Volusia County, Florida:			
State school bonds.....	15,685,000	2.2498%	352,880
Sales tax revenue bonds.....	198,780,000	2.2498%	4,472,132
Certificates of Participation.....	381,045,000	2.2498%	8,572,712
County of Volusia, Florida:			
Revenue bonds.....	262,280,000	2.2498%	5,900,749
Notes payable.....	32,682,506	2.2498%	<u>735,288</u>
Total overlapping debt.....			20,803,864
City direct debt.....			<u>10,207,966</u>
Total direct and overlapping debt.....			<u>\$ 31,011,830</u>

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

**LEGAL DEBT MARGIN INFORMATION**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 15**

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<p>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</p>
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**PLEDGED REVENUE COVERAGE**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30,  
CITY OF HOLLY HILL, FLORIDA  
(\$000's)

	2008	2007	2006	2005
<b>CRA Redevelopment Revenue Note, Series 2005:</b>				
(Defined) revenues.....	\$ 1,343	\$ 1,179	938	
Less: operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Net revenue available for debt service.....	1,343	1,179	938	
<b>Debt Service payments:</b>				
Principal.....	203	194	185	
Interest.....	<u>267</u>	<u>276</u>	<u>284</u>	
Total debt service payments.....	<u>\$ 470</u>	<u>\$ 470</u>	<u>469</u>	
Coverage ratio (times).....	<u>2.86</u>	<u>2.51</u>	<u>2.00</u>	
<b>Utility Service Tax Revenue Note, Series 1998:</b>				
(Defined) revenues.....	\$ 1,003	\$ 829	825	790
Less: operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net revenue available for debt service.....	1,003	829	825	790
<b>Debt Service payments:</b>				
Principal.....	109	148	141	134
Interest.....	<u>2</u>	<u>11</u>	<u>16</u>	<u>23</u>
Total debt service payments.....	<u>\$ 111</u>	<u>\$ 159</u>	<u>157</u>	<u>157</u>
Coverage ratio (times).....	<u>9.04</u>	<u>5.21</u>	<u>5.25</u>	<u>5.03</u>
<b>Water and Sewer System Refunding Revenue Bonds, Series 2002:</b>				
(Defined) revenues.....	\$ 5,072	\$ 4,995	5,016	4,537
Less: operating expenses	<u>2,671</u>	<u>2,578</u>	<u>2,476</u>	<u>2,148</u>
Net revenue available for debt service.....	2,401	2,417	2,540	2,389
<b>Debt Service payments:</b>				
Principal.....	565	550	530	515
Interest.....	<u>512</u>	<u>528</u>	<u>546</u>	<u>557</u>
Total debt service payments.....	<u>\$ 1,077</u>	<u>\$ 1,078</u>	<u>1,076</u>	<u>1,072</u>
Coverage ratio (times).....	<u>2.23</u>	<u>2.24</u>	<u>2.36</u>	<u>2.23</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.

**Table 16**

Fiscal Year					
2004	2003	2002	2001	2000	1999
744	708	730	1,094	1,032	939
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
744	708	730	1,094	1,032	939
128	122	116	110	105	101
<u>29</u>	<u>35</u>	<u>41</u>	<u>47</u>	<u>52</u>	<u>57</u>
<u>157</u>	<u>157</u>	<u>157</u>	<u>157</u>	<u>157</u>	<u>158</u>
<u>4.74</u>	<u>4.51</u>	<u>4.65</u>	<u>6.97</u>	<u>6.57</u>	<u>5.94</u>
4,263	4,245	4,492	4,130	4,039	3,712
<u>1,874</u>	<u>1,778</u>	<u>1,677</u>	<u>1,506</u>	<u>1,448</u>	<u>1,513</u>
2,389	2,467	2,815	2,624	2,591	2,199
505	-	330	310	295	280
<u>568</u>	<u>578</u>	<u>551</u>	<u>812</u>	<u>827</u>	<u>841</u>
<u>1,073</u>	<u>578</u>	<u>881</u>	<u>1,122</u>	<u>1,122</u>	<u>1,121</u>
<u>2.23</u>	<u>4.27</u>	<u>3.20</u>	<u>2.34</u>	<u>2.31</u>	<u>1.96</u>

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**DEMOGRAPHIC AND ECONOMIC STATISTICS,  
LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

