



KPMG LLP
450 East Las Olas Boulevard
Fort Lauderdale, FL 33301

Independent Auditors' Report

The Honorable Mayor and Members of the City Commission
City of Hollywood, Florida:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hollywood, Florida (the City), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hollywood Fire Fighters' Pension System and the City of Hollywood Police Officers' Retirement System, which financial statements represents 52% of the total assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hollywood Fire Fighters' Pension System and the City of Hollywood Police Officers' Retirement System, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Hollywood Fire Fighters' Pension System and the City of Hollywood Police Officers Retirement System were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accompanying principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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 audit.

The management's discussion and analysis on pages 13 through 22 and the required supplementary information – budgetary comparison schedule – general fund on pages 74 and 75 and the schedule of funding progress on page 76, 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 and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

February 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City offers readers of its financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 8 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$193.5 million.
- The City's total net assets decreased by approximately \$6.9 million.
- Citywide depreciation charges recorded during the year amounted to \$26.4 million.
- Pension investment losses suffered in prior years, plan amendments authorizing additional benefits and other plan changes required additional City contributions to its pension plans of approximately \$6.4 million more than those made in the prior fiscal year.
- Following the national trend, employee health costs increased \$3 million during the fiscal year.
- During the year, the City deposited in the General Fund a settlement with Broward County and other parties in the amount of \$1.8 million related to an agreement for certain payments in lieu of ad valorem taxes. Conversely, the City's Water and Sewer Utility Fund reached a settlement agreement with the City of Pembroke Pines related to a claim arising out of a large users agreement with that city by providing financial consideration to Pembroke Pines in the amount of \$4 million.
- Although the City was not in the direct path of a hurricane during the fiscal year, the City incurred out-of-pocket expenses approximating \$2.3 million for hurricane preparation activities to guarantee public safety and for debris removal. These costs are expected to be fully reimbursable by FEMA and other sources.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$85.7 million, an increase of \$28.0 million in comparison with the prior year. Approximately \$7.7 million is available for spending at the City's discretion.
- During the year, the City's governmental expenditures and financing uses totaled \$170.7 million compared to \$198.7 million generated in revenues and other financing sources for governmental programs. The latter amount includes \$37.5 million in loan proceeds.
- The General Fund reported an increase in fund balance this year of approximately \$1.9 million.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7.6 million, or 5.9% of total General Fund expenditures and transfers out.
- The City's total debt increased by \$48.5 million during the current fiscal year, of which \$13.0 million was designated for water and sewer utilities projects, \$9.1 million for general capital projects, \$6.1 million for DCRA projects, and \$20.0 million for BCRA capital projects.
- The City negotiated an amendment to the current collective bargaining agreement with the Hollywood Professional Fire Fighters, Local #1375 about certain pension benefits negotiated in previous years but not implemented since they had not been incorporated into the City Charter as required by the collective bargaining agreement. The amended benefits produce lower costs than those originally negotiated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report follows a format consisting of four parts – Management's Discussion and Analysis (this section), the basic financial statements, Required Supplementary Information, and an optional section that presents combining statements for non-major governmental funds, non-major enterprise funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City’s operations in more detail than the government-wide statements.
 - The governmental fund statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the water and sewer utility.
 - Fiduciary fund statements provide information about the financial relationships – such as the retirement plans for the City’s employees, in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining statements that provide details about nonmajor governmental funds and nonmajor enterprise funds, each of which are added together and presented in single columns in the basic financial statements. Internal service funds statements are also included, reflecting balances prior to their elimination from the government-wide financial statements, to avoid “doubling-up” effect within the governmental and business-type activities columns of said statements.

