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City of Holly Hill, Florida Firefighters' Retirement System

Financial Statements

And

Other Financial Information

For the Years Ended
September 30, 2007 and 2006

COPY

CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM



FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORTS

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the City of Holly Hill, Florida Firefighters' Retirement System as of September 30, 2007 and 2006 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City of Holly Hill, Florida Firefighters' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the accompanying financial statements present only the City of Holly Hill, Florida Firefighters' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Holly Hill, Florida, as of September 30, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Holly Hill, Florida Firefighters' Retirement System as of September 30, 2007 and 2006, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2008 on our consideration of City of Holly Hill, Florida Firefighters' Retirement System's internal control over financial reporting and our tests of the compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

The City of Holly Hill, Florida Firefighters' Retirement System has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying schedules of funding progress and contributions from employer and other contributing entities on page 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brent Milliken & Co., P.A.

February 15, 2008

FINANCIAL STATEMENTS

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STATEMENTS OF PLAN NET ASSETS
September 30, 2007 and 2006
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

Statement 1

	September 30,	
	2007	2006
Assets:		
Cash and cash equivalents.....	\$ 152,643	\$ 136,011
Receivables:		
Employee contributions receivable.....	1,364	2,876
State contributions receivable.....	24,252	9,945
Employer receivable.....	27,094	81
Interest and dividends receivable.....	9,906	7,971
	<u>62,616</u>	<u>20,873</u>
Investments, at fair value:		
U.S. Government Obligations.....	224,003	396,600
Mortgage backed securities.....	269,340	34,300
Domestic corporate bonds.....	219,755	158,840
Domestic corporate equities.....	1,953,110	1,759,612
	<u>2,666,208</u>	<u>2,349,352</u>
Total assets.....	2,881,467	2,506,236
Liabilities:		
Accounts payable.....	<u>4,511</u>	<u>4,081</u>
Net Assets:		
Net assets held in trust for pension benefits.....	<u>\$ 2,876,956</u>	<u>\$ 2,502,155</u>

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Fiscal Years Ended September 30, 2007 and 2006
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

Statement 2

	September 30,	
	2007	2006
Additions:		
Contributions from:		
Employer	\$ 155,785	\$ 99,546
State insurance premium tax distribution	45,564	43,732
State firefighters' supplemental compensation trust fund distribution	24,252	9,945
Plan members	<u>44,427</u>	<u>75,941</u>
Total contributions.....	<u>270,028</u>	<u>229,164</u>
Investment income:		
Net realized and unrealized appreciation (depreciation) in fair value of investments	258,354	64,947
Interest and dividend earnings	<u>71,570</u>	<u>81,874</u>
	329,924	146,821
Less: investment management fees	<u>(20,223)</u>	<u>(18,977)</u>
Total investment income	<u>309,701</u>	<u>127,844</u>
Total additions	<u>579,729</u>	<u>357,008</u>
Deductions:		
Benefit payments	163,688	130,848
Refunds/withdrawals	16,996	28,490
Administrative expenses	<u>24,244</u>	<u>22,207</u>
Total deductions.....	<u>204,928</u>	<u>181,545</u>
Net increase	374,801	175,463
Net assets held in trust for pension benefits:		
Beginning of year	<u>2,502,155</u>	<u>2,326,692</u>
End of year	<u>\$ 2,876,956</u>	<u>\$ 2,502,155</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, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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 represent 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, 2007 and 2006, which are separately issued documents. Anyone wishing further information about the City is referred to the City's CAFR.

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

Basis of Accounting

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

Cash and Short-Term Investments

The System's cash and cash equivalents are considered to be cash on deposit, money market funds, and short-term investments with original maturities of three months or less from the date of acquisition. At September 30, 2007, the carrying amount of the System's cash funds totaled \$152,643, all of which is maintained in a brokerage security trust account and is exempt from federally insured FDIC protection.

Investments

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)
September 30, 2007 and 2006
CITY OF HOLLY HILL, FLORIDA
FIREFIGHTERS' RETIREMENT SYSTEM

Net Assets

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

Contributions

Contributions of funds are received from the City at actuarially determined rates in accordance with Chapter 112, Florida Statutes, the State of Florida, pursuant to the provisions of Chapter 175, Florida Statutes, which allocates premium taxes collected on certain insurance policies written on property located within the City, and active plan participants.

The City has traditionally contributed amounts equaling or exceeding the annual required contribution (ARC) and thus has never had, or needed to report, a net pension benefit obligation (NPO).

Investment Income

Realized and unrealized gains/losses are aggregated and recognized under the caption Net Realized and Unrealized Appreciation (Depreciation) in Fair Value of Investments.

Expenses

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

The System is contributory and employee 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 termination.