**Table 17**

Fiscal Year Ended September 30,	Population <sup>1</sup>	Volusia County Personal Income <sup>2</sup>	Per Capita Personal Income <sup>3</sup>	Median Household Income <sup>3</sup>	Median HUD Income <sup>3</sup>	County Unemployment Rate <sup>3</sup>
1999	11,383	\$ 9,638,706,000	\$ 21,988	\$ 24,818	\$ 41,767	3.20%
2000	12,119	10,380,740,000	23,327	35,278	n/a	3.50%
2001	12,180	10,949,705,000	24,270	34,740	n/a	4.00%
2002	12,503	11,356,533,000	24,783	35,010	n/a	5.20%
2003	12,504	11,812,530,000	25,359	36,100	46,600	5.10%
2004	12,612	12,963,749,000	27,206	37,247	n/a	4.60%
2005	12,620	13,730,032,000	28,268	38,457	n/a	3.40%
2006	12,759	14,695,256,000	29,686	40,857	50,300	3.10%
2007	12,916	15,179,102,000	30,374	42,268	n/a	5.00%
2008	13,000	n/a	n/a	n/a	52,300	10.30%

Source:

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

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

<sup>3</sup> Florida Research and Economic Database. Amounts indicated are for Volusia County, Florida (2007 last year available).

**PRINCIPAL EMPLOYERS**  
**CURRENT AND NINE YEARS AGO**  
September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

Employer	September 30, 2008		
	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.

**Table 18**

September 30, 1999

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, 2008  
CITY OF HOLLY HILL

	Full-Time			
	2008	2007	2006	2005
General Government:				
City Manager.....	4.5	5.0	5.0	6.0
Finance/Administration.....	9.0	9.0	9.0	9.0
Human Relations.....	1.0	1.0	1.0	1.0
Protective Inspection	6.0	6.0	6.0	5.0
Public Safety:				
Police:				
Officers.....	32.0	36.0	36.0	34.0
Civilians.....	-	-	-	-
Fire:				
Firefighters and officers.....	14.0	16.5	16.5	16.5
Civilians.....	-	-	-	-
Physical Environment:				
Transportation.....	7.0	8.0	8.0	8.0
Buildings & Grounds.....	6.0	11.0	11.0	11.0
Culture/Recreation:				
Recreation.....	7.5	7.5	7.5	7.5
Economic Environment:				
Community Redevelopment.....	1.0	1.0	1.0	1.0
Public Works:				
Administration.....	4.0	5.0	5.0	5.0
Stormwater.....	4.0	4.0	4.0	4.0
Solid Waste.....	-	-	-	-
Public Utilities:				
Water.....	11.0	12.5	12.5	12.0
Sewer.....	<u>11.0</u>	<u>11.0</u>	<u>10.0</u>	<u>10.0</u>
Total.....	<u>118.0</u>	<u>133.5</u>	<u>132.5</u>	<u>130.0</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

**Table 19**

## Equivalent Employees at September 30,

2004	2003	2002	2001	2000	1999
5.0	5.0	5.0	5.0	5.5	5.0
9.0	9.0	9.0	9.0	8.0	8.0
1.0	1.0	1.0	1.0	1.0	1.0
5.0	5.0	5.0	4.5	4.5	4.0
35.0	32.0	34.0	34.0	34.0	34.0
-	-	-	-	-	-
16.5	13.5	13.5	11.5	11.0	11.0
-	-	-	-	-	-
8.0	8.0	8.0	8.0	8.0	8.0
9.0	10.0	10.0	9.0	8.0	7.0
7.5	7.5	7.5	7.5	7.0	6.0
0.5	0.5	-	-	-	-
4.0	4.0	4.0	4.0	5.0	5.0
4.0	4.0	4.0	4.0	3.0	2.0
-	1.0	1.0	1.0	1.0	1.0
11.0	11.0	11.0	11.0	10.0	9.0
<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>9.0</u>	<u>9.0</u>	<u>9.0</u>
<u>125.5</u>	<u>121.5</u>	<u>123.0</u>	<u>118.5</u>	<u>115.0</u>	<u>110.0</u>

**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	Fiscal			
	2008	2007	2006	2005
Police:				
Physical arrests.....	1,520	1,444	1,619	1,414
Parking violations.....	-	-	38	14
Traffic violations.....	2,466	2,095	2,355	2,207
Fire:				
Emergency responses.....	2,753	2,296	2,704	2,970
Inspections.....	603	637	610	764
Solid Waste (see below):				
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
Water				
New connections.....	51	51	45	19
Water main breaks.....	11	7	7	6
Average daily consumption (thousands of gallons)...	1,400,000	1,212,345	1,237,536	1,204,830
Peak daily consumption (thousands of gallons).....	1,670,000	1,558,000	1,556,000	1,402,000
Sewer				
Average daily treatment (thousands of gallons).....	1,530,000	1,707,219	1,718,905	2,215,096

Solid Waste and recycling is collected by an outside agency.

