

**CITY OF HOLLY HILL, FLORIDA**

**FIREFIGHTERS' RETIREMENT SYSTEM**



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

***YEAR ENDED SEPTEMBER 30, 2014***

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September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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## ***INDEPENDENT AUDITORS' REPORTS***

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of City of Holly Hill, Florida, Firefighters' Retirement System (the "Fire System"), which comprise the statement of fiduciary net position as of September 30, 2014, the statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fire System as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, the Fire System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Report on Comparative Information*

We have previously audited the Fire System's 2013 financial statements, and our report dated February 12, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015, on our consideration of the Fire System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

BMC CPAs

February 25, 2015

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As financial management of the City of Holly Hill, Florida, Firefighters' Retirement System (hereinafter referred to as the "Fire System"), we offer the readers of these financial statements this narrative overview and analysis of the Fire System's financial activities for the fiscal years ended September 30, 2014 and 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Fire System's financial statements, which follow this information.

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

### Financial Highlights

- The Fire System's net position restricted for pension benefits increased by \$295,711 and totaled \$3,772,429 at the end of 2014, compared to an increase of \$142,913 to \$3,476,718 at the end of 2013.
- While investment income was down again in 2014, compared to amounts in 2013 which were also down slightly compared to 2012, the Fire System's earnings continued to result in positive performance for both years. For the year ended September 30, 2014, net investment income was \$312,161, compared to net investment income of \$367,540 the previous year. Market volatility continues to be expected, and each year there will be a combined effect of realized and unrealized investment gains or losses.
- For the fiscal year ended September 30, 2014, combined plan sponsor and member contributions totaled \$275,892, compared to contributions totaling \$292,006 one year earlier. Plan member contributions continued to increase in 2014 (by 20%) and totaled \$52,767, compared to \$43,993 in 2013, as the result of 3 additional firefighters being added to the plan in 2013. The Plan sponsor's contributions decreased to \$223,125 in 2014, compared to \$248,013 in 2013 as the result of a decrease in the actuarially computed minimum employer contribution requirement. Plan sponsor contributions include State premium tax monies and firefighters' supplemental payments received from the State of Florida under the revenue sharing provisions outlined in Chapter 175, which totaled \$62,761 and \$60,550 in 2014 and 2013, respectively.
- The Fire System's actuarially computed annual contribution percentages are composed of two separate components; the plan member portion, and the plan sponsor portion, the latter of which includes the state premium tax distribution. The plan member (employee) portion of the annual contribution requirements totaled 8.0% of covered wages in 2014 and 2013. The plan sponsor (employer) portion of the annual contribution requirement totaled approximately 32.3% and 45.1% of covered wages in 2014 and 2013, respectively, both of which include amounts representing the state premium tax distributions in 2014 and 2013.
- Monthly benefit payments increased by \$89,555 in 2014 and totaled \$271,874, compared to \$182,319 one year earlier, due primarily to the effect of the addition four new retirees earning monthly benefits in 2013. No refunds or withdrawals were incurred in 2014, compared to three Deferred Retirement Option Program ("DROP") distributions totaling \$312,438 in 2013.

## Overview of Basic Financial Statements

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

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

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

### Fiduciary Net Position

Combined total assets of the Fire System were \$3,777,983 and \$3,485,023 at the end of fiscal year 2014 and 2013, respectively. For fiscal year 2014, the Fire System's net position restricted for benefits increased by \$295,711, or 8.1% of average assets, to \$3,772,429, compared to an increase of \$142,913, or 4.2% of average assets, to \$3,476,718 for fiscal year 2013, and an increase of \$459,845, or 13.8% of average assets, to \$3,333,805 for fiscal year 2012. All of these increases can be attributed to the net appreciation in the fair value of the Fire System's investment portfolio, primarily the increase in value of domestic and international mutual fund investments which represent approximately over 70% of the total investment portfolios at each year end.

The overall mix of investments in the Fire System's portfolio shifted slightly in 2014, compared to a similar investment mix in 2013, and reflected an increased investment in interest-bearing securities. The plan's investments in U.S Treasury obligations and government agencies decreased by \$95,713 in 2014 and totaled \$128,443, or 3.7% of the total portfolio. However, investment concentrations in corporate and municipal bond obligations increased by \$211,509 in 2014 and totaled \$896,655, or 25.9% of the portfolio. The plan's investment in domestic and international mutual funds remained relatively stable in 2014 and totaled \$1,900,266, or 54.8% of the portfolio, and \$540,852, or 15.6% of the portfolio, respectively. Amounts invested in cash, money market fund, and other cash equivalents increased dramatically at year end and totaled \$243,864 at year end compared to \$91,432 one year earlier. Cash equivalents also typically include the plan's receivables and payables generated through the timing difference between the trade and settlement dates for investment securities purchased or sold.