Use of Estimates

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

Reclassifications

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

NOTE 2 – DESCRIPTION OF PLAN

The City provides a single-employer defined benefit pension plan for all firefighters, which assets are included in the Firefighters' Retirement System. The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which created 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 act also provides that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the funds by an appropriation from current funds or from any revenues which may be lawfully used for said purposes in an amount sufficient to 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 third-party fund custodians.

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

All full-time, uniformed firefighters are eligible (and required as a condition of employment) to participate in the System upon employment with the City. Employees vest with full benefits after 10 years of service. Members are eligible for normal retirement after attaining age 50 with 10 years of credited service. Members are eligible for early retirement after attaining age 48 with 10 years of service. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees.

Membership in the System consisted of the following as of October 1:

	<u>2006</u>	<u>2005</u>
Service retirees currently receiving benefits.....	5	5
Beneficiaries currently receiving death benefits.....	0	1
Vested terminated employees	2	1
Active employees:		
Fully vested.....	0	0
Nonvested	<u>15</u>	<u>16</u>
Total participants.....	<u>22</u>	<u>23</u>

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

In December 2006, the System amended its plan provisions with the adoption of Ordinance No. 2788. The following is a summary of the significant provisions:

Eligibility	All full-time firefighters.
Contributions	Employee-5.0% of salary. Employer-Amount required to pay current costs and amortize unfunded past service cost.
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 \$18.50 per month per year of credited service payable to the date on which unreduced Social Security benefits become payable.
Early Retirement Eligibility	Age 48 and 6 years of credited service.
Early Retirement Benefit	Accrued benefit, actuarially reduced for each year that early retirement precedes normal retirement.
Vesting Schedule	100% after 6 years of credited service
Vesting Benefit Amount	Member will receive the vested portion of accrued benefit payable at the otherwise normal retirement date.
Disability Eligibility	Service incurred-Covered from date of employment. Non-service incurred-10 years of credited service.
Disability Benefit	Benefit accrued to date of disability, but not less than 42% of average monthly earnings (service incurred).
Duration of Disability Benefits	Payable for life with ten years certain or until recovery.
Pre-retirement Death Benefits	Not Vested-Beneficiary shall receive 100% of member contributions. Vested-Monthly accrued benefit payable at the member's normal retirement date to designated beneficiary for 10 years, options available. Minimum Benefit for Spouse if Member dies in active service and is vested-50% of salary at time of death payable for life of the spouse.
Deferred Retirement Option Plan	Eligibility-Eligibility for normal retirement. Participation-Not to exceed 36 months. Rate of Return-6.50% per annum, credited quarterly. Form of Distribution-Lump sum at termination of employment.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

The City provides contributions to the System under the authority of Chapter 175, Florida Statutes and pursuant to City ordinances. Employees covered under the plan are required to make contributions of 5% of their compensation (10% prior to December 12, 2006). City contributions to the System are made as needed to fund any actuarial deficiency. If an employee leaves covered employment or dies before 6 years of credited service, accumulated employee contributions, plus interest, are refunded to the employee or a designated beneficiary. The ordinances also require the City to make an annual contribution to the System at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The City is obligated by law to make all required contributions to the System.

For the year ended September 30, 2007, the actuarially determined total required contribution is \$265,122, of which it is actuarially estimated that \$39,521 will be recovered through member contributions. The remaining \$225,601 represents the net funding obligation that is required to be contributed by the City for the year ended September 30, 2007. Amounts actually contributed by the City during the year ended September 30, 2007 totaled \$198,507 (including state contributions of \$69,816), which did not meet the actuarially computed minimum annual required contribution. The funding shortfall, in the amount of \$27,094, has been accrued as a contribution due from the City at September 30, 2007.

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

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

At September 30, 2007, the System had the following investments and maturities:

	Fair Value	Investment Maturities			
		Less than 1	1 to 5	6 to 10	Over 10
U.S. Government Obligations...	\$ 224,003	45,323	66,883	81,034	30,763
Mortgage backed securities.....	269,340	-	-	11,448	257,892
Domestic corporate bonds.....	219,755	-	82,917	110,193	26,645
Domestic corporate equities.....	<u>1,953,110</u>	<u>1,953,110</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,666,208</u>	<u>1,998,433</u>	<u>149,800</u>	<u>202,675</u>	<u>315,300</u>

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

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

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 74% of its net assets in domestic corporate equities, which fair value varies in conjunction with changes in the NYSE and NASDAQ stock index prices. Investments in U.S Government obligations, which represent approximately 8% of the System's investments, typically include discounted, fixed-price notes and bonds that mature within fifteen to twenty years. The fair values of these investments are less sensitive to interest rate increases since they are held to maturity. Investments in mortgage backed securities, which represents approximately 10% of the System's investments, typically include long-term, fixed-rate collateralized mortgage obligations with maturities ranging from one to twenty years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate bonds, which represent approximately 8% 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, 2007, the carrying amount of the Systems deposits was \$0.