**Table 20**

Year					
2004	2003	2002	2001	2000	1999
1,144	943	1,058	1,202	1,113	1,061
-	5	-	-	64	-
1,807	1,465	442	2,105	2,516	2,890
2,660	2,301	2,172	2,098	1,985	1,884
624	622	706	1,349	459	512
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	2	1	1	-	-
49	50	35	36	43	24
6	5	9	6	5	8
1,206,354	1,080,352	1,244,230	1,164,819	1,180,805	1,320,035
1,506,000	1,837,000	1,523,000	1,489,000	1,489,000	1,547,000
2,037,877	2,244,658	1,899,529	1,816,274	1,516,219	1,648,131

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

	Fiscal			
	2008	2007	2006	2005
Police:				
Stations.....	2	1	1	1
Patrol units*.....	4	4	4	4
Fire stations.....	1	1	1	1
Public Works-Transportation				
Streets (miles).....	63	62	62	62
Streetlights.....	963	963	963	963
Parks and recreation				
Acreage.....	84	84	84	84
Dog Park.....	1	1	1	1
Playgrounds.....	4	4	4	4
Tennis Courts.....	2	2	2	2
Shuffleboard courts.....	-	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).....	73.4	73.4	69.5	68.9
Fire hydrants.....	304.0	304.0	298.0	298.0
Storage capacity (millions of gallons).....	2.3	2.3	2.3	2.3
Sewer				
Sanitary sewers (miles).....	75.5	75.5	75.5	75.5
Storm sewers (miles).....	42.0	42.0	42.0	42.0
Treatment capacity (millions of gallons).....	2.4	2.4	2.4	2.4

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

**Table 21**

Year					
2004	2003	2002	2001	2000	1999
1	1	1	1	1	1
4	4	4	4	4	4
1	1	1	1	1	1
62	62	60	60	58	57
941	940	938	937	929	921
84	84	84	81	51	51
1	1	1	-	-	-
4	4	4	4	3	3
2	2	1	1	1	1
9	9	9	9	9	9
3	3	3	3	3	3
1	1	1	1	1	1
1	1	1	1	1	-
5	5	5	5	5	5
2	2	2	2	2	2
67.6	67.6	67.1	67.1	66.8	66.3
298.0	298.0	293.0	289.0	272.0	277.0
2.3	2.3	2.3	2.3	2.3	2.3
75.0	75.0	74.0	74.0	73.0	72.0
42.0	37.0	35.0	35.0	34.0	31.0
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, 2008

CITY OF HOLLY HILL, FLORIDA

Federal Agency/ Pass-through Entity/ Federal Program	CFDA No.	Agency or Pass-through Grant No.	Expenditures
U.S. Department of Housing and Urban Development:			
Indirect Program:			
Passed through County of Volusia, Florida:			
Community Development Block Grant.....	14.218	B07-UC-12-0008	\$ <u>6,400</u>
Total U.S. Department of Housing and Urban Development.....			<u>6,400</u>
U.S. Department of Justice:			
Direct Program:			
Bulletproof Vest Partnership Program.....	16.607	2007-BU-BX-0703860	3,155
Indirect Programs:			
Passed through Florida Department of Law Enforcement:			
Edward Byrne Memorial Justice Assistance Grant.....	16.738	2007-DJ-BX-1113	11,552
Edward Byrne Memorial Justice Assistance Grant.....	16.738	JAGD-VOLU-5-P4-145	<u>603</u>
Total U.S. Department of Justice.....			<u>15,310</u>
U.S. Department of Transportation:			
Indirect Program:			
Passed through Florida Department of Transportation:			
State and Community Highway Safety.....	20.600	AOY86	<u>7,245</u>
Total U.S. Department of Transportation.....			<u>7,245</u>
U.S. Environmental Protection Agency:			
Indirect Program:			
Passed through Florida Department of Environmental Protection:			
Capitalization Grants for Clean Water State Revolving Funds.....	66.458	WW709080	* <u>3,520,174</u>
Total U.S. Environmental Protection Agency.....			<u>3,520,174</u>
U.S. Department of Homeland Security:			
Direct Programs:			
Hazard Mitigation Grant.....	97.039	07HM-72-06-74-02-095	68,792
Assistance to Firefighters Grant.....	97.044	EMW-2006FG-1839	<u>405</u>
Total U.S. Department of Homeland Security.....			<u>69,197</u>
Total Expenditures of Federal Awards .....			<u>\$ 3,618,326</u>

