

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND



FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

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

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
City of Holly Hill, Florida
Municipal Firefighters' Pension Trust Fund

We have audited the accompanying statements of net assets of the City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund as of September 30, 2004 and 2003 and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund's Board of Trustees and 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 described more fully in Note 1, the accompanying financial statements present only the City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund and do not purport to, and do not, present fairly the financial position of the City of Holly Hill, Florida, as of September 30, 2004 and 2003, and the changes in its financial position and its cash flows, where applicable, 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 City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund as of September 30, 2004 and 2003, and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Board of Trustees
City of Holly Hill, Florida
Municipal Firefighters' Pension Trust Fund
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In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2005 on our consideration of City of Holly Hill, Florida's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedules of funding progress and contributions from employer and other contributing entities on page 10 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.C.

March 9, 2005

STATEMENTS OF PLAN NET ASSETS**Statement 1**

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

	September 30,	
	2004	2003
Assets:		
Cash and cash equivalents	\$ 751	1,552
Investments:		
Money market funds	57,281	51,808
U.S. Treasuries.....	191,425	294,915
U.S. agencies	509,563	324,349
U.S. corporate debt obligations	205,760	236,718
U.S. corporate equities	1,106,242	1,041,829
Accrued interest receivable	8,836	10,569
Due from brokers	13,831	5,948
Due from City of Holly Hill, Florida	2,178	28,721
Due from State of Florida	11,602	11,933
Total assets	<u>2,107,469</u>	<u>2,008,342</u>
Liabilities:		
Accounts payable	<u>7,920</u>	<u>8,976</u>
Net Assets:		
Net assets reserved for employees' pension benefits	\$ <u>2,099,549</u>	<u>1,999,366</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, 2004 and 2003
CITY OF HOLLY HILL, FLORIDA
MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

Statement 2

	September 30,	
	2004	2003
Additions:		
Contributions from:		
Employer	\$ 96,928	74,407
State	41,710	52,758
Plan members	57,044	45,155
Total contributions.....	195,682	172,320
Investment income:		
Net realized and unrealized appreciation (depreciation) in fair value of investments	59,405	175,113
Interest and dividend earnings	57,530	66,336
	116,935	241,449
Less: investment management fees	(24,796)	(18,196)
Total investment income	92,139	223,253
Total additions	287,821	395,573
Deductions:		
Benefit payments	138,210	138,766
Refunds/withdrawals	31,010	23,999
Administrative expenses	18,418	15,187
Total deductions.....	187,638	177,952
Net increase	100,183	217,621
Net assets held in trust for pension benefits:		
Beginning of year	1,999,366	1,781,745
End of year	\$ 2,099,549	1,999,366

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

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Plan

The City of Holly Hill, Florida (the "City") provides a single-employer defined benefit pension plan for all firefighters, which assets are included in the Municipal Firefighters' Pension Trust Fund (the "Fire Plan"). 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 Fire Plan can be found in Chapters 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 Fire Plan 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.

All full-time, uniformed firefighters are eligible to participate in the Fire Plan upon employment with the City. Employees vest with full benefits after 10 years of service. Normal retirement for firefighters occurs at age 50. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees. Current membership in the pension plans is composed of the following:

Participant data as of October 1, 2003, the date of the most recent actuarial valuation:	October 1,	
	2003	2002
Retirees and beneficiaries currently receiving benefits .	6	6
Vested terminated employees	1	1
Active employees:		
Fully vested	0	
Nonvested	12	13
Total participants	<u>19</u>	<u>20</u>

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 Fire Plan's assets in accordance with the requirements set forth in Chapter 175 of the Florida Statutes.

Reporting Entity

The accompanying financial statements present only the Fire Plan and are not intended to represent the financial position or results of operations of the City of Holly Hill, Florida taken as a whole.