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

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

### FIDUCIARY NET POSITION

September 30,

	2014	2013	2012
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 243,864	91,432	111,703
Receivables.....	65,114	23,144	23,486
Prepaid expenses.....	2,789	2,839	2,574
Investments, at fair value.....	<u>3,466,216</u>	<u>3,367,608</u>	<u>3,201,885</u>
<b>Total assets.....</b>	<b><u>3,777,983</u></b>	<b><u>3,485,023</u></b>	<b><u>3,339,648</u></b>
<b>Liabilities:</b>			
Accounts payable.....	<u>5,554</u>	<u>8,305</u>	<u>5,843</u>
<b>Net Position:</b>			
Net position restricted for pension benefits.....	<u>\$ 3,772,429</u>	<u>3,476,718</u>	<u>3,333,805</u>

### Changes in Fiduciary Net Position

Fire System members are required to contribute 8% of their compensation to the plan. In 2014, member contributions totaled \$52,767, compared to \$43,993, received one year earlier. Pensionable payroll remained fairly constant for each month during the year and totaled \$659,584. While down slightly from 2013's payroll of \$690,628 (which was up 42.1% above the preceding year), there were no new firefighters added to the plan in 2013. The resultant change in covered payroll for 2013 was primarily the result of the hiring of three new firefighters to replace retiring firefighters.

Plan sponsor (employer) contributions are made on a statutory basis as determined by independent actuarial valuations performed as of October 1, 2014, 2013, and 2012, the latter of which was used to determine mandatory contribution amounts for 2014. Employer contribution percentages (determined from the actuarial valuation performed in the second preceding year) include amounts received from the state from insurance premium tax distributions, firefighters' supplemental compensation trust fund distributions and remaining amounts required to be funded by the City to meet actuarially determined minimum funding requirements. Employer and state contributions for fiscal year 2014 totaled \$223,125, a decrease of \$24,888 (10.0%) below the \$248,013 required in 2013. In the prior year, amounts totaling \$248,013 were received, or an increase of \$105,869 (74.5%) over 2012 contributions totaling \$142,144.

For fiscal year ended September 30, 2014, the Plan had investment income, net of investment expenses, of \$312,161, which was a decrease of \$55,379 below the gain of \$367,540 recognized one year earlier. For fiscal year ended September 30, 2013, the Plan's investment income experienced a decline of \$67,263 below the \$434,803 recognized one year earlier. The reduction in earnings for both years can be primarily attributed to the net depreciation in the fair value of the Plan's investment portfolio and from continued sluggishness in interest rates and dividend payments.

Total benefit payments recorded were \$271,874 in 2014, compared to payments totaling \$494,757 for the period ended September 30, 2013. Amounts paid for recurring monthly retirement payments increased by \$89,555 in 2014 and by \$50,901 in 2013. This was the result of adding three new retirees in 2013. Lump sum distributions paid out to members of the Deferred Retirement Option Program (DROP) consisted of three payments totaling \$312,438 in 2013, compared to none paid out in 2014. There were no retirement

withdrawals in 2014 or 2013. Administrative costs have continued to remain relatively stable for three consecutive years and totaled \$20,468 in 2014, compared to \$21,876 one year earlier.

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

### CHANGES IN FIDUCIARY NET POSITION

Year ended September 30,

	2014	2013	2012
Additions:			
Plan sponsor contributions .....	\$ 160,364	187,463	85,180
Member contributions .....	52,767	43,993	38,585
State contributions .....	62,761	60,550	56,964
Net investment income.....	<u>312,161</u>	<u>367,540</u>	<u>434,803</u>
Total.....	<u>588,053</u>	<u>659,546</u>	<u>615,532</u>
Deductions:			
Benefit payments and withdrawals.....	271,874	494,757	132,598
Administrative expenses .....	<u>20,468</u>	<u>21,876</u>	<u>23,089</u>
Total.....	<u>292,342</u>	<u>516,633</u>	<u>155,687</u>
Net increase (decrease).....	295,711	142,913	459,845
Net position restricted for pension benefits:			
Beginning of year .....	<u>3,476,718</u>	<u>3,333,805</u>	<u>2,873,960</u>
End of year .....	<u>\$ 3,772,429</u>	<u>\$ 3,476,718</u>	<u>3,333,805</u>

### Portfolio Investment Summary

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

### PORTFOLIO INVESTMENT SUMMARY

September 30,

	2014	2013	2012
Money market funds .....	<u>\$ 243,864</u>	<u>91,432</u>	<u>111,703</u>
Investments:			
U. S. Treasury obligations .....	44,786	123,777	127,041
U. S. government agencies.....	83,657	100,379	163,807
Corporate/municipal bonds .....	896,655	685,146	646,414
Mutual funds.....	<u>2,441,118</u>	<u>2,458,306</u>	<u>2,264,623</u>
	<u>3,466,216</u>	<u>3,367,608</u>	<u>3,201,885</u>
Total.....	<u>\$ 3,710,080</u>	<u>\$ 3,459,040</u>	<u>\$ 3,313,588</u>

Due to the long-term nature of the Fire System's benefit obligations, the System's assets are invested with a long-term investment horizon. Assets are invested in a diversified portfolio of capital market securities. Investments in these assets are expected to produce higher returns, but are also subject to greater volatility and may produce negative returns. The investment results for fiscal years 2014, 2013 and 2012 were generally consistent with related benchmarks, within asset classes. Overall, most asset classes posted gains during the fiscal period due to recoveries in the stock market and federal/state/local economies.