\* Denotes a major program

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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### 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, 2008. The expenditures incurred during the year ended September 30, 2008 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, 2008</u>	<u>All FDEP Loan Amounts</u>
U.S. Department of Environmental Protection: Capitalization Grants for State Revolving Funds	66.458	\$ 3,520,174	\$ 10,305,877

### 3. SUBRECIPIENTS

The City of Holly Hill, Florida, provided no federal awards to subrecipients for the fiscal year ended September 30, 2008.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –  
FEDERAL PROGRAMS**  
Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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**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 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*.
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 Auditors’ Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors’ 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 program tested as major programs include the following:

<u><b>Federal Programs:</b></u>	<u><b>Federal CFDA No.</b></u>
U.S. Department of Environmental Protection: Capitalization Grants for Clean Water State Revolving Funds	66.458

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 – None**

**C. Findings and Questioned Costs - Major Federal Programs – None**

**D. Other Issues – See Management Letter (included herein)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND  
CORRECTIVE ACTION PLAN**  
Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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**Prior Audit Findings:**

There were no audit findings relative to federal programs for the year ended September 30, 2007 that required corrective action taken.

**Corrective Action Plan:**

There were no audit findings for the year ended September 30, 2008, 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 COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

The Honorable Mayor Roland Via,  
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, 2008. 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 of City of Holly Hill, Florida's compliance with those requirements.

In our opinion, City of Holly Hill, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

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

### Internal Control over Compliance

The management of City of Holly Hill, Florida, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Holly Hill, Florida's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Holly Hill, Florida's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

### 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, 2008, and have issued our report thereon dated April 16, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Holly Hill, Florida's, basic financial statements. 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 management, the City Commission, others within the entity, 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 16, 2009

# 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 Roland Via,  
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, 2008, which collectively comprise the City of Holly Hill, Florida's basic financial statements and have issued our report thereon dated April 16, 2009. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Police Officers' Retirement Trust Fund, as described in our report on City of Holly Hill, Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting on compliance and other matters that are reported on separately by those auditors.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Holly Hill, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Holly Hill, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Holly Hill, Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Holly Hill, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Holly Hill, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Holly Hill, Florida's internal control.

The Honorable Mayor Roland Via,  
City Commission and City Manager  
City of Holly Hill, Florida  
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Holly Hill, Florida's internal control.

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

#### Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Holly Hill, Florida, in a separate letter dated April 16, 2009.

This report is intended solely for the information and use of management, the City Commission, others within the entity, 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 16, 2009

# BM&C

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

## MANAGEMENT LETTER

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

We have audited the financial statements of the City of Holly Hill, Florida, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated April 16, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 16, 2009, 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 governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted in the accompanying pages under the heading *Prior Year Matters*.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include 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 the City of Holly Hill, Florida, complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our findings and recommendations are noted in the accompanying pages under the headings *Prior Year Matters* and *Current Year Matters*.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, our findings and recommendations are noted in the accompanying pages under the heading *Current Year Matters*.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, our findings and recommendations are noted in the accompanying pages under the heading *Current Year Matters*.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Holly Hill, Florida (primary government) 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 included the City of Holly Hill Community Redevelopment Agency created by Ordinance No. 2426 and is reported as a blended component unit in the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Holly Hill, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Holly Hill, Florida, for the fiscal year ended September 30, 2008, 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, 2008. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Holly Hill, Florida'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.

The Honorable Mayor Roland Via,  
City Commission and City Manager  
City of Holly Hill, Florida  
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Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

April 16, 2009

## MANAGEMENT LETTER COMMENTS

Year Ended September 30, 2008  
CITY OF HOLLY HILL, FLORIDA

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### **PRIOR YEAR MATTERS**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. All prior year matters have been appropriately resolved, except for the following:

#### **PY-1 Monitoring for Fraud**

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

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

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

Recommendation: We continue to 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. We also recommend that management consider reading 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.