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, 2007, the System has custodial credit risk exposure of \$2,666,208 for investments, and \$162,549 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, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

Concentrations of Credit Risk - No other investments (other than those issued or guaranteed by the U.S. government) are made in any one organization that represent 5 percent or more of plan net assets, except as follows:

<u>Investment</u>	<u>Investment Amount</u>	<u>Percent of Portfolio</u>
Janus Advisor Risk Management Growth Fund I.....	\$580,600	21.8%
iShares Lehman Treas Inf (1,775 shares).....	181,103	6.8%
iShares MSCI EAFE Index Fund (3,050 shares).....	251,900	9.4%
iShares Russell Midcap Index Fund (2,550 shares).....	275,859	10.3%

NOTE 3 – RISKS AND UNCERTANTIES

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule 1

September 30, 2007 and 2006

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)
10/01/2006	\$ 2,540,064	\$ 4,206,459	\$ 1,666,395	60.38%	\$ 765,112	217.80%
10/01/2005	\$ 2,312,599	\$ 3,318,215	\$ 1,005,616	69.69%	\$ 734,633	136.89%
10/01/2004	\$ 2,154,101	\$ 2,954,838	\$ 800,736	72.90%	\$ 590,000	135.72%
10/01/2003	\$ 2,120,170	\$ 2,120,170	\$ -	100.00%	\$ 466,503	0.00%
10/01/2002	\$ 2,100,744	\$ 2,100,744	\$ -	100.00%	\$ 467,323	0.00%
10/01/2001	\$ 2,089,520	\$ 2,089,520	\$ -	100.00%	\$ 402,803	0.00%

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

Year Ended September 30	Annual Required Contribution	Employer Contributions	State Contributions	Percentage Contributed
2006	\$ 135,419	\$ 99,546	\$ 35,873 *	100.00%
2005	\$ 158,624	\$ 122,751	\$ 35,873 *	100.00%
2004	\$ 125,005	\$ 96,928	\$ 35,873 *	106.24%
2003	\$ 102,484	\$ 74,407	\$ 28,077 *	100.00%
2002	\$ 97,604	\$ 69,527	\$ 28,077 *	100.00%
2001	\$ 70,960	\$ 60,875	\$ 28,077 *	125.36%

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

Source: Foster & Foster, Inc., Actuaries
Valuation dated 10/01/2006

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 latest actuarial valuation is as follows:

Contribution rates as of 09/30/2006:

City.....	16.1%
Plan Members	10.0% (5% effective 12/12/06)
Valuation date	October 1, 2004
Actuarial cost method	Entry Age Normal (as of 10/01/06)
Amortization method	Level Percent of Pay, Closed
Remaining amortization period.....	30 Years
Asset Valuation Method	4 Year Smoothed Market
Actuarial assumptions:	
Investment rate of return	7.5%, net of investment expenses
Projected salary increases ⁽¹⁾	6.0%
⁽¹⁾ includes inflation at	3.0%
Post-retirement cost of living increases (COLA) ..	0.0%

THREE YEAR TREND INFORMATION

Fiscal Year Ending	Actuarially Determined Contribution	Percentage of ADC Contributed	Net Pension Obligation
09/30/2006	\$99,546	100%	\$ (61,044)
09/30/2005	\$122,751	100%	\$ (59,326)
09/30/2004	\$89,132	109%	\$ (60,289)

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-.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - (Continued)

September 30, 2007 and 2006

CITY OF HOLLY HILL, FLORIDA

FIREFIGHTERS' RETIREMENT SYSTEM

The development of the Net Pension Obligation (NPO) in the Fire Plan through October 1, 2006 is as follows:

	<u>9/30/2004</u>	<u>9/30/2005</u>	<u>9/30/2006</u>
Actuarially determined contribution	\$ 89,132	122,751	99,546
Interest on NPO	(4,116)	(4,522)	(4,449)
Adjustment	<u>6,508</u>	<u>5,485</u>	<u>2,731</u>
Annual Pension Cost	91,524	123,714	97,828
Contributions made	<u>96,928</u>	<u>122,751</u>	<u>99,546</u>
Increase in NPO	(5,404)	963	(1,718)
NPO - beginning of year	<u>(54,885)</u>	<u>(60,289)</u>	<u>(59,326)</u>
NPO - end of year	\$ <u>(60,289)</u>	<u>(59,326)</u>	<u>(61,044)</u>

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COMPLIANCE SECTION

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

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

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

We have audited the financial statements of the City of Holly Hill, Florida (the "City") Firefighters' Retirement System (collectively the "System") as of and for the year ended September 30, 2007, and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

Centralization of Personnel Data

During the process of reviewing the System's compliance with the various plan policies and elections, we noted that the City's employee personnel files for qualifying participants did not include copies of many of the System's formal plan elections including acknowledgement of plan membership, written request for confidentiality, or the member's designation of beneficiary. Furthermore, after inquiring about the status of these and other required Plan documents, we were informed that the all System documents were separately maintained by Fire Department administrative personnel under the supervision of the System's board of trustees.