## **Funding Progress**

The Fire System contracted with Foster & Foster (actuaries) to conduct an actuarial valuation to determine the actuarial position of the plan as of October 1, 2014. The Actuarial Valuation Report indicated that the overall funding of the plan remains sound and the current contribution rates are sufficient to keep the plan actuarially sound. In preparing the valuation, the actuary uses a smoothing process over a rolling four-year period of investment data to remove year-to-year volatility in asset returns.

Plan Changes - Ordinance No. 2943 was adopted by the plan sponsor on October 8, 2013, to comply with recently enacted changes to the Internal Revenue Code.

Changes in Actuarial Assumptions and Methods - The payroll growth assumption utilized in amortizing the Unfunded Actuarial Accrued Liability was decreased from 4.00% to 1.71% in the October 1, 2014 Actuarial Valuation Report. This rate was previously increased from 0.39% to 4.00% in the October 1, 2013 Actuarial Valuation Report. The software utilized in valuing the future benefits was changed to ProVal.

Significant Actuarial Matters - The following is a summary of the significant findings included in the most recent actuarial report as of October 1, 2014:

- The Actuarial Valuation Report shows that the market value of assets increased \$292,808 during 2014, and totaled \$3,777,798 as of October 1, 2014. The market value of assets increased \$145,376 during 2013, and totaled \$3,484,990 as of October 1, 2013.
- As of October 1, 2014, the actuarial value of the assets (AVA) increased \$261,234 during 2014 to a total of \$3,578,651. As of October 1, 2013, the actuarial value of the assets (AVA) increased \$27,773 during 2013 to a total of \$3,317,417.
- As of October 1, 2014, the actuarial present value of accrued benefits increased during 2014 by \$208,377 and totaled \$4,436,537, compared to \$4,228,160 at the end of 2013. This increase was the result of adding new accrued benefits of \$173,334 and estimated interest on the obligation of \$306,917 net of benefit payments (reductions) totaling \$271,874.
- During 2014, the total pension liability increased by \$254,478 and totaled \$4,951,091, compared to \$4,696,613 at the end of 2013. However, the overall net pension liability (total pension liability less ending fiduciary net position) decreased by \$38,330 in 2014 and totaled \$1,173,293 at October 1, 2014, compared to \$1,211,623 at October 1, 2013.
- Another measure of funding status is funding period. This is the length of time in years needed to amortize the current unfunded actuarial accrued liability (UAAL) based on the current contribution rate. As of October 1, 2014, the employer fixed rate contribution covers the normal cost and the amortization of the UAAL over the remaining amortization period (24 years as of 10/01/14).

- The Fire System's annualized rate of investment return is determined by increasing the actuarial assets used in the most recent actuarial valuation by the average of the annual market value rate of return (net of investment related expenses) for the past four years and totaled 8.44%. Details of the derivation include annual rates of return of 9.06%, 11.44%, 14.90%, and -0.98% for the plan years ended September 30, 2014, 2013, 2012, and 2011, respectively.

### **Contact Information**

This financial report is designed to provide a general overview of the Holly Hill Firefighters' Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Finance Director, City of Holly Hill, Florida, 1065 Ridgewood Avenue, Holly Hill, Florida 32117-2898.

## ***FINANCIAL STATEMENTS***

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**STATEMENT OF FIDUCIARY NET POSITION**

September 30, 2014

(With Comparative Totals as of September 30, 2013)

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

	September 30,	
	2014	2013
<hr/>		
Assets:		
Cash and cash equivalents.....	\$ 243,864	91,432
Receivables:		
Plan sponsor contributions receivable.....	38,546	-
State contributions receivable.....	19,203	16,764
Interest and dividends receivable.....	7,365	6,380
	<u>65,114</u>	<u>23,144</u>
Prepaid expenses.....	<u>2,789</u>	<u>2,839</u>
Investments, at fair value:		
U.S. Treasury.....	44,786	123,777
U.S. Government Agencies.....	83,657	100,379
Corporate/municipal bonds.....	896,655	685,146
Mutual Funds.....	2,441,118	2,458,306
	<u>3,466,216</u>	<u>3,367,608</u>
Total assets.....	3,777,983	3,485,023
Liabilities:		
Accounts payable.....	<u>5,554</u>	<u>8,305</u>
Net Position		
Net position restricted for pension benefits.....	<u>\$ 3,772,429</u>	<u>3,476,718</u>

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

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**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Year Ended September 30, 2014

(With Comparative Totals for the Year Ended September 30, 2013)