Figure 1
Required Components of the
City’s Annual Financial Report

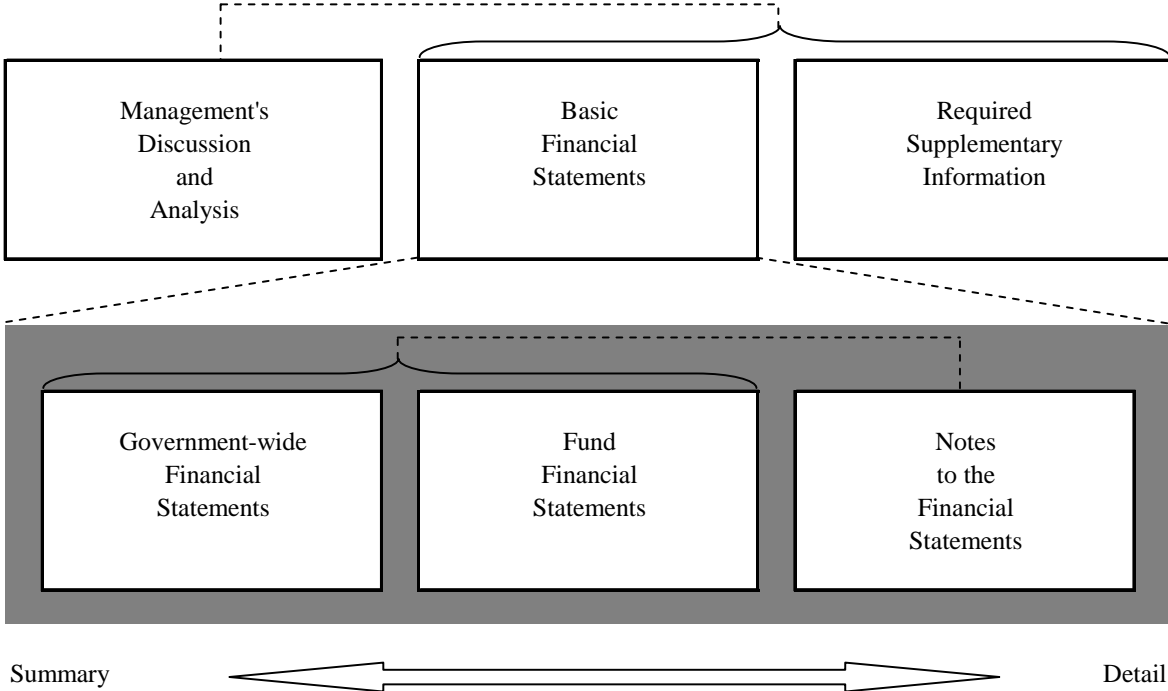


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses, such as the water and sewer system	Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plans for City employees
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

GOVERNMENT-WIDE FINANCIAL STATEMENTS – The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, transportation, economic environment, physical environment, and culture and recreation. The business-type activities of the City include water and sewer, sanitation, stormwater, golf, parking and records preservation activities.

The government-wide financial statements include not only the City of Hollywood itself (the primary government), but also two districts of the legally separate community redevelopment agency. Financial information for these component units is blended with the financial information presented for the primary government itself, since board members are the same as the members of the City Commission and the community redevelopment agency provides services that exclusively benefit certain areas of the City.

In addition, the City has three defined benefit pension plans and two defined contribution pension plans established for the exclusive benefit of its employees and beneficiaries. The community redevelopment agency has an additional defined contribution pension plan. The pension plans are reported as fiduciary funds in the fund financial statements of this report, but are not included in the government-wide statements.

The government-wide financial statements can be found on pages 24 through 27 of this report.

FUND FINANCIAL STATEMENTS – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These statements focus on individual parts of the City government, reporting the City’s operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City’s near-term financing decision. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twelve (12) individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, the General Capital Projects Fund and the Beach Community Redevelopment Fund all of which are considered to be major funds. Data from the other nine (9) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund as Required Supplementary Information in this report to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 28 through 33 of this report.

PROPRIETARY FUNDS – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, stormwater, sanitation, golf, parking and records preservation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for its central services and insurance operations. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of its operations that are considered to be major funds of the City. Both internal service funds balances have been incorporated into the functions of the governmental activities that benefited from these services. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 34 through 43 of this report.

FIDUCIARY FUNDS – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 44 and 45 of this report.

NOTES TO THE FINANCIAL STATEMENTS – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 49 through 72 of this report.

OTHER INFORMATION – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as a budgetary comparison schedule for the General Fund and data concerning the City’s progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information can be found on pages 74 through 77 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The two government-wide statements report the City’s net assets and how they have changed. Table 1 presents net assets – the difference between the City’s assets and liabilities – is one way to measure the City’s financial health, or position.

