

**CITY OF HOLLY HILL, FLORIDA**

**FIREFIGHTERS' RETIREMENT SYSTEM**



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

***YEARS ENDED SEPTEMBER 30, 2013 AND 2012***

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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 "System"), which comprise the statements of net position available for benefits and of accumulated plan benefits as of September 30, 2013 and 2012, and the related statements of changes in net position available for benefits and of changes in accumulated plan benefits 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 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 financial status of the System as of September 30, 2013 and 2012, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and contributions from employer and other contributing entities, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 12, 2014, on our consideration of the 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.

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

February 12, 2014



## ***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, 2013 and 2012. 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 presents prior year comparative financial information when applicable and meaningful.

### Financial Highlights

- The Fire System's net position held in trust for pension benefits increased by \$142,913 to \$3,476,718 at the end of 2013, compared to an increase of \$459,845 to \$3,333,805 at the end of 2012.
- While investment income was down slightly during 2013 compared to 2012, the Fire System's earnings resulted in positive performance for both years. For the year ended September 30, 2013, net investment income was \$367,540, compared to net investment income of \$434,803 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, 2013, combined plan sponsor and member contributions totaled \$292,006, compared to contributions totaling \$180,729 one year earlier. Plan member contributions increased by 14.0% in 2013 and totaled \$43,993, compared to \$38,585 in 2012, as the result of 3 additional firefighters being added to the plan. Plan sponsor contributions increased to \$248,013 in 2013, compared to \$142,144 in 2012 as the result of an increase in the actuarially computed minimum employer contribution requirement. Plan sponsor contributions include State premium tax monies and firefighters' supplemental payments received from the State of Florida under the revenue sharing provisions outlined in Chapter 175, which totaled \$60,550 and \$56,964 in 2013 and 2012, 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 2013 and 2012. The plan sponsor (employer) portion of the annual contribution requirement totaled approximately 45.1% and 26.2% of covered wages in 2013 and 2012, respectively, both of which include amounts representing the state premium tax distributions in 2013 and 2012.
- Monthly benefit payments increased by \$50,901 in 2013 and totaled \$182,319, due primarily to the effect of the addition four new retirees earning monthly benefits in 2013. During 2013, three Deferred Retirement Option Program ("DROP") distributions totaling \$312,438 were made, compared to one refund/withdrawal of \$1,180 made during the prior year.

## Overview of Basic Financial Statements

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

- ***The Statement of Plan Net 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 Plan 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.

### Plan Net Position

Combined total assets of the Fire System were \$3,485,023 and \$3,339,648 at the end of fiscal year 2013 and 2012, respectively. For fiscal year 2013, the Fire System's net position held in trust for benefits increased by \$142,913, or 4.2% of average assets, to \$3,476,718, compared to an increase of \$459,845, or 13.8% of average assets, to \$3,333,805 for fiscal year 2012. The increases for both fiscal years 2013 and 2012 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 73% and 71%, respectively, of the total investments at year end.

The overall mix of investments in the Fire System's portfolio remained relatively unchanged in 2013, compared to a similar investment mix in 2012. The plan's investments in U.S Treasury obligations and government agencies decreased by \$66,692 in 2013 and totaled \$224,156, or 6.5% of the total portfolio. Investment concentrations in corporate and municipal bond obligations increased by \$38,732 in 2013 and totaled \$685,146, or 19.8% of the portfolio. The significant increase in the portfolio came from plan investments in domestic and international mutual funds, which totaled \$1,920,145, or 55.5% of the portfolio, and \$538,161, or 15.6% of the portfolio, respectively. Amounts invested in cash, money market fund, and other cash equivalents remained relatively stable in 2013 and represented approximately 2.6% of the portfolio. 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.