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

	September 30,	
	2014	2013
Additions:		
Contributions from:		
Plan sponsor .....	\$ 160,364	187,463
State insurance premium tax distribution .....	43,558	43,786
State firefighters' supplemental compensation trust fund distribution .....	19,203	16,764
Plan members .....	<u>52,767</u>	<u>43,993</u>
Total contributions.....	<u>275,892</u>	<u>292,006</u>
Investment income (losses):		
Net realized and unrealized appreciation		
(depreciation) in fair value of investments .....	244,959	298,027
Interest and dividend earnings .....	<u>86,036</u>	<u>90,380</u>
	330,995	388,407
Less: investment management fees .....	<u>(18,834)</u>	<u>(20,867)</u>
Total investment (losses) income .....	<u>312,161</u>	<u>367,540</u>
Total (deductions) additions .....	<u>588,053</u>	<u>659,546</u>
Deductions:		
Benefit payments .....	271,874	182,319
Refunds/withdrawals .....	-	312,438
Administrative expenses .....	<u>20,468</u>	<u>21,876</u>
Total deductions.....	<u>292,342</u>	<u>516,633</u>
Net (decrease) increase .....	295,711	142,913
Net position restricted for pension benefits:		
Beginning of year .....	<u>3,476,718</u>	<u>3,333,805</u>
End of year .....	<u>\$ 3,772,429</u>	<u>3,476,718</u>

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

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

#### **Reporting Entity**

The accompanying financial statements present only the Fire System and are not intended to present the financial position or results of operations of the City of Holly Hill, Florida. The Fire System is included in the City's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2014, which is a separately issued document. Anyone wishing further information about the City is referred to its CAFR.

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

#### **Basis of Accounting**

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

#### **Method Used To Value Investments**

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

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **Cash and Cash Equivalents**

The Fire System's cash and cash equivalents are considered to be cash on deposit, money market funds, unsettled trades and short-term investments with original maturities of three months or less from the date of acquisition. At September 30, 2014, the carrying amount of the Fire System's cash and money market funds totaled \$243,864, all of which is maintained in brokerage security trust accounts that are not subject to federally insured FDIC protection.

### **Prepaid Items**

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

### **Fiduciary Net Position**

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

### **Contributions**

Contributions of funds are received from 1) the City, at actuarially determined rates in accordance with Chapter 112, Florida Statutes, 2) the State of Florida, pursuant to the provisions of Chapter 175, Florida Statutes, which allocates premium taxes collected on certain insurance policies underwritten on property located within the municipal boundaries of the City, and 3) active plan participants, who are required to contribute 8% of their covered payroll to the plan.

### **Investment Income**

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

### **Expenses**

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

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

### **Use of Estimates**

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

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### Comparative Information

The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fire System's financial statements for the year ended September 30, 2013, from which the information was derived.

### New Accounting Standards

Effective, October 1, 2013, the Fire System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The impact to the Fire System's financial reporting has resulted in enhanced note disclosures and Required Supplementary Information (RSI), and requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

In January 2013, GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB statement No. 69 was applicable for financial report periods beginning after December 15, 2013, which is our fiscal year 2015. The implementation of this statement is not expected to have a material effect on the Fire System's financial statements.

In April 2013, GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment related to the nonexchange financial guarantee. The provisions of Statement No. 70 are effective for reporting periods beginning after June 15, 2013, which is our fiscal year 2014. The implementation of this statement is not expected to have a material effect on the Fire System's financial statements.

In November 2013, GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68, which is our fiscal year 2015. The impact to the Fire System's financial reporting with respect to the implementation of this statement has not yet been determined.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### NOTE 2 – PLAN DESCRIPTION

#### Plan Administration

The City maintains a single-employer defined benefit pension plan for all full-time firefighters, which assets are included in the Fire System (a pension trust fund). The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which authorized the creation of the fund, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Fire System can be found in Chapter 175, Florida Statutes. These statutes provide, in general, that funds are to be accumulated from employee contributions, city contributions, state appropriations and income from investments from accumulated funds. The statutes also provide that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the funds by an appropriation from current funds or from any revenues which may be lawfully used for said purposes in an amount sufficient to make up the deficiency.

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

#### Plan Membership

All full-time, uniformed firefighters are eligible (and required as a condition of employment) to participate in the Fire System upon employment with the City. Employees vest with 100% full benefits after 6 years of service. Members are eligible for normal retirement after attaining age 50 with 6 years of credited service or completion of 25 years of credited service, regardless of age. Members are eligible for early retirement after attaining age 48 with 6 years of service. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees.

Membership in the System consisted of the following, as included in the most recent actuarial valuation dated October 1, 2013:

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

#### Benefits Provided

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

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

### **Contributions**

The Florida Constitution grants the authority to establish and amend the contribution requirements of the City and active plan members to the plan sponsor (City). In accordance with Article III, Section 42-65, Holly Hill, Florida, Code of Ordinances, the City is required to make quarterly contributions to the Fire System in an amount equal to the required actuarially determined contribution based on the applicable actuarial valuation of the Fire System performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members in order to pay current costs and amortize unfunded past service cost, if any, as provided in Part VII of Chapter 112, Florida Statutes.