- Over time, increases or decreases in the City’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City’s property tax base and the condition of the City’s infrastructure.

By far the largest portion of the City's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Summary of Net Assets
As of September 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 117,958	\$ 76,631	\$ 80,441	\$ 77,497	\$ 198,399	\$ 154,128
Capital Assets	<u>113,305</u>	<u>109,748</u>	<u>225,088</u>	<u>217,320</u>	<u>338,393</u>	<u>327,068</u>
Total Assets	<u>231,263</u>	<u>186,379</u>	<u>305,529</u>	<u>294,817</u>	<u>536,792</u>	<u>481,196</u>
Long-term Liabilities						
Outstanding	122,493	87,236	159,453	145,745	281,946	232,981
Other Liabilities	<u>42,847</u>	<u>32,718</u>	<u>18,495</u>	<u>15,050</u>	<u>61,342</u>	<u>47,768</u>
Total Liabilities	<u>165,340</u>	<u>119,954</u>	<u>177,948</u>	<u>160,795</u>	<u>343,288</u>	<u>280,749</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	56,834	59,188	67,012	82,613	123,846	141,801
Restricted	33,258	32,627	36,993	35,607	70,251	68,234
Unrestricted	<u>(24,169)</u>	<u>(25,390)</u>	<u>23,576</u>	<u>15,802</u>	<u>(593)</u>	<u>(9,588)</u>
Total Net Assets	<u>\$ 65,923</u>	<u>\$ 66,425</u>	<u>\$ 127,581</u>	<u>\$ 134,022</u>	<u>\$ 193,504</u>	<u>\$ 200,447</u>

An additional portion of the City's net assets (36%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City, as well as its separate governmental and business-type activities, is able to report positive balances in all three categories of net assets, with the exception of unrestricted net assets of governmental activities.

There was an increase of approximately \$7.8 million in unrestricted net assets reported in connection with the City's business-type activities for future capital projects as well as a decrease of approximately \$15.6 million invested in capital assets, net of related debt.

The City's net assets decreased by approximately \$6.9 million during the current fiscal year.

GOVERNMENTAL ACTIVITIES – Governmental activities and business-type activities decreased the City’s net assets by approximately \$.5 million and \$6.4 million, respectively, thereby accounting for all of the total reduction in the net assets of the City. Key elements of this decrease are shown in Table 2 below:

Table 2
Changes in Net Assets
For the Fiscal Year Ended September 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 29,199	\$ 28,564	\$ 71,484	\$ 68,969	\$ 100,683	\$ 97,533
Operating Grants and Contributions	8,148	6,139	13	202	8,161	6,341
Capital Grants and Contributions	736	680	4,412	0	5,148	680
General Revenues:						
Property Taxes	49,099	44,443	0	0	49,099	44,443
Other Taxes	51,270	44,718	0	0	51,270	44,718
Grants and Contributions not Restricted to Specific Programs						
Other	4,143	2,638	1,699	2,055	5,842	4,693
Total Revenues	<u>149,153</u>	<u>131,530</u>	<u>77,608</u>	<u>71,226</u>	<u>226,761</u>	<u>202,756</u>
Expenses:						
General Government	17,238	13,866	0	0	17,238	13,866
Public Safety	97,834	86,985	0	0	97,834	86,985
Public Works	15,199	14,297	0	0	15,199	14,297
Transportation	2,249	662	0	0	2,249	662
Economic Environment	7,435	7,051	0	0	7,435	7,051
Physical Environment	1,003	419	0	0	1,003	419
Culture and Recreation	8,494	7,521	0	0	8,494	7,521
Interest and Fiscal Charges	3,612	2,728	0	0	3,612	2,728
Water	0	0	20,156	18,131	20,156	18,131
Sewer	0	0	32,996	25,701	32,996	25,701
Sanitation	0	0	15,388	14,465	15,388	14,465
Stormwater	0	0	1,367	1,572	1,367	1,572
Golf	0	0	2,526	2,131	2,526	2,131
Parking	0	0	4,265	3,491	4,265	3,491
Other	3,940	4,019	2	3	3,942	4,022
Total Expenses	<u>157,004</u>	<u>137,548</u>	<u>76,700</u>	<u>65,494</u>	<u>233,704</u>	<u>203,042</u>
Increase (Decrease) in Net Assets Before Transfers	(7,851)	(6,018)	908	5,732	(6,943)	(286)
Transfers In (Out)	<u>7,349</u>	<u>5,249</u>	<u>(7,349)</u>	<u>(5,249)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Assets	(502)	(769)	(6,441)	483	(6,943)	(286)
Net Assets - October 1	<u>66,425</u>	<u>67,194</u>	<u>134,022</u>	<u>133,539</u>	<u>200,447</u>	<u>200,733</u>
Net Assets - September 30	<u>\$ 65,923</u>	<u>\$ 66,425</u>	<u>\$ 127,581</u>	<u>\$ 134,022</u>	<u>\$ 193,504</u>	<u>\$ 200,447</u>