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

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

### PLAN NET POSITION

September 30,

	2013	2012	2011
<b>Assets:</b>			
Cash and cash equivalents.....	\$ 91,432	111,703	106,207
Receivables.....	23,144	23,486	29,992
Prepaid expenses.....	2,839	2,574	-
Investments, at fair value.....	<u>3,367,608</u>	<u>3,201,885</u>	<u>2,764,071</u>
<b>Total assets.....</b>	<b><u>3,485,023</u></b>	<b><u>3,339,648</u></b>	<b><u>2,900,270</u></b>
<b>Liabilities:</b>			
Accounts payable.....	8,305	5,843	6,485
Deferred revenue-unearned contributions.....	<u>-</u>	<u>-</u>	<u>19,825</u>
<b>Total liabilities.....</b>	<b><u>8,305</u></b>	<b><u>5,843</u></b>	<b><u>26,310</u></b>
<b>Net Position:</b>			
Net position held in trust for pension benefits.....	<u><u>\$ 3,476,718</u></u>	<u><u>3,333,805</u></u>	<u><u>2,873,960</u></u>

### Changes in Plan Net Position

Fire System members are required to contribute 8% of their compensation to the plan. In 2013, member 8% contributions to the plan totaled \$43,993, compared to \$38,585, one year earlier. Pensionable payroll increased from \$486,099 in 2012, to \$690,628 in 2013, or an increase of 42.1%. The resultant change in covered payroll 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, 2013, 2012, and 2011. 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 plan sponsor (City of Holly Hill) to meet actuarially determined minimum funding requirements. Employer and state contributions for fiscal year 2013 totaled \$248,013, an increase of \$105,869 (74.5%) over 2012 contributions totaling \$142,144. In the prior year, employer and state contributions totaled \$142,144, an increase of \$17,321 (13.9%) over 2011 contributions totaling \$124,823.

For fiscal year ended September 30, 2013, the Plan had a net investment gain of \$367,540, a decrease of \$67,263 below the gain of \$434,803 recognized one year earlier. The gains for both years can be primarily attributed to the net appreciation in the fair value of the Plan's investment portfolio, primarily the increase in value of domestic and international mutual fund investments.

Total benefit payments recorded were \$494,757 in 2013, compared to payments totaling \$132,598 for the period ended September 30, 2012. Amounts paid for recurring monthly retirement payments increased by \$50,901 in 2013 and totaled \$182,319, compared to \$131,418, one year earlier as 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 2012. Retirement withdrawals for 2013 totaled \$-0-, compared to \$1,180 paid out one year earlier. Administrative costs have continued to remain relatively stable for three consecutive years and totaled \$21,876 in 2013, compared to \$23,089 one year earlier.

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

### CHANGES IN PLAN NET POSITION

September 30,

	2013	2012	2011
<b>Additions:</b>			
Employer contributions .....	\$ 187,463	85,180	64,875
Member contributions .....	43,993	38,585	43,043
State contributions .....	60,550	56,964	59,948
Net investment income (loss).....	<u>367,540</u>	<u>434,803</u>	<u>(31,946)</u>
Total.....	<u>659,546</u>	<u>615,532</u>	<u>135,920</u>
<b>Deductions:</b>			
Benefit payments and withdrawals.....	494,757	132,598	131,418
Administrative expenses .....	<u>21,876</u>	<u>23,089</u>	<u>22,845</u>
Total.....	<u>516,633</u>	<u>155,687</u>	<u>154,263</u>
Net increase (decrease).....	142,913	459,845	(18,343)
<b>Net position held in trust for pension benefits:</b>			
Beginning of year .....	<u>3,333,805</u>	<u>2,873,960</u>	<u>2,892,303</u>
End of year .....	<u>\$ 3,476,718</u>	<u>3,333,805</u>	<u>2,873,960</u>

### Portfolio Summary

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

### INVESTMENT SUMMARY

September 30,

	2013	2012	2011
Money market funds .....	\$ <u>91,432</u>	<u>111,703</u>	<u>106,207</u>
<b>Investments:</b>			
U. S. Treasury obligations .....	123,777	127,041	150,975
U. S. government agencies.....	100,379	163,807	281,190
Corporate/municipal bonds .....	685,146	646,414	601,390
Corporate equities .....	-	-	305,951
Mutual funds.....	<u>2,458,306</u>	<u>2,264,623</u>	<u>1,424,565</u>
	<u>3,367,608</u>	<u>3,201,885</u>	<u>2,764,071</u>
Total.....	<u>\$ 3,459,040</u>	<u>\$ 3,313,588</u>	<u>2,870,278</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 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, 2013. 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 subsequent to year end on October 8, 2013, to comply with recent 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 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, 2013:

- The Actuarial Valuation Report shows that the market value of assets increased \$145,376 during 2013, and totaled \$8,419,236 as of October 1, 2012. The market value of assets increased \$459,203 during 2012, and totaled \$3,339,614 as of October 1, 2012
- 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, 2012, the actuarial value of the assets (AVA) increased \$185,596 during 2012 to a total of \$3,289,644.
- As of October 1, 2013, the actuarial accrued liability (AAL), or actuarial value of liabilities, decreased during 2013 by \$169,906 to \$4,738,350. As of October 1, 2012, the actuarial accrued liability (AAL), or actuarial value of liabilities, increased during 2012 by \$304,583 to \$4,908,256.
- The ratio of a plan's AVA to AAL, expressed as a percentage, is an indicator of the plan's funding status. Generally, the larger the percentage, the stronger the financial health of the plan. The Fire System's AAL ratio increased to 70.01% during 2013 compared to 67.02% in 2012.
- When a plan's total liabilities exceed the assets available to pay benefits on an actuarial basis, the plan is said to have an unfunded actuarial accrued liability (UAAL). As of October 1, 2013, the Fire System's UAAL was \$1,420,933, a decrease of \$197,679 from the UAAL of \$1,618,612 as of October 1, 2012.
- 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, 2013, the employer fixed rate contribution covers the normal cost and the amortization of the UAAL over the remaining amortization period (25 years as of 10/01/13).

- The Fire System's annualized rate of investment return is determined by increasing the actuarial assets used in the most recent actuarial valuation by the average of the annual market value rate of return (net of investment related expenses) for the past four years and totaled 7.92%. Details of the derivation include annual rates of return of 11.44%, 14.90%, -0.98%, and 6.99% for the plan years ended September 30, 2013, 2012, 2011, and 2010, 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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**STATEMENTS OF PLAN NET POSITION**  
September 30, 2013 and 2012  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

**Statement 1**

	September 30,	
	2013	2012
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Assets:		
Cash and cash equivalents.....	\$ 91,432	111,703
Receivables:		
State contributions receivable.....	16,764	14,220
Interest and dividends receivable.....	6,380	9,266
	<u>23,144</u>	<u>23,486</u>
Prepaid expenses.....	<u>2,839</u>	<u>2,574</u>
Investments, at fair value:		
U.S. Treasury.....	123,777	127,041
U.S. Government Agencies.....	100,379	163,807
Corporate/municipal bonds.....	685,146	646,414
Mutual Funds.....	<u>2,458,306</u>	<u>2,264,623</u>
	<u>3,367,608</u>	<u>3,201,885</u>
Total assets.....	3,485,023	3,339,648
Liabilities:		
Accounts payable.....	<u>8,305</u>	<u>5,843</u>
Net Position		
Net position held in trust for pension benefits.....	\$ <u>3,476,718</u>	<u>3,333,805</u>

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

**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
For the Fiscal Years Ended September 30, 2013 and 2012  
CITY OF HOLLY HILL, FLORIDA  
FIREFIGHTERS' RETIREMENT SYSTEM

**Statement 2**

	September 30,	
	2013	2012
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Additions:		
Contributions from:		
Employer .....	\$ 187,463	85,180
State insurance premium tax distribution .....	43,786	42,744
State firefighters' supplemental compensation trust fund distribution .....	16,764	14,220
Plan members .....	<u>43,993</u>	<u>38,585</u>
Total contributions.....	<u>292,006</u>	<u>180,729</u>
Investment income (losses):		
Net realized and unrealized appreciation		
(depreciation) in fair value of investments .....	298,027	366,277
Interest and dividend earnings .....	<u>90,380</u>	<u>90,494</u>
	388,407	456,771
Less: investment management fees .....	<u>(20,867)</u>	<u>(21,968)</u>
Total investment (losses) income .....	<u>367,540</u>	<u>434,803</u>
Total (deductions) additions .....	<u>659,546</u>	<u>615,532</u>
Deductions:		
Benefit payments .....	182,319	131,418
Refunds/withdrawals .....	312,438	1,180
Administrative expenses .....	<u>21,876</u>	<u>23,089</u>
Total deductions.....	<u>516,633</u>	<u>155,687</u>
Net (decrease) increase .....	142,913	459,845
Net position held in trust for pension benefits:		
Beginning of year .....	<u>3,333,805</u>	<u>2,873,960</u>
End of year .....	<u>\$ 3,476,718</u>	<u>3,333,805</u>

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

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

#### **Reporting Entity**

The accompanying financial statements present only the System and are not intended to present the financial position or results of operations of the City of Holly Hill, Florida. The System is included in the City's Comprehensive Annual Financial Report (CAFR) for the years ended September 30, 2013 and 2012, which are separately issued documents. Anyone wishing further information about the City is referred to its CAFR.