Plan members are required to contribute 8% of their annual covered salary. Additionally, pursuant to Chapter 175, Florida Statutes, the state collects a locally authorized insurance premium surcharge for the Fire System on certain real and personal property insurance policies underwritten in the corporate limits of the City which can only be distributed after the State has ascertained that the local government has met its actuarial funding requirement for the most recently completed fiscal year. In accordance with Florida Statutes, a portion of the premium tax revenues received by the Fire System are reserved to provide future minimum or extra benefits and may not be used to reduce or offset the contribution requirements of the employers. As of the October 1, 2014 actuarial valuation, the cumulative balance of additional premium tax revenues reserved to provide future benefit improvements totaled \$18,139.

For the year ended September 30, 2014, the active member contribution rate was 8.0 percent of annual pay (or \$52,767), the City's average contribution rate was 24.31 percent of annual payroll (or \$160,364), and the state funding was 9.52 percent of annual payroll (or \$62,761). Covered payroll for the year ended September 30, 2014, totaled \$659,584.

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **Deferred Retirement Option Plan (DROP)**

Any member who is eligible to receive a normal retirement pension in the Fire System may elect to participate in a deferred retirement option program (DROP) while continuing his or her active employment as a firefighter. The DROP participation period may not exceed 60 months beginning at the time an election to participate in the DROP first becomes effective. An election to participate in the DROP constitutes an irrevocable election to resign from the service of the city at the end of the DROP term. A member may participate only once. Upon participation in the DROP, the member becomes a retiree for all plan purposes so that he or she ceases to accrue any further benefits under the Fire System plan. Normal retirement payments that would have been payable to the member are accumulated and invested in the DROP program with a guaranteed annual rate of return of 6.5 percent, credited quarterly, to be distributed to the member upon his or her termination of employment. At September 30, 2014 and 2013, there was only one (inactive and retired) DROP participant at the end of each year.

As of September 30, 2014 and 2013, the balance in the DROP account was \$6,244 and \$6,244, respectively. These amounts are included in the total investment balance presented on the statement of fiduciary net position.

### **NOTE 3 - CASH DEPOSITS AND INVESTMENTS**

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

The Fire System is authorized to invest in (1) time or savings accounts of a national bank, a state bank insured by the Bank Insurance Fund, or a savings, building, and loan association insured by the Saving Insurance Association Insurance Fund which is administered by the Federal Deposit Insurance Corporation or a state or federal chartered credit union whose share accounts are insured by the National Credit Union Share Insurance Fund; (2) obligations issued by the United States Government or obligations guaranteed as to principal and interest by the government of the United States; (3) bonds issued by the State of Israel; (4) bonds, stocks, convertible securities or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or the District of Columbia provided the corporation is listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market and, in the case of bonds only, holds an investment grade rating within the three (3) highest classifications of a major rating service (convertible securities will be deemed as equity and shall not be held to the rating standards of fixed income and foreign convertibles are limited to those that settle in U. S. dollars and traded on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market or the OTC); (5) real estate investment trusts (REITS); and (6) commingled stock, bond, or money market funds and institutional mutual funds.

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of investment expenses was 9.06%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The deposits and investments of the Fire System which have been transferred to the pension custodians are held separately from those of other City funds and are administered by nationally recognized investment counseling firms. At September 30, 2014 and 2013, the carrying amount of the Fire System's deposits and investments was \$3,710,080, and \$3,459,040, respectively. Included in these amounts are money market accounts of \$243,864 and \$91,432 at September 30, 2014 and 2013, respectively. At the end of each period, the Fire System did not have any amounts on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit, which are defined as public deposits.

At September 30, 2014, the Fire System had the following investments and maturities:

Investment	Fair Value	Investment Maturities			
		Less than 1	1 to 5	6 to 10	Over 10
U.S. Treasury.....	\$ 44,786	39,787	4,999	-	-
U.S. Government Agencies.....	83,657	-	5,290	107	78,260
Corporate/municipal bonds.....	896,655	-	392,564	396,145	107,946
Mutual Funds-international.....	540,852	540,852	-	-	-
Mutual Funds-domestic.....	<u>1,900,266</u>	<u>1,900,266</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,466,216</u>	<u>2,480,905</u>	<u>402,853</u>	<u>396,252</u>	<u>186,206</u>

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

At September 30, 2013, the System had the following investments and maturities:

Investment	Fair Value	Investment Maturities			
		Less than 1	1 to 5	6 to 10	Over 10
U.S. Treasury.....	\$ 123,777	20,000	103,777	-	-
U.S. Government Agencies.....	100,379	-	4,453	4,364	91,562
Corporate/municipal bonds.....	685,146	50,931	320,317	302,817	11,081
Mutual Funds-international.....	538,161	538,161	-	-	-
Mutual Funds-domestic.....	<u>1,920,145</u>	<u>1,920,145</u>	-	-	-
	<u>\$ 3,367,608</u>	<u>2,529,237</u>	<u>428,547</u>	<u>307,181</u>	<u>102,643</u>