- Property taxes increased by \$4.7 million (10.5%) during the year. This increase is a result of a 10.1% increase in taxable assessed values within the City.
- Other taxes for governmental activities increased by approximately \$6.6 million, mostly as a result of increases in incremental property taxes generated by the Beach and Downtown Community Redevelopment Funds.
- Increase in general government expenses noted in fiscal year 2004 resulted from increased expenditures from code enforcement activities, increases in salaries, pension contributions and health insurance costs.
- Increase in public safety expenditures noted during fiscal year 2004 resulted from increases in salaries, City required contributions to pension plans and increased costs for health insurance and other related fringe benefits.

For the most part, increases in expenses closely paralleled national trends and growth in the demand for services. There were exceptions, however, in the City's public works and culture and recreation functions. In that instance, the growth in expenditures increases when compared to Governmental Fund Statements, as a result of depreciation charges in these functions in the Government-wide Financial Statements. Depreciation charges for capital assets represent approximately 39% and 25% of expenditures for public works and culture and recreation, respectively, in the Government-wide Financial Statements.

BUSINESS-TYPE ACTIVITIES – Business-type activities decreased the City's net assets by approximately \$6.4 million, which further contributes to the decrease in the City's net assets generated by governmental activities. A key element in business-type activities was a 15.6% increase in Sewer expenses in fiscal year 2004 from additional costs incurred to settle a large user claim.

FINANCIAL ANALYSIS OF CITY FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7.6 million, while total fund balance reached \$7.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.9% of total General Fund expenditures and transfers out, while total fund balance represents 6.0% of that same amount.

The fund balance of the City's General Fund increased by \$1,908,675 during the current fiscal year. During the year, several revenue sources experienced surpluses, most notably franchise taxes as a result of increased general consumption. On the other hand, investment revenues remained low as a result of low market rates of return currently available.

The General Capital Projects Fund has a total fund balance of \$15.6 million, all of which is reserved for the construction of capital projects. The General Capital Projects fund balance increased \$3.6 million during the current year as project construction progressed and additional loan proceeds were received.

PROPRIETARY FUNDS – The City's proprietary funds provide the same type of information found in the Government-wide Financial Statements, but in more detail.

Unrestricted net assets of the Water and Sewer Utility Fund and Sanitation Enterprise Fund at the end of the fiscal year amounted to \$21.3 million and \$.5 million, respectively. The City's Regional Wastewater Treatment Facilities provides services to residents of the City and those of six (6) other jurisdictions in southern Broward County. The terms and conditions of these services are set in Large User Wastewater Agreements entered into with those local governments. During the year, the cities of Hollywood and Pembroke Pines reached a settlement of litigation related to billings for services provided under a Large User Wastewater Agreement.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the City budget was amended several times for the following purposes:

- To reflect organizational changes implemented during the year.
- To recognize settlement revenues, grants and other transfers that were not anticipated in the adopted budget, and expenditures funded with such revenues.
- Transfer of discretionary appropriations to a contingency reserve to avoid overall budget overruns.

Revenues for the year exceeded the amended estimated revenues by approximately \$2.2 million. The most significant positive variances are attributed to electrical and communications service taxes due to both increased consumption and higher rates. In addition, the City received a \$1.8 million settlement from Broward County that resolved inter-local agreement issues. On the other hand, interest earnings exceeded budget but still remained low due to low rates of return in the investment markets. Building permits were still below budget but budget estimates have been adjusted to more conservative levels.