Fund Accounting

The accounts of the Fire Plan 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 fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

reserved for employee's pension benefits and additions to and deductions from net assets reserved for employees' pension benefits. Resources are allocated to, and accounted for, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The accrual basis of accounting is utilized in presenting the Fire Plan's plan net assets and changes in net plan assets. Revenue is recognized when earned and expenditures are recognized when they are incurred. Plan receivables are short term and consist of contributions due from the City, State and/or from plan members. Plan liabilities would generally include benefits due to plan members and beneficiaries and accrued investment and administrative expenses and are recognized when due and payable in accordance with the terms of the Plan. The difference between total plan assets and total plan liabilities at the reporting date are captioned net assets held in trust for pension benefits reserved for employees' pension benefits and represent the net assets held in trust for pension benefits.

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.

Method Used to Value Investments

Investments are reported at fair value and are managed by the Fire Plan'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.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement of Accounting Standards No. 40, *Deposit and Investment Risk Disclosures* (SGAS 40). The Fire Plan elected to implement the provisions of SGAS 40 for the year ended September 30, 2004. Statement 40 modifies and updates the disclosure requirements related to deposit risks, custodial credit risk and concentrations of credit risk for all state and local governmental entities. It requires the disclosure of investments to be organized by investment type and does not allow the aggregating of dissimilar investments into a single investment type. The adoption of Statement No. 40 had no substantial effect on the Fire Plan's basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

At September 30, 2004, the Fire Plan had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>			
		<u>Less Than 1</u>	<u>From 1-5</u>	<u>From 6-10</u>	<u>Over 10</u>
Money market funds	\$ 57,281	57,281	-	-	-
U.S. Treasuries	191,425	170,094	-	21,331	-
U.S. agencies	509,563	-	-	-	509,563
Domestic corporate bonds	205,760	-	81,101	75,114	49,545
Domestic corporate equities	1,106,242	1,106,242	-	-	-
Totals	<u>\$2,070,271</u>	<u>1,333,617</u>	<u>81,101</u>	<u>96,445</u>	<u>559,108</u>

Interest Rate Risk. Generally, the Fire Plan invests approximately 50% 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. Treasuries typically include discounted, fixed-price notes and bonds that mature within one year. The fair value of these short-term investments are less sensitive to interest rate increases since they are held to maturity. Investments in U.S. agencies typically include long-term, fixed-rate collateralized mortgage obligations with maturities of greater than ten years. Their fair values are particularly sensitive to prepayments by mortgagees, which may result from a decline in interest rates, and inversely sensitive to changes in interest rates. Investments in fixed rate domestic corporate bonds, which represent approximately 25% of the Fire Plan'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.

Credit Risk. The Fire Plan'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.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Fire Plan's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

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, 2004, the carrying amount of the Fire Plan's deposits was \$751, all of which was adequately covered by federal depository insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Fire Plan 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, 2004, the Fire Plan has a custodial credit risk exposure of \$2,070,271 for investments which are uninsured, unregistered and held by the Fire Plan's brokerage firms, who are also the counterparty for these particular securities.

NOTE 3 - CONTRIBUTIONS

The City of Holly Hill, Florida provides contributions to the Fire Plan under the authority of Chapter 175, Florida Statutes and pursuant to City ordinances. Employees covered under the plan are required to make contributions of 10% of their compensation. The City is required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions 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 Fire Plan. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions, plus interest, are refunded to the employee or a designated beneficiary. Administrative costs of the Fire Plan are financed through investment earnings and contributions.

During the year ended September 30, 2004, the actuarially determined minimum deposit was \$174,074. Amounts actually contributed by the City and covered Fire Plan employees totaled \$138,638 and \$57,044, respectively, a total of \$195,682 for the fiscal year ended September 30, 2004.

NOTE 4 - CONCENTRATIONS

At September 30, 2004, the Fire Plan had three separate investments in FGCI Pool# B13585, B13455, and B13978, in the amounts of \$89,821, \$90,173, and \$72,810, respectively which, in aggregate are equal to 12 percent of the Fire Plan's net assets. 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.

REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2004
CITY OF HOLLY HILL, FLORIDA
MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

Schedule 1

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)
10/01/2003	\$2,120,170	\$2,120,170	\$0	100.00%	\$466,503	0.00%
10/01/2002	\$2,100,744	\$2,100,744	\$0	100.00%	\$467,323	0.00%
10/01/2001	\$2,089,520	\$2,089,520	\$0	100.00%	\$402,803	0.00%
10/01/2000	\$2,044,098	\$2,044,098	\$0	100.00%	\$339,489	0.00%
10/01/1999	\$1,964,236	\$1,964,236	\$0	100.00%	\$381,325	0.00%
10/01/1998	\$1,831,190	\$1,831,190	\$0	100.00%	\$326,669	0.00%

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

Year Ended September 30	Annual Required Contribution	Employer Contributions	State Contributions	Percentage Contributed
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%
2000	\$70,054	\$41,977	\$28,077 *	100.00%
1999	\$83,017	\$55,985	\$28,077 *	101.26%
1998	\$87,446	\$89,109	\$37,878	145.22%

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

Source: Foster & Foster, Inc., Actuaries
Valuation dated 10/01/2003

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND

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 09/30/2003:

City	16.5%
Plan Members	10.0%
Valuation date	October 1, 2001
Actuarial cost method	Aggregate Actuarial Cost ⁽¹⁾
Amortization method	N/A ⁽²⁾
Remaining amortization period	N/A ⁽²⁾
Asset Valuation Method	4 Year Smoothed Market
Actuarial assumptions:	
Investment rate of return ⁽³⁾	7.5%, net of investment expenses
Projected salary increases ⁽³⁾	5.0%
⁽³⁾ includes inflation at	2.5%
Post-retirement cost of living increases (COLA)	0.0%

⁽¹⁾ The Aggregate Actuarial Cost method does not identify or separately amortize unfunded actuarial liabilities.

⁽²⁾ The amortization method and period are not applicable for this plan since the Aggregate Actuarial Cost method is being used.

Three Year Trend Information is as follows:

Fiscal Year Ending	Actuarially Determined Contribution	Percentage of ADC Contributed	Net Pension Obligation
09/30/03	\$74,407	100%	\$ (54,885)
09/30/02	\$69,527	100%	\$ (55,776)
09/30/01	\$42,883	142%	\$ (56,682)

The Fire 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 City has funded the actuarially determined required contributions for all years from October 1, 1987, through the transition date, October 1, 1997. Thus, the Net Pension Obligation on October 1, 1997 was \$-0-.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - (Continued)

September 30, 2004 and 2003

CITY OF HOLLY HILL, FLORIDA

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The development of the Net Pension Obligation (NPO) in the Fire Plan through October 1, 2003 is as follows:

	09/30/01	09/30/02	09/30/03
Actuarially determined contribution	\$ 42,883	69,527	74,407
Interest on NPO	(2,949)	(4,251)	(4,183)
Adjustment	3,577	5,157	5,074
Annual Pension Cost	43,511	70,433	75,298
Contributions made	60,875	69,527	74,407
Increase in NPO	(17,364)	906	891
NPO - beginning of year	<u>(39,318)</u>	<u>(56,682)</u>	<u>(55,776)</u>
NPO - end of year	\$ <u><u>(56,682)</u></u>	<u><u>(55,776)</u></u>	<u><u>(54,885)</u></u>

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

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

The Board of Trustees
City of Holly Hill, Florida
Municipal Firefighters' Pension Trust Fund

We have audited the accompanying financial statements of the City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund as of and for the year ended September 30, 2004, and have issued our report thereon dated March 9, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Holly Hill, Florida Municipal Firefighters' Pension Trust Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Brent Millikan & Co., P.A.

March 9, 2005