*Interest Rate Risk.* The System monitors the effective duration of its fixed income portfolio as part of its program to manage interest rate risk. In recent years, the System has invested approximately 88.5% of its net position in domestic corporate equities and mutual funds, which fair value varies in conjunction with changes in the NYSE and NASDAQ stock index prices. Investments in U.S Treasury obligations, which represent approximately 1.3% of the System's investments, typically include discounted, fixed-price notes and bonds that mature within five years. The fair values of these investments are less sensitive to interest rate increases since they are held to maturity. Investments in mortgage backed securities, which represents approximately 2.4% of the System's investments, typically include long-term, fixed-rate collateralized mortgage obligations with maturities ranging from one to twenty years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate and municipal bonds, which represent approximately 25.9% of the System's investments, are generally made to guaranty the production of cash flows necessary to fund the plan's required payments and operating expenses. These fixed rate investments earn slightly higher rates of return, which are necessary to support the plan's blended interest rate assumptions. Their fair values are inversely sensitive to changes in interest rates.

*Custodial Credit Risk-Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements in this chapter to be designated by the State Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer. At September 30, 2014 and 2013, the System had no deposits with Qualified Public Depositories.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2014 and 2013, the System has custodial credit risk exposure of \$3,466,216 and \$3,367,608, respectively, for investments, and \$243,864 and \$91,432, respectively, for money market funds (cash and cash equivalents) held by the System's trustees, all of which are uninsured, unregistered and held by the System's brokerage firms, who are also the counterparties for these particular securities.

*Concentrations of Credit Risk* – Pursuant to the provisions of the Fire System's investment policy, all monies paid into or held in the fund shall be invested and reinvested by the board and the investment of all or any part of such funds shall be limited to the following:

1. Investments in equities shall not exceed 70% of the Fund's assets at market value.
2. No investment shall be made in any company that either is engaged in the business of providing private fire and/or ambulatory services OR invests in another company that is engaged in private fire and/or ambulatory services.
3. Not more than 5% of the total Fund's assets at cost shall be invested in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent (5%) of the outstanding capital stock of the company.
4. Not more than 5% of the Fund's fixed income portfolio (at market) shall be invested in the securities of any single corporate issuer (This excludes issues of any US. government agency). Securities rated below 'A' shall be limited to 2% of the fixed income portfolio (at market) per issuer. In the case of a split rating, the lower rating shall prevail. In the event of a downgrade below investment grade, the manager will dispose of such securities when it is economically feasible.
5. Foreign equity investments are limited to 20% of the total Fund's assets (at market).
6. Illiquid investments, as described in Chapter 215.47, Florida Statutes, are prohibited.
7. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.
8. The following investments are prohibited:
  - a. Bonds issued by any state or municipality
  - b. Futures (excluding mutual and exchange traded funds)
  - c. General obligations issued by a foreign government
  - d. Hedge funds
  - e. Insurance annuities
  - f. Internally managed assets
  - g. Limited partnerships
  - h. Margin Accounts
  - i. Options (excluding mutual and exchange traded funds)
  - j. Private equity
  - k. Private mortgages
  - l. Securities lending

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

- m. Under Protecting Florida's Investment Act (PFIA), scrutinized companies published by the State Board of Administration, unless an indirect investment is unable to divest, as provided for in Florida Statutes, section 215.473.

*Foreign Currency Risk* – The Fund's material exposure to foreign currency risk is as follows:

<u>Country</u>	<u>Portfolio Percentage</u>	<u>Foreign Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
France	1.42%	Euro	N/A	\$ 52,571
Germany	1.35%	Euro	N/A	49,921
Spain	0.49%	Euro	N/A	18,064
Netherlands	0.39%	Euro	N/A	14,603
Italy	0.33%	Euro	N/A	12,115
Belgium	<u>0.20%</u>	Euro	N/A	<u>7,247</u>
	4.16%			154,521
Japan	3.13%	Japanese Yen	N/A	116,283
United Kingdom	3.01%	Pound sterling	N/A	111,686
Switzerland	1.35%	Swiss franc	N/A	50,191
Australia	1.06%	Australian Dollar	N/A	39,482
Hong Kong	0.48%	Hong Kong dollar	N/A	17,740
Other	0.47%	Other	N/A	17,578
Sweden	0.45%	Swedish krona	N/A	16,875
Denmark	0.22%	Danish krone	N/A	8,275
Singapore	<u>0.22%</u>	Singapore Dollar	N/A	<u>8,221</u>
	<u>14.58%</u>			<u>\$ 540,852</u>

The Fund's investments in foreign currency were limited to one international mutual fund (Ishares MSCI EAFE Index Fund) at September 30, 2014 and 2013. The Fund's investment policy permits it to invest up to 25 percent of total investments in foreign currency-denominated investments. The system's current position was 14.55% and 15.98% at the end of 2014 and 2013, respectively.