Overall General Fund expenditures for the year were approximately \$1.3 million below amended appropriations. This was achieved by transferring discretionary appropriations into a contingency reserve, as explained above, to offset cost overrun pressures arising from public safety costs and low rate of vacant positions.

General Fund balance at year end was \$7,820,079, or \$1,908,675 higher than beginning fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS – The City’s investment in capital assets for its governmental and business-type activities as of September 30, 2004, amounts to \$338.4 million (net of accumulated depreciation) as presented in Table 3. This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, streets, roads, and bridges. The total increase in the City’s investment in capital assets for the current fiscal year was 3.5% (a 3.2% increase for governmental activities and a 3.6% increase for business-type activities).

Major capital assets events during the current fiscal year included the following:

- Governmental Capital Projects received \$11.4 million to finance the 2004 Capital Improvement Plan and infrastructure projects for new housing developments.
- The Water and Sewer Utility fund continued a capital program designed to update and expand its plants. During recent years, the utility has built projects with a cost in excess of \$156 million. In addition, the utility has been authorized to seek financing approximating \$23.3 million through the State Revolving Fund and other sources.

Table 3
Capital Assets
As of September 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 22,286	\$ 22,101	\$ 6,081	\$ 6,081	\$ 28,367	\$ 28,182
Buildings and Improvements - net	33,322	36,874	189,990	167,483	223,312	204,357
Machinery and Equipment - net	19,217	15,918	1,227	1,320	20,444	17,238
Infrastructure - net	28,783	31,952	0	0	28,783	31,952
Construction in Progress	9,697	2,903	27,790	42,436	37,487	45,339
Total	\$ 113,305	\$ 109,748	\$ 225,088	\$ 217,320	\$ 338,393	\$ 327,068

Additional information on the City’s capital assets can be found in Note IV.D. on pages 59 and 60 of this report.

LONG-TERM DEBT – At the end of the current fiscal year, the City had total bonded debt outstanding of \$264.6 million. Of this amount, \$73.7 million is special obligation bonds and loans. The remainder of the City’s debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Table 4
Outstanding Debt
Special Obligation and Revenue Bonds
As of September 30, 2004
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Special Obligation Bonds and Loans	\$ 68,525	\$ 66,505	\$ 5,195	\$ 14,425	\$ 73,720	\$ 80,930
Revenue Bonds and Loans	<u>31,904</u>	<u>1,118</u>	<u>158,999</u>	<u>134,087</u>	<u>190,903</u>	<u>135,205</u>
Total	<u>\$ 100,429</u>	<u>\$ 67,623</u>	<u>\$ 164,194</u>	<u>\$ 148,512</u>	<u>\$ 264,623</u>	<u>\$ 216,135</u>

The City’s total debt increased by \$48.5 million during the current fiscal year. The key factor in this increase was an additional \$11.4 million in loans from First Florida Governmental Financing Commission to finance capital projects approved during the year. The Downtown and Beach Community Redevelopment Funds borrowed a combined \$26.1 million to finance capital projects and other existing commitments. In addition, State Revolving Fund loans increased approximately \$12.0 million for borrowings on new and existing water and wastewater projects.

The City maintains an “A1” rating from Moody’s for general obligation debt. The revenue bonds of the Water and Sewer Utility Fund have been rated “AAA” since they are insured by an AAA-rated insurer.

Additional information on the City’s long-term debt can be found in Note IV.H.4. on pages 64 and 65 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- The unemployment rate in the City averaged 5.5% during fiscal year 2004, based on information obtained from the U. S. Department of Labor, Bureau of Labor Statistics, which is a decrease from an average rate of 6.6% a year ago. This rate exceeds the state’s average unemployment rate of approximately 4.7% but is lower than the national average rate of 5.6%.
- Inflationary trends in the region on average for fiscal year 2004 were substantially the same as similar national indices (i.e. Consumer Price Index).

All of these factors were considered in preparing the City’s budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance in the General Fund increased to \$7.8 million. The City has appropriated \$181,093 of this amount for spending in the 2005 fiscal year budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Hollywood’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Financial Services, 2600 Hollywood Boulevard, Hollywood, Florida 33020.