Recommendation: We recommend that you should seriously consider revising your personnel policies to require the City (employer) to maintain, at a minimum, copies of all plan membership and maintenance documents in qualifying participants' employee personnel files. In addition, we also recommend that you should develop and retain in the City's personnel files appropriate withholding authorization evidence sufficient to document the City's authority to withhold required member contributions from the participants' biweekly payroll.

Actuarial Valuation Data

Annual required contributions to the System are composed of both participant contributions and employer contributions. While participant contributions are fixed at 5% of qualifying payroll, the City's contribution (which typically represents more than 80% of the total) is based on the results of an actuarial valuation performed annually. During the audit, we noted that the actual employment payroll data included and tabulated in the actuarial valuation (dated October 1, 2006) was not in agreement with the City's payroll summary reports. While the amount of the difference was not substantial, the existence of any differences in these amounts could adversely affect the level of accuracy and precision in the development of actuarially computed data that is essential to adequately determine the City's future contributions to the System.

Recommendation: We recommend that steps should be taken to reconcile the participants' payroll data with the actual amounts included in the annual actuarial valuation to determine the City's annual required contribution.

Retired Employee Benefit Determination

During the current year, one qualifying participant retired and requested pension benefits from the System. We also noted that this was the first time in over ten years the System had added a new member to its service retirees currently receiving benefits. In the process of determining and computing the average final compensation for the current year retiree, we noted that the City erroneously reported the inclusion of one-time nonregular payments in the amount of \$24,628, which resulted in an overstatement of the participant's average final compensation by more than \$413 per month.

We concur with the City's conclusion that the employee's unused sick pay benefits and accumulated compensatory time should be included in the determination of the retiree's actual final payroll. However, while these amounts were included in the participant's income, and were subject to the required 5% withholding for his pension contribution, we do not concur with the City's inclusion of these amounts for determining the employee's average final compensation. To the contrary, we believe that these amounts represent substantial "nonregular payments" which should not be included in the determination of average final compensation in accordance with the System's definition of "earnings" as defined in Chapter 42, Section 42-81, Holly Hill Code of Ordinances, which follows (emphasis added with underline):

"...*Earnings* means the total compensation for services rendered to the city as a firefighter reportable on the member's W-2 form plus all tax deferred, tax sheltered, or tax exempt items of income derived from elective employee payroll deductions or salary reductions, excluding sick leave incentive, cleaning and 10-10 allowances, or and any other nonregular payments."

Recommendation: We recommend that you should review and appropriately adjust the computation of the retired employee's average final compensation so that the required monthly benefit payment can be adjusted to the correct amount at the earliest possible convenience.

Required Employer Contributions

During the audit, we noted that the City did not contribute the actuarially computed minimum amount to the System for the year ended September 30, 2007. Pursuant to the revised actuarial computations and accompanying actuarial report (dated August 14, 2007), the City was required to remit a current period contribution of at least \$225,601 (total actuarially determined required contribution of \$265,122, less estimated members' contributions of \$39,521). Of this amount, the City was able to offset current period contributions with amounts received from state-shared casualty insurance premium taxes of \$45,564, and state distribution of surplus monies accruing in the Firefighters' Supplemental Compensation Trust Fund of \$24,252, both of which were deposited to the System upon receipt. The remainder of the required contribution (\$155,785) should have been remitted in its entirety by the City prior to the end of the fiscal year. During the fiscal year, actual amounts remitted by the City totaled \$128,691, leaving a funding shortfall of \$27,094. This amount was accrued as a receivable, and recognized as a contribution, at year end.

Recommendation: We recommend that the Trustees should review the status of all System funding and contribution sources on a quarterly basis to ascertain that all required contributions have been made to the System in accordance with plan policies and procedures and that amounts contributed by the City are in agreement with the revised actuarially computed minimum contribution amounts. We also recommend that the current period funding shortfall of \$27,094 be transferred to the System by the City (with a supplemental provision for interest using the plan's interest assumption rate) at the earliest possible convenience to ensure the integrity of the actuarial computations.

To the Board of Trustees
City of Holly Hill, Florida
Firefighters' Retirement System
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in a separate letter dated February 15, 2008.

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

This report is intended solely for the information and use of the Board of Trustees, management, and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.C.

February 15, 2008