**NOTE 4 – RISKS AND UNCERTAINTIES**

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

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

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### NOTE 5 – NET PENSION LIABILITY

The components of the net pension liability of the Fire System on September 30, 2014, were as follows:

Total pension liability.....	\$ 4,951,091
Plan fiduciary net position	<u>(3,777,798)</u>
Net pension liability.....	<u>\$ 1,173,293</u>
Plan fiduciary net position as a percentage of total pension liability.....	76.30%

#### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014, using the following actuarial assumptions applied to all measurement periods:

Inflation.....	3.00%
Salary increases.....	6.00%
Investment rate of return, net of investment expense, including inflation....	7.50%

Since the prior year valuation, the payroll growth assumption has been decreased from 4.00% to 1.71%.

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Mortality Table with no projection - Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years).

#### Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity.....	7.80%
International Equity.....	2.20%
Bonds.....	3.70%
Convertible Securities.....	5.30%
Real Estate Investment Trusts (REIT).....	8.20%
Treasury Inflation Protected Securities ( TIPS).....	2.00%

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.50 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's net pension liability.....	\$ 1,733,945	\$ 1,173,293	\$ 702,517

### NOTE 6 – PLAN AMENDMENTS

During the years ended September 30, 2014 and 2013, the City Code of Ordinances providing for the creation and operation of the Fire System was amended as follows:

*Ordinance No. 2943 – dated October 8, 2013* - This ordinance was adopted to modify and amend Section 42-61, Definitions, by amending the definitions of "actuarial equivalent" and "credited service" in order to provide for the use of the RP2000 Combined Healthy Mortality Table and to establish a policy for individuals receiving differential wage payments during their employment. The ordinance also modifies and amends Section 42-75, Maximum Pension, to revise the definitions of adjustments and limitations in benefit payments.

### NOTE 7 – FEDERAL INCOME TAX STATUS

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

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

September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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**NOTE 8 – SUBSEQUENT EVENTS**

In preparing these financial statements, the System has evaluated events and transactions for potential recognition or disclosure through February 25, 2015, the date the financial statements were available to be issued.

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***REQUIRED SUPPLEMENTARY INFORMATION***

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30,  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

	2014	2013	2012
Total Pension Liability:			
Service cost.....	\$ 172,709	n/a	n/a
Interest.....	353,643	n/a	n/a
Changes of benefit terms.....	-	n/a	n/a
Differences between expected and actual experience.....	-	n/a	n/a
Changes of assumptions.....	-	n/a	n/a
Benefit payments, including refunds of employee contributions.....	<u>(271,874)</u>	n/a	n/a
Net change in total pension liability.....	254,478	n/a	n/a
Total Pension Liability - Beginning.....	<u>4,696,613</u>	n/a	n/a
Total Pension Liability - Ending (a).....	<u>\$ 4,951,091</u>	n/a	n/a
Plan Fiduciary Net Position:			
Contributions - employer.....	\$ 160,213	n/a	n/a
Contributions - state.....	62,761	n/a	n/a
Contributions - employee.....	52,767	n/a	n/a
Net investment income.....	310,762	n/a	n/a
Benefit payments, including refunds of employee contributions.....	(271,874)	n/a	n/a
Administrative expense.....	(21,821)	n/a	n/a
Other.....	<u>-</u>	n/a	n/a
Net change in plan fiduciary net position.....	292,808	n/a	n/a
Plan Fiduciary Net Position - Beginning.....	3,484,990	n/a	n/a
Plan Fiduciary Net Position - Ending (b).....	<u>3,777,798</u>	n/a	n/a
Net Pension Liability - Ending (a) - (b).....	<u>\$ 1,173,293</u>	n/a	n/a
Plan fiduciary net position as a percentage of the total pension liability.....	76.30%	n/a	n/a
Covered employee payroll.....	\$ 659,584	n/a	n/a
Net pension liability as a percentage of covered employee payroll.....	177.88%	n/a	n/a

Notes to Schedule:

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



**SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITY CONTRIBUTIONS**  
**LAST TEN FISCAL YEARS**  
Year Ending September 30,  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

	2014	2013	2012
Actuarially determined contribution.....	\$ 222,974	n/a	n/a
Contributions in relation to the actuarially determined contribution.....	<u>(222,974)</u>	n/a	n/a
Contribution deficiency (excess).....	<u>\$ -</u>	n/a	n/a
Covered employee payroll.....	659,584	n/a	n/a
Contributions as a percentage of covered- employee payroll.....	<u>33.81%</u>	n/a	n/a

Notes to Schedule:

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

Valuation Date: 10/1/2012

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

Methods and assumptions used to determine contribution rates:

Funding Method: Enry Age Normal Actuarial Cost Method  
Amortization Method: Level percentage of pay, closed  
Remaining Amortization Period 26 Years (as of 10/01/2012).  
Asset Valuation Method: Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.  
Inflation: 3.00% per year.  
Salary Increases: 6.0% per year up to the assumed retirement age. Salary in year of retirement is increased by 56.8% to account for lump sums.  
Interest Rate: 7.5% per year, compounded annually, net of investment related expenses.  
Payroll Growth: Up to 5.0% per year, (0.39% used as of 10/1/12).  
Retirement Age: Earlier of age 50 and 6 years of service or 25 years of service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.  
Early Retirement: Commencing with the earliest Early Retirement Age ( 48), members are assumed to retire with an immediate, subsidized benefit at the rate of 5% per year.