Auditee Response: *The City Manager and the Finance Director will work with the City Commission and Department Heads to address the recommendations made by the auditors to develop an active oversight process to address fraud risk factors.*

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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### **PY-2 Municipal Governance - Best Practices**

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.

Recommendation: We continue to recommend that the City should develop formal written policies and procedures to address these issues.

Auditee Response: *The City Manager and the Finance Director will work with the Department Heads to address the recommendations made by the auditors to develop formal written policies and procedures as they pertain to section 302 and 404 of the Sarbanes-Oxley Act of 2002 and their respective applicability to local municipalities.*

### **PY-3 Reconcile Detail Property Records Monthly**

During our testing of property and equipment, we continued to note the existence of 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 in either year, and correcting entries were made at each year end, the unanticipated time spent by your accounting personnel in reconciling such items for the entire year (and our auditors) was significant due to the large volume of property (asset) additions and dispositions and the number of differences.

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

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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*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.

### **PY-4 Inventory of Tangible Personal Property**

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 continued to note 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 assets may be recorded on the City's records that are no longer in use. We firmly 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
- 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 continue to 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

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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Department of Financial Services issues revised rulings over the custodial maintenance of these assets.

*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. As part of this process, staff is affixing barcode labels and photographing each asset and entering it into the recently acquired fixed asset tracking system. The City will continue to follow the Rules of the Auditor General, Chapter 10.400 until such time as the department of financial services issues a revised ruling on this issue. However, the city utilizes a \$1,000 threshold for fixed assets rather than the \$750.00 recommended in Chapter 10.400.*

### **PY-5 New Accounting Pronouncements**

As we have discussed with management during the past years, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, relating to accounting and financial reporting by employers for post-employment benefits other than pensions, known as "OPEB," will become effective for the fiscal year beginning October 1, 2008. Implementing the provisions of this new accounting pronouncement 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.

This new standard has 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 continue to 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 prepared for implementation during the coming fiscal year and are awaiting the results of our actuarial valuation for implementation purposes.*

### **PY-6 Materials Inventories**

We continued to note that the City does not utilize a formal system of taking periodic inventory counts in its proprietary business-type (water and sewer fund) 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

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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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.*

### **PY-7 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 continue to 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?

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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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.*

### **PY-8 Year-End Accounting Adjustments**

At the conclusion of each fiscal period, a comprehensive review of your routine bookkeeping and accounting procedures must be performed by your financial managers prior to the startup of our annual auditing procedures. These steps are typically the prelude to the formal organization and development of the necessary working papers and other documentation that are produced subsequent to the closing of your accounts for the fiscal year to provide substantive support of your financial position and results of operations. Under normal circumstances, these essential procedures must be completed prior to the startup of the annual external audit. During the previous year, we noted that a significant portion of these necessary bookkeeping, accounting and managerial oversight procedures were delayed and required to be extended to several months after year end. As a result, most of the City's significant adjusting journal entries required to prepare the books and records for audit were not developed until well after that process had been completed. Similarly, many of these adjustments that were made after the startup of the audit caused our auditors to incur substantial additional and unanticipated time on the engagement.

Recommendation: While numerous staffing changes occurred in the Finance Department during the previous fiscal year which contributed significantly to these conditions, we continue to recommend that you should consider the implementation of formal staff training programs that provide all finance staff the opportunity to become familiarized with the required procedures. We also recommend that you should develop firm staffing guidelines that provide a pre-determined basis for strengthening your control environment with the proper segregation and delegation of duties among your small office staff. In time, the condition of the accounting records should improve, and less help by the auditors will be required in this area.

*Auditee Response: The Finance Director will review the staffing guidelines and staff training recommendations made by the auditors.*

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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### **PY-9 Record Retention**

During the previous year, we noted that several fully executed grant agreements were not available for review in the respective grant files. Since the files did not contain the final grant agreements, actual executed copies of the final grant agreements had to be obtained directly from the grantor agency(ies) or from other City offices. We also noted during the current year the Finance Department had some trouble in reconciling grant activity to revenues and receivables for the year.

Recommendation: We continue to recommend that the City's grant administration procedures should be centralized and managed exclusively by the finance department, and that formal procedures be documented and followed when reconciling grant activity. At all times, the City should have on file the final and fully executed grant contracts for inspection, as well as other pertinent information related to the grants.