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

#### **Basis of Accounting**

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

#### **Cash and Cash Equivalents**

The 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, 2013 and 2012, the carrying amount of the System's cash and money market funds totaled \$91,432 and \$111,703, 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.

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

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **Investments**

Investments are reported at fair value and are managed by the Fund's Board of Trustees and a third party money manager. The Trustees of the Fund have adopted a comprehensive written investment policy, which is in compliance with Chapter 112, Florida Statutes. Investments in the Fund are reported at fair value based on quoted market prices using various third-party pricing sources. Short-term investments are reported at fair 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. Performance reporting, administrative expenses, and the City's asset valuation are based on quoted market prices provided by the custodian.

### **Net Position**

Net position of the System is the difference between total plan assets and total plan liabilities and is held in trust for pension benefits.

### **Contributions**

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

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

### **Investment Income**

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 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 System. Refunds and withdrawals are paid upon request following termination.



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

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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### **Use of Estimates**

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

### **New Accounting Standards**

In June 2012, GASB issued 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 provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013, which is the System's fiscal year 2014. The impact to the System's financial reporting has not been determined.

### **Reclassifications**

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

## **NOTE 2 – DESCRIPTION OF PLAN**

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

The Florida Constitution requires local governments to make the actuarially determined contribution to their defined benefit plans. The Florida Division of Retirement reviews each local government's actuarial report prior to its being appropriated for use for funding purposes. Additionally, the state collects a locally authorized insurance premium surcharge for the System on certain real and personal property insurance policies underwritten in the corporate limits of the City which can only be distributed after the State has ascertained that the local government has met its actuarial funding requirement for the most recently completed fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

	<u>2013</u>	<u>2012</u>
Service retirees currently receiving benefits .....	9	5
Beneficiaries currently receiving death benefits .....	0	0
Beneficiaries currently receiving disability benefits.....	0	0
Vested terminated employees .....	0	1
Employees receiving DROP benefits.....	0	3
Active employees.....	<u>13</u>	<u>10</u>
 Total participants.....	 <u>22</u>	 <u>19</u>

On October 8, 2013 (latest amendment date), the System amended its plan provisions with the adoption of Ordinance No. 2943. The following is a summary of the significant Plan provisions:

Eligibility	Full-time employees who are classified as fulltime Firefighters shall participate in the System as a condition of employment.
Credited Service	Total years and fractional parts of years of service with the City as a Firefighter.
Earnings	Total compensation reportable on Form W-2 plus tax deferred, tax sheltered or tax exempt items of income, including sick leave incentive, cleaning or 10-10 allowances, or any other payments.
Average Monthly Earnings	Average Earnings for the best 5 years during the 10 years immediately preceding termination.
Member Contributions	8.0% of salary.
City and State Contributions	Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Part VII of Chapter 112, Florida Statutes.

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

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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Normal Retirement Date	Earlier of Age 50 and 6 years of Credited Service or completion of 25 years of Credited Service, regardless of age.
Normal Retirement Benefit	3.0% of Average Monthly Earnings times Credited Service.
Form of Benefit	Ten Year Certain and Life Annuity (options available).
Supplement	Retirees receive \$19.00 per month per year of Credited Service payable to the date on which unreduced Social Security benefits become payable.
Early Retirement Eligibility	Age 48 and 6 Years of Credited Service.
Early Retirement Benefit	Accrued benefit, actuarially reduced for each year that Early Retirement precedes Normal Retirement (determined as if employment continued).
Vesting Schedule	100% after 6 years of Credited Service.
Vesting Benefit Amount	Member will receive the vested portion of his (her) accrued benefit payable at the otherwise Normal Retirement Date.
Disability Eligibility	Service Incurred: Covered from date of employment. Non-Service Incurred: 10 years of Credited Service.
Disability Benefit	Benefit accrued to date of disability but not less than 42% of Average Monthly Earnings (Service Incurred).
Disability Duration	Payable for life with ten years certain or until recovery (as determined by the Board). Options are available.
Pre-Retirement Death Benefits	If Not Vested: Designated Beneficiary shall receive a refund of the Member's Contributions. If Vested: Monthly accrued benefit payable at the Member's Normal Retirement Date to designated beneficiary for 10 years, options available.
Board of Trustees	a. Two Commission appointees, b. Two Members of the Department elected by the membership, and c. Fifth Member elected by other 4 and appointed by Commission.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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Deferred Retirement Option Plan (DROP) Eligibility	Eligibility for Normal Retirement.
DROP Participation	Not to exceed 60 months.
DROP Rate of Return	6.50% per annum, credited quarterly.
DROP Form of Distribution	Lump sum at termination of employment.