Fiscal Year						
2011	2010	2009	2008	2007	2006	2005
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

	2014	2013	2012
Annual money-weighted rate of return, net of investment expense.....	9.06%	n/a	n/a

Notes to Schedule:

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

Fiscal Year						
2011	2010	2009	2008	2007	2006	2005
n/a	n/a	n/a	n/a	n/a	n/a	n/a

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## ***COMPLIANCE SECTION***

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Holly Hill, Florida, Firefighters' Retirement System (the "Fire System"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Fire System's basic financial statements, and have issued our report thereon dated February 25, 2015.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fire System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-1 and 2013-2.

### **Fire System's Response to Findings**

The Fire System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Fire System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

BMC CPAs

February 25, 2015

## SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended September 30, 2014

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

### COMPLIANCE AND OTHER MATTERS

**Original  
Year -  
Finding  
Number**

#### **2013-1 Complete Minutes of Trustee Board Meetings**

Condition: During the conduct of the audit, we continued to note that formal written minutes of the meetings of the System's Board of Trustees are transcribed, but are not maintained in sufficient detail to adequately describe many of the official actions taken by the board in the conduct of their meetings. In many instances, we continued to note that the minutes did not always identify the names and titles of all board members in attendance, or who are absent, or provide sufficient details concerning significant portfolio investment decisions made by the Board. Transcriptions of other activities are not always complete and, in many instances, do not fully describe other Board actions that are taken to support determination of member benefit payments, returns and withdrawals, or document actual presentations and approvals for payments of member benefits and other administrative expenses presented to the Board for approval and subsequent payment.

Criteria: Section 175.061(2), Florida Statutes, provides that the trustees of any local law plan created under this chapter shall elect from their number a chairman and a secretary, the latter of which is charged with keeping a complete minute book of the actions, proceedings, or hearings of the board.

Cause and Effect of Condition: During each of the last two years, the Fire System's board of trustees experienced a turnover in officers and members thereby causing changes in the assignment of these administrative tasks. As a result, the individuals assigned with the comprehensive duty of recording and transcribing the business affairs of the board may not have been familiar with the requirements associated with the documentation of these events.

Recommendation: We recommend that the Board should consider making inquiries of the plan sponsor to determine if they would be willing to accept the assignment of the responsibility to attend the quarterly Board meetings for the purpose of developing a complete minute book of the actions, proceedings, or hearings of the board to meet these stringent requirements.

Auditee Response: *The Board will work directly with the plan sponsor to obtain assurance that all actions, proceedings and hearings of the governing board are recorded and/or transcribed in the minutes of meetings of the Board in accordance with all legal requirements.*

#### **2013-2 Miscellaneous Documentation Requirements**

Condition: At the end of each month, the System's trustee is responsible for the preparation and payment of all current and recurring monthly financial transactions, including those for participant benefit payments, lump-sum distributions, insurance premiums, and required federal withholdings as well as those incurred for the System's administrative expenses. However, copies of the underlying documentation necessary to support the sufficiency and accuracy of these

payments are not currently provided to the plan sponsor, who has been delegated the fiduciary responsibility for the Fire System's accounting and recordkeeping functions.

Criteria: Section 175.071(1)(e), Florida Statutes, provides that the trustees of any plan created under this chapter shall keep a complete record of all receipts and disbursements and the board's acts and proceedings. In addition, the applicable sections of the federal internal revenue code require that all benefit payments are subject to federal withholding taxes which should be prepared in a manner that facilitates the ability to confirm the calculations for withholding are reasonable.

Cause and Effect of Condition: At the end of each month, the System Trustee (Salem Trust Company) prepares a monthly pension check register which includes the various components of the monthly benefit payments (i.e., monthly benefit and supplemental payment, insurance premiums withheld, and federal income taxes withheld, etc.). However, we continued to note that copies of the monthly registers were not provided directly to the plan sponsor, who is responsible for recording the financial activities of the Fire System and for ascertaining and documenting compliance with the various laws and regulations affecting the plan.

Recommendation: We recommend that the Board should consider requesting the Fire System trustee to provide all necessary documentation to the plan sponsor that is sufficient to ensure that the monthly payments are complete and prepared in accordance with applicable federal withholding requirements.

Auditee Response: *The Board has been informed that the current trustee has committed to provide copies of the monthly pension check register and other associated documentation directly to the plan sponsor, who is responsible for the Fire System's accounting procedures, on a timely basis.*