Auditee Response: *The Finance Department will review existing procedures for grant record retention and make changes to comply with the auditors recommendations.*

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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### **CURRENT YEAR MATTERS**

Section 10.554(1)(i)5., 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, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. The following is a summary of our current year findings and recommendations:

#### **CY-1 Customer Service Data Access**

During our testing of utility billings and procedures followed in the process of annually adjusting the billing rates, we noted that the same Customer Service Representative that updates the rate tables in the application software also has access to customer account files, since part of this individual's duties involves making adjustments to customers' accounts. While we did note that separate review and approval procedures are already in place to ensure that customer utility rate changes are verified and accurate, including routine account billing adjustments made to customer's accounts, there are no formal mechanisms in place to prevent unauthorized and/or undetected access to customer utility rate and data tables in the application software.

Recommendation: In order to enhance the internal controls over processing billings and related receivables, we recommend that the City use an employee completely independent of Customer Service to enter billing rates and then restrict all access to utility rate tables after rate changes have been implemented and tested.

Auditee Response: *Management will appropriately segregate these duties as recommended by the auditors.*

#### **CY-2 Personnel Travel Reimbursements**

Section 8.3, Travel and Training Expense, of the City's "*Personnel Rules and Regulations*" (adopted August 2007), states "In the event an employee drives their personal vehicle, the employee will receive a mileage reimbursement based on a rate per mile as designated by current Internal Revenue Service (IRS) regulations." While performing our tests of transactions during audit work, we noted on two occasions that employees were reimbursed for these travel expenses at a mileage rate which was lower than the rate designated by the IRS at the time the travel occurred. Although these reimbursement rates have fluctuated recently due to the extreme fluctuation in fuel prices, the City should have a policy in place for monitoring the rates to ensure compliance with personal expense reimbursements to City employees.

Recommendation: We suggest that policies and procedures be set by management to ensure that the City complies with their "*Personnel Rules and Regulations*" and to review IRS reimbursement rates on a timely basis.

Auditee Response: *Management will review the process by which IRS guidelines are reviewed for travel reimbursement procedures.*

## MANAGEMENT LETTER COMMENTS (Continued)

Year Ended September 30, 2008

CITY OF HOLLY HILL, FLORIDA

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### CY-3 Investments

During the year, the City took actions to transfer all investments from the State Board of Administration Local Government Investment Pool due to a lack of liquidity in the pool and deposited these funds into an investment brokerage account held by SunTrust. Due to the type of the investment account (e.g. a brokerage account), it does not qualify as a qualified public depository, as defined in Chapter 280, Florida Statutes, and is not fully insured by Federal Deposit Insurance Corporation (FDIC). However, the City's investment amount in this account of \$13.8 million is backed by the full faith and credit of the United States of America; therefore, this type of investment is allowed by the City's Investment Policy.

Recommendation: We suggest that management be aware of the risk of investments in such accounts due to the lack of insurance and collateralization, and be cautious in transferring and investing funds in the future so that the risk to the City will be minimized.

Auditee Response: Management will review with commission and make changes as per commission recommendation.

### CY-4 CRA Bond Compliance

The City of Holly Hill Community Redevelopment Agency (CRA) executed a Redevelopment Revenue Note in the amount of \$6,331,000 on May 2, 2005. According to the covenants contained in Section 3 of the "Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, as Amended," the CRA certified that "It is expected that the Project (construction and improvement of capital assets within the Redevelopment Area) will be completed and at least 85 percent of the Sale Proceeds of the Bond will be allocated to Project expenditures within three years of the date [of the note] hereof." As of September 30, 2008 we noted that the City had not expended 85 percent of these funds.

Recommendation: According to the City's arbitrage covenant made at the date of the issuance of this note, all restricted (note) funds remaining unspent and on hand after three years become "yield restricted." Under these regulations, the City is forced to separately manage these funds to ensure complete compliance with federal requirements. While still required to maximize investment returns, the City is expressly prohibited from investing these proceeds at a yield that is higher than the arbitrage yield on the Note (4.53%). If, and when, these conditions simultaneously occur, steps must be taken to invest exclusively in federal government yield restricted investments to ensure that arbitrage excess earnings are not recognized until these funds are completely spent. Although this is not an issue in the present economy due to low interest rates, we suggest that management be aware of this in the future as this could become an extremely complex legal issue.

Auditee Response: Management is aware of the arbitrage covenant and is will continue to monitor this matter closely.