The City provides contributions to the System under the authority of Chapter 175, Florida Statutes, and pursuant to City ordinances. The ordinances also require the City to make an annual contribution to the Fund at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The City is obligated by law to make all required contributions to the Fund.

The City's actuarial valuation dated October 1, 2013 is utilized to determine the contributions to the System for the year ending September 30, 2015. Pursuant to the System's actuarial valuation dated October 1, 2011, the City's total minimum required contribution was reported to be a fixed percentage equal to 53.1% of the covered payroll, rather than being reported as a fixed minimum contribution amount. After adjusting the required contribution rate for member contributions at 8% of covered payroll, the remaining percentage rate of 45.1% is required to be funded by the employer with a combination of state excise tax premium distributions and mandatory employer contributions. A one-time adjustment is allowed to provide the City the opportunity to true-up, or true-down the employer's pro-rata share of the required contribution, after consideration of the actual state excise tax premium distribution collected during the year.

For the year ended September 30, 2013, the actuarially determined required contribution of 53.1% of covered payroll (\$549,917) totaled \$292,006. Actual contributions from members representing 8% of covered payroll totaled \$43,993, which produced a required minimum employer contribution representing 45.1% of payroll or \$248,013. Amounts actually contributed by the City during the year ended September 30, 2013, totaled \$248,013, including state excise tax premium distributions and other state provided funds totaling \$60,550, which was equal to the actuarially determined minimum contribution.

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

Valuation Date.....	October 1, 2013
Actuarial Value of Plan Assets.....	\$3,317,417
Actuarial Accrued Liability (AAL) —Entry Age .....	\$4,738,350
Unfunded AAL (UAAL) .....	\$1,420,933
Funded Ratio .....	70.01%
Annual Covered Payroll .....	\$690,628
UAAL as % of Covered Payroll.....	205.75%

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

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

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

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

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

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS**

At September 30, 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>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,367,608</u>	<u>2,529,237</u>	<u>428,547</u>	<u>307,181</u>	<u>102,643</u>

At September 30, 2012, 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.....	\$ 127,041	-	34,980	49,875	42,186
U.S. Government Agencies.....	163,807	-	2,585	11,792	149,430
Corporate/municipal bonds.....	646,414	-	250,178	363,664	32,572
Mutual Funds-international.....	455,578	455,578	-	-	-
Mutual Funds-domestic.....	<u>1,809,045</u>	<u>1,809,045</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,201,885</u>	<u>2,264,623</u>	<u>287,743</u>	<u>425,331</u>	<u>224,188</u>

*Credit Risk.* The System's investment policies are governed by state statutes (Chapter 175, F.S.) and by an investment policy adopted by its Board of Trustees. The basic allowable investment instruments include obligations of, or obligations the principal and interest of which are guaranteed by, the U.S. Government; time deposits or savings accounts of a national bank, a state bank insured by the Federal Deposit Insurance Corporation, or a savings, building and loan association insured the Federal Savings and Loan Insurance Corporation; money market accounts that invest in U.S. Government obligations; bonds issued by the State of

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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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.

*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 73.0% 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 3.7% of the System's investments, typically include discounted, fixed-price notes and bonds that mature within fifteen to thirty years. The fair values of these investments are less sensitive to interest rate increases since they are held to maturity. Investments in mortgage backed securities, which represents approximately 3.0% 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 20.3% 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, 2013 and 2012, the System had no deposits with Qualified Public Depositories.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2013 and 2012, the System has custodial credit risk exposure of \$3,367,608 and \$3,201,885, respectively, for investments, and \$91,432 and \$111,703, respectively, for cash and cash equivalents held by the System's trustees, all of which are uninsured, unregistered and held by the System's brokerage firms, who are also the counterparties for these particular securities.

## NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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*Concentrations of Credit Risk* – Pursuant to the provisions of the System's investment policy (Chapter 42, Article II, Section 42-64(6)(b) of the City's Code of Ordinances), 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:

1. Annuity and life insurance contracts with life insurance companies in amounts sufficient to provide, in whole or in part, the benefits to which all of the members in the fund shall be entitled under the provisions of this system and pay the initial and subsequent premium thereon.
2. Time or savings accounts of a national bank, a state bank insured by the bank insurance fund or a savings/building and loan association insured by the savings association insurance fund which is administered by the Federal Deposit Insurance Corporation or a state or federal chartered credit union whose share accounts are insured by the National Credit Union Share Insurance Fund.
3. Obligations of the United States or obligations guaranteed as to principal and interest by the government of the United States or by an agency of the government of the United States.
4. Bonds issued by the State of Israel.
5. Stocks, commingled funds, mutual funds and bonds or other evidences of indebtedness, provided that:
  - a. Except as provided in subsection (b) below, all individually held securities and all securities in a commingled or mutual fund must be issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia.
  - b. Up to 25 percent of the assets of the fund at market value may be invested in foreign securities.
  - c. The board shall not invest more than five percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent of the outstanding capital stock of that company; nor shall the aggregate of its investments in common stock, capital stock and convertible securities at market exceed 70 percent of the assets of the fund.
6. Real estate investment trusts (REITS) that trade on a major exchange, provided the board shall not invest more than 15 percent at cost of the assets of the fund in REITS.

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

September 30, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

*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>Mutual Fund Maturity</u>	<u>Fair Value</u>
France	1.51%	Euro	N/A	\$ 50,802
Germany	1.49%	Euro	N/A	50,210
Spain	0.55%	Euro	N/A	18,513
Netherlands	0.51%	Euro	N/A	<u>17,167</u>
	4.06%			136,692
Less than 0.4%	1.63%	Various	N/A	54,892
United Kingdom	3.41%	British Pound	N/A	114,736
Japan	3.21%	Japanese Yen	N/A	108,224
Australia	1.19%	Australian Dollar	N/A	40,093
Switzerland	1.55%	Swiss Franc	N/A	52,094
Sweden	0.52%	Swedish Krona	N/A	17,544
Hong Kong	<u>0.41%</u>	Hong Kong Dollar	N/A	<u>13,885</u>
Total	<u>15.98%</u>			<u>\$ 538,160</u>

The Fund's investments in foreign currency were limited to one international mutual fund (Ishares MSCI EAFE Index Fund) at September 30, 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 is 15.98%.

**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, 2013 and 2012

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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**NOTE 5 – FEDERAL INCOME TAX STATUS**

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

**NOTE 6 – SUBSEQUENT EVENTS**

In preparing these financial statements, the System has evaluated events and transactions for potential recognition or disclosure through February 12, 2014, the date the financial statements were available to be issued.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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

September 30, 2013

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Assets in Excess of) AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b - a)/c)
10/01/2013	\$ 3,317,417	\$ 4,738,350	\$ 1,420,933	70.01%	\$ 690,628	205.75%
10/01/2012	\$ 3,289,644	\$ 4,908,256	\$ 1,618,612	67.02%	\$ 486,099	332.98%
10/01/2011	\$ 2,992,822	\$ 4,492,447	\$ 1,499,625	66.62%	\$ 429,175	349.42%
10/01/2010	\$ 3,114,518	\$ 4,340,101	\$ 1,225,583	71.76%	\$ 513,599	238.63%
10/01/2009	\$ 3,067,387	\$ 4,317,679	\$ 1,250,292	71.04%	\$ 630,037	198.45%
10/01/2008	\$ 2,954,229	\$ 4,396,537	\$ 1,442,308	67.19%	\$ 628,094	229.63%

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

Year Ended September 30	Annual Required Contribution	Employer Contributions	State Contributions	Percentage Contributed
2013	\$ 248,013	\$ 187,463	\$ 60,550	100.00%
2012	\$ 126,366	\$ 85,180	\$ 56,964	112.49%
2011	\$ 124,824	\$ 64,875	\$ 59,948	100.00%
2010	\$ 167,424	\$ 105,163	\$ 62,261	100.00%
2009	\$ 197,016	\$ 47,502	\$ 149,514 *	100.00%
2008	\$ 223,749	\$ 223,749	\$ -	100.00%

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

**REQUIRED SUPPLEMENTARY INFORMATION – (Continued)**

September 30, 2013

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

## Contribution rates as of 09/30/2013:

City and state.....	45.1%
Plan Members .....	8.0%
Annual Pension Cost.....	\$252,470
Contributions made.....	\$248,013
Valuation date .....	October 1, 2011
Actuarial cost method .....	Entry Age Normal
Amortization method .....	Level Percent of Pay, Closed
Remaining amortization period.....	27 Years (as of 10/01/2011)
Asset Valuation Method .....	4 Year Smoothed Market
Actuarial assumptions:	
Investment rate of return .....	7.5%, net of investment expenses
Projected salary increases <sup>(1)</sup> .....	6.0%
<sup>(1)</sup> includes inflation at .....	3.0%
Post-retirement cost of living increases (COLA) ..	0.0%

**THREE YEAR TREND INFORMATION**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2013 .....	\$252,470	98%	\$ (73,496)
09/30/2012 .....	\$128,921	110%	\$ (77,953)
09/30/2011 .....	\$67,286	96%	\$ (64,731)

Annual Pension Cost and Contributions Made include State Monies beginning with the fiscal year ended September 30, 2012.

This municipal Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (part VII, Chapter 112, Florida Statutes) in 1980. Accordingly, the sponsor has funded the actuarially determined required contributions for all years from October 1, 1987, through the transition date, October 1, 1997. Thus, the Net Pension Obligation on October 1, 1997 was \$-0-.

**REQUIRED SUPPLEMENTARY INFORMATION – (Continued)**

September 30, 2013

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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

	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2013</u>
Actuarially determined contribution .....	\$ 64,875	126,366	248,013
Interest on NPO .....	(5,036)	(4,855)	(5,846)
Adjustment .....	<u>7,447</u>	<u>7,410</u>	<u>10,303</u>
Annual Pension Cost .....	67,286	128,921	252,470
Contributions made .....	<u>64,875</u>	<u>142,143</u>	<u>248,013</u>
Increase in NPO .....	2,411	(13,222)	4,457
NPO - beginning of year .....	<u>(67,142)</u>	<u>(64,731)</u>	<u>(77,953)</u>
NPO - end of year .....	<u>\$ (64,731)</u>	<u>(77,953)</u>	<u>(73,496)</u>

Actuarially Determined Contribution and Contributions Made include State Monies beginning with the fiscal year ended September 30, 2012.

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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 "System"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 12, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 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 and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

#### City of Holly Hill, Florida Firefighters' Retirement System Response to Findings

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The 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.



February 12, 2014

## **SCHEDULE OF FINDINGS AND RESPONSES**

Fiscal Year Ended September 30, 2013

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

### **COMPLIANCE AND OTHER MATTERS**

#### **Finding Number**

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

Condition: During the conduct of the audit, we noted that formal written minutes of the meetings of the System's Board of Trustees are prepared and subsequently approved by the Board. However, in some instances, we noted that it was not always possible to ascertain the full names of all individuals in attendance at the meeting(s) or to determine if the transcriptions in the official minutes were sufficient to fully describe all actions taken by the board in the conduct of their meetings.

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 the fiscal year, the 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 consider requesting the plan sponsor to assign an individual to attend the quarterly board meetings for the purpose of recording and transcribing the actions taken by the Board.*

## SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

Fiscal Year Ended September 30, 2013

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

### **Finding Number**

#### **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 these payments are not currently provided to the plan sponsor, who is responsible for the 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 noted that copies of the monthly registers are not provided directly to the plan sponsor, who is responsible for recording the financial activities of the 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 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: *Steps will be taken by a representative of the Board of Trustees to ensure that the System Trustee is provided with a formal authorization to remit the monthly pension check register and other associated documentation directly to the plan sponsor on a timely